



Inefficiency and Lack of Transparency in GDR Foreign Trade

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I INTRODUCTION

Socialist planned economies are prone to autarky. International economic relations fit only with difficulty into a centralist administrative planning system. Its basic decision unit, the national state, has no possibility to directly control foreign economic agents. Insofar as potential trading partners also belong to a socialist planned economy, trade relations are initiated and executed through a cumbersome procedure of interstate arrangements. Insofar as those partners are autonomous within a liberal economic system, the socialist state will be subject to the risks and instabilities of the market and its numerous participants.

The political economy of socialism arises from socialization and internationalization as universal and secular trends. Historical development is focused on the socialization of labor in the context of the world market—that is, globalization. For capitalism, this tendency is evident according to

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Marx, and it is mediated by capital even if the capitalist system is crippled with contradictions. Under socialism, the trend should unfold without obstruction unless it is being prohibited by the prevailing system of state socialism: “Internationalization of the socialist economy does not proceed spontaneously, but like the process of socialization it needs the agency of the state” (Kohlmeier 1973, 124).

The transition to state socialism in Central and Eastern Europe was determined by the expansion of the Soviet empire in the wake of World War II. As the hegemonial power in the region, the Soviet Union succeeded in imposing its political and social system on its satellites. Soviet economic order targeted the industrialization of an underdeveloped, sprawling empire facing increasing isolation. This also affected the science of economics, where Marxist-Leninist political economy claimed exclusive validity.

In a country the size of the Soviet Union, foreign trade naturally plays a minor role. Confrontation with a hostile “imperialist” environment added to the isolation. Tsarist Russia exported chiefly agrarian products and imported manufactured goods. After 70 years of Soviet rule (and later), the structure of foreign trade had changed only insofar as agrarian products were substituted by industrial raw materials and fuel. For such a structure, comparative advantage is of little importance. Thus, the first textbook on political economy (Economics Institute 1957 [1954]), distributed with a print run in the millions throughout the region, contained among its 774 pages only two on foreign trade questions.

By setting up socialist peoples’ democracies and integrating them through the Council for Mutual Economic Assistance (CMEA) in 1949, the Soviet Union obtained partners with whom to take up foreign trade relations without being hampered by geopolitical and systemic confrontations. However, most of these countries were in a completely different social and economic situation for which the Soviet development model and strategy were arguably inappropriate. After all, these were small or medium-sized countries, some of which had developed industries and a corresponding high level of human capital (for instance, the German Democratic Republic, or GDR, and Czechoslovakia). Such countries are necessarily open economies: foreign trade is an important growth driver, and international competitiveness a precondition for innovation and prosperity, which the first German textbook on the political economy of socialism (*Politische Ökonomie* 1969, 456–68) made quite clear.

It is against this backdrop that the academic and policy treatment of East German foreign trade must be considered. It is characterized by a number of stylized facts or, in some cases, myths, whose proper analysis is hampered by socialist publication policy and its notorious secretiveness. Among those are:

- the foreign trade monopoly as the exclusive form of organization,
- the partitioning of international relations into intra-block trade and extra-block trade,
- the dominant position of the Soviet Union,
- intended autarky toward the West (*Störfreimachung*, or disengagement from obstructive relations),
- a low trade intensity,
- planned rationality, and
- disregard for modern foreign trade theory.

Through the remainder of this chapter, these topics will be briefly dealt with relying upon mainly East German scholarship, even if it is rather limited. During the reform period of the 1960s, problems of internationalization attracted theoretical attention. When Honecker took over from Ulbricht in 1971 and suppressed the reform which was basically Ulbricht's brainchild, interest in foreign trade waned and serious scientists (among others Kohlmeier, Grote, Otto, and Schulmeister) were given less chance to speak and to publish. The authoritative textbook (Faude et al. 1984) appeared rather late and remained theoretically weak despite its competent authors. In other socialist countries, foreign trade scholars were publishing in English and gained international recognition, for instance, Ausch (1972) from Hungary and Trzeciakowski (1978) from Poland. Among Western studies on socialist international trade worthy of mention are Kaser (1965), Boltho (1971), and Lavigne (1991), the latter of whose volume appeared in French in 1985. After the collapse of the GDR, Ahrens (2000) presented a thorough study of East German trade policy and the thorny subject of trade statistics.

2 GLOBALIZATION AS HIGHEST STAGE OF SOCIALISM

Like all socialist economic theories, the treatment of international economic relations is based on the classic writings of Marx, Engels, and Lenin. Marx was the first theoretician of globalization. Capital does not respect

borders, and the extension of the capitalist system and its markets is unlimited under competitive conditions, with the world market and the global economy as ultimate destination. The process of socialization takes place on an international level but according to capitalist rules (Kohlmey 1973, 92–3). Capital is the agent which, on the international level in particular, tends toward concentration and centralization.

The second half of the nineteenth century saw a fundamental change in capitalist development. After having sent their trade companies overseas, European national states engaged internationally and sought to partition the rest of the world among themselves: the age of colonialism and imperialism. Bukharin, Luxemburg, and Lenin incorporated this process into the corpus of Marxism through their theories of imperialism and state-monopoly capitalism. Next to capital, the imperialist state became the second agent. Universal socialization adopted the form of colonial exploitation and thus grounded later underdevelopment of the victims.

On the national level, progressing socialization under capitalism creates by way of concentration and centralization the preconditions of the transition to socialism. At the same time, the conditions for a socialist world economy will take root immediately after decolonization. Then, the basically positive effects of universal socialization can fully and cooperatively be utilized. This was Lenin's (1965 [1920]) perspective on historical development in 1920: "that there is a tendency towards the creation of a single world economy, regulated by the proletariat of all nations as an integral whole and according to a common plan. This tendency has already revealed itself quite clearly under capitalism and is bound to be further developed and consummated under socialism." Integrating the presently existing socialist countries is a first step in this direction. Such was the vision of Marxist-Leninists (Kohlmey 1973). The reality of state socialism told a different story.

3 THE FOREIGN TRADE MONOPOLY

The organization of international economic relations under state socialism was characterized by the foreign trade and foreign exchange monopoly of the state. As the leading textbook on economics (Kinze et al. 1989, 434) phrased the doctrine even as recently as 1989, "It is the concrete form of existence of the dictatorship of the proletariat in foreign trade." Immediately after the revolution, Lenin had declared it mandatory to

occupy this “important commanding height of the economy” (*Politische Ökonomie* 1969, 460). “The foreign trade monopoly embodies the sovereign right of the socialist state to govern and to plan the international exchange relations of the country in the interest of the whole society, to organize the implementation, and control it” (Faude et al. 1984, 49). Fritz Behrens, one of the very few critical and arguably one of the more capable East German economists, therefore dubbed really existing socialism “state-monopoly socialism” (Behrens 1992, 78; this book could be published only years after his death and after the end of the GDR).

The foreign trade monopoly had constitutional status in the GDR: “International economic relations including foreign trade and foreign exchange is a state monopoly” (*Verfassung der DDR* 1974, Art. 9.5). By contrast to state-monopoly capitalism, there is only one agent, the state. The economic units—firms and combines (*Kombinate*)—had no active role in international economic relations. To criticize the monopoly is revisionism. To leave planning and realization of actual foreign trade operations to the firms, as was occasionally ventured during the reform period of the 1960s, is concomitant to a “separation of state and economy in foreign trade” and intends only “to liquidate directive central planning and control of foreign trade relations” (*Politische Ökonomie* 1969, 463).

The organization of foreign trade under socialism proceeded according to a rather outdated model. To initiate and to handle import and export transactions by way of separate foreign trade firms was standard practice during the nineteenth and first half of the twentieth century. Independent wholesale and foreign trading companies operated as intermediaries between medium- and small-scale enterprises, with low export and import experience and their suppliers or customers abroad. They provided special services in information, contractual design, and logistics. Still today, wholesale and foreign trade companies play a dominant role in international commodity markets. However, product differentiation and specialization caused many manufacturing enterprises to manage marketing by themselves in order to avoid information losses and to optimize their supply chains and distribution channels. Concomitantly, high schools of commerce morphed into university faculties of business economics.

The rigid isolation of export producers from their foreign markets and the bureaucratic handling of transactions had turned out inefficient and inflexible. The New Economic System (NÖS), as the reform of 1963 was

called, was meant to remedy the situation (Grote 1964¹). Different options were discussed: liquidation of the foreign trade companies implying the abolition of the monopoly or full or partial export autonomy of individual firms (like Carl Zeiss Jena, which always had enjoyed a privileged position).² A more relaxed handling of the monopoly in export could be observed in Poland and Hungary. Decentralization seemed less compelling for import, since control and disposition of scarce foreign exchange remained a major central concern. It was proposed, however, that firms should have a greater say in decision-making.

The foreign trade monopoly allows for separating the internal from the external economy. “Under socialist conditions national and international circulation become more independent from each other than is the case under capitalism. Importing commodities by a capitalist and a socialist economy is of a qualitatively different nature” (Krüger 1984, 185). Even motivations for trade differ. The capitalist economy is demand-constrained, making export an important employment driver. The socialist economy is supply- or resource-constrained and engages in exports only to be able to import (Kornai 1979).

Under capitalism, enterprises, not the state, carry out foreign trade transactions. If we disregard tariff and nontariff trade barriers, there is open competition between domestic and foreign producers, which, at a given exchange rate, leads to approximation of market prices. Not so under socialism: “If due to their natural conditions socialist coal producers in the GDR produce above or below the cost at which the state buys coal in the international market, the socialist state will sell to coal consumers

¹This paper appeared two years later (Grote 1966) in a Western journal (*Economics of Planning*)—an exceptional event for GDR economics.

²Discussion took place mainly in the journal of the Ministry for Foreign Trade (and Intra-German Trade), *Der Außenhandel*. The journal was published in 1951–56 under this title, 1956–67 under the title *Der Außenhandel und der innerdeutsche Handel*, and since 1968 under the title *Sozialistische Außenwirtschaft*. A highlight of East German debate was an international conference at the Highschool of Economics in January 1968, which was extensively covered by the American journal *Soviet and Eastern European Foreign Trade* (Vol. 5, No. 1/2, 1969). Translations from *Sozialistische Außenwirtschaft* appeared in this journal between 1969 and 1972 alongside articles from the USSR, Poland, Czechoslovakia, Hungary, and Romania. While the latter continued to be published until the closure of the journal in 2002, East German contributions were discontinued after 1972. With Honecker’s accession to power, the GDR bid farewell to international scholarly debate. In 1973, *Sozialistische Außenwirtschaft* was shut down, which also muted the discussion on mathematical models and reforms of foreign trade planning that had been concentrated in this journal.

imported and internally produced coal at a uniform market price. For internal and external producers, the market value will be differentiated, however, according to natural conditions. Uniformity of market value will be suspended for producers" (Krüger 1984, 185). This holds true not only for raw materials, but the possibility of differentiation is generally given *mutatis mutandis* for exports as well. Exporting firms do not simply receive the equivalent of foreign exchange proceeds converted by the exchange rate. Between these proceeds and the internal remuneration is interposed a price equalization scheme. Internal export compensation is approximated to production cost, that is, the foreign exchange proceeds are irrelevant for the internal producer (Grote 1964, 1242). There cannot be a uniform exchange rate, but only product-specific coefficients (called enigmatically *Richtungskoeffizienten*, literally coefficient of direction, which says nothing about its character as differentiated exchange rate).

Economic implications of this practice are easily imagined: bureaucracy, inertia and distortion of information, inflexibility, disinterest among firms, weak customer ties on the one hand and unclear cost–benefit calculations on the other. What is profitable for the firm need not be so for the economy as a whole. Reform discussion within the NÖS had focused on management of the economy by economic levers, ultimately profit. To make this effective also for foreign trade, the price equalization scheme had to be abolished and the firms given freedom of decision-making and full responsibility for foreign trade transactions (*ibid.*, 1245–6), contingent on the establishment of a realistic price system and a uniform exchange rate.

The bulk of foreign trade was performed inside CMEA, with socialist partners having similar organization structures. Transactions had to be fixed in advance in bilateral five-year trade agreements, which could be specified in yearly protocols. The resulting international division of labor was determined less by profitability considerations than by the needs of the respective partner which, in the case of the GDR, was first of all the USSR. Trade with the non-socialist world (NSW) did not follow this rigid scheme and could also be used as flexibility reserve. Due to the notorious dearth of convertible ("hard") currencies and the effort not to become dependent upon the "imperialists" (*Störfreimachung*, disengagement from obstructive relations), no longer-term division of labor based on profitability could develop.

Kohlmeier's (1973) vision of an integrated socialist world market with full mobility of goods, services, factors of production, and information stood in sharp contrast to the rigidities caused by the centrally

administered economy with its foreign trade monopoly. Therefore, Kohlmei (1968a, 97–100) pleaded for reform, a rational growth policy, and a rational economic mechanism on the national and international levels. By a rational growth policy, he understood a structural policy reducing the overstretched product range of medium and small socialist economies and strengthening specialization to obtain cost-saving batch sizes and economies of scale. This would also allow concentration and intensification of research and development.

In 1971, the Complex Program of CMEA had formulated similar objectives and recommended coordination of production programs. Despite some success (East German railway carriages, Czechoslovak trams, Hungarian buses, Bulgarian forklifts), this initiative came to a standstill. Even within the bloc, individual countries preferred a strategy of autarky, which also arose from the inability to determine rational specialization (comparative cost advantage).

As to the rational economic mechanism, “the number of extensive (often not free from contradictions and in kind) central directives to the firms should be reduced and replaced by a system where the central authority governs the subsystems mainly using monetary parameters and where the feedback from the firms to the center takes place via the market” (ibid., 98). Firms need more freedom of choice and decision-making. Internationally, this implies integration of production via integration of markets, which requires partial convertibility of currencies. “It follows that also in international economic transactions between socialist states monetary value terms should be decisive as reference variables. [...] Prices should not contradict quality, trade agreements in kind should not contradict the balance of payments, supply conditions should not contradict modern production technology, credit conditions should not contradict specialization and cooperation possibilities, etc.” (ibid., 99). Here, Kohlmei has enumerated some of the actual problems. Put simply, realistic prices should guide production and international transactions.

In 1968, when Kohlmei stipulated these requirements, the NÖS was already in its final throes. Politburo member Günter Mittag attacked his reform proposals fiercely in the 10th CC plenary session shortly after the invasion of Czechoslovakia put an end to the Prague Spring. Mittag (1968, 4) opposed “all forms of revisionism and dogmatism” (the party slogans for critical remarks) and stressed the importance of central plan directives and norms as tools to secure the power of the party. “Mastery of the economy for us is class struggle” (ibid.). Even the term “economic

mechanism” was tabooed in the textbook of 1969, which was meant to represent reform economics but, with Politburo member Mittag as chief editor, anticipated the reform skepticism of Honecker and the hardliners: “The economic system of socialism is not and never can be an economic mechanism in which the correct behavior of people will be induced quasi automatically by a system of economic levers. The attempt to construct such a mechanism would profoundly contradict the essence of socialist society” (*Politische Ökonomie* 1969, 212). This remark, of course, is targeted at the “New Economic Mechanism,” the Hungarian reform of 1968.

4 COMPARATIVE COST ADVANTAGE

Trade produces gains. This holds true for international as well as for inter-regional and interpersonal trade. Theory has to deal with two central problems: to determine the division of labor (i.e., in the case of foreign trade the export–import structure) and to determine the terms of trade (i.e., the relative prices of commodities). Solving these problems for international trade, scholars in the East and West took different paths.³ Both started, however, with David Ricardo’s (1951 [1817]) pathbreaking theorem of comparative cost advantage.

Two countries producing two goods with different productivities will benefit by entering into international exchange and exporting the goods for which productivity is higher and importing the goods for which productivity is lower, even if both productivities are higher in one country than in the other—the essence of comparative cost advantage. In the initial situation, the internal terms of trade (i.e., the commodity exchange rate) for the two goods are determined by labor cost (Ricardo assumed a labor theory of value). For instance, in country A, one pair of shoes exchanges for one goose, while in country B, one pair of shoes exchanges for two geese or, in other words, citizens of A have to give up one goose to obtain an additional pair of shoes, while citizens of B have to give up two geese. How many geese and pairs of shoes will be produced with the given factor endowment in both countries depends, among others, on demand. After lifting trade barriers, citizens of B will buy shoes in A, giving up fewer than two geese for one pair, and citizens of A will buy geese in B, giving up less

³It should be noted, however, that Soviet scholars, such as Nobel Prize winner Leonid Kantorovich (1965), engaging with general equilibrium theory (optimal planning), arrived at results similar to those of their Western counterparts.

than one pair of shoes for one goose. In the end, the two countries with their given factor (labor) endowments can produce and consume more shoes and/or more geese than in the initial situation. In the final situation, the terms of trade of the two goods will evidently be in the range between the two initial values (Kohlmeier 1968b, 78). The exact value can be calculated only by taking the relative size of the two countries (or their factor endowments) and total demand into consideration.

An international central planner controlling both regions (countries) would, under Ricardo's assumptions (immobile factors of production, linear production functions), reduce or stop production at the relatively inefficient location (geese in A, shoes in B) and have demand met with a gain at the relatively more productive location. Such a superior planning authority did not exist under state socialism. Khrushchev's attempt to establish it inside CMEA failed. But it remained on the agenda as a long-term objective (Faude et al. 1984, 93). In market economies, the decisions are mediated via the market price, and where this market is absent, that is, in state socialism, intergovernmental negotiations of the foreign trade monopolies have to fix the division of labor and the terms of trade.

Ricardo did not solve the problem of the terms of trade. He only stated that after specialization, the rate of exchange of the two goods must deviate from relative labor expenditures in the two countries. Marxists considered this a gross mistake, since for them the law of value (goods exchange in relation to labor expenditures that are socially necessary on average⁴), and hence the labor theory of value, is generally valid. According to doctrine, both problems, the division of labor and the determination of the terms of trade, can be solved solely by production cost or labor values. International value is a weighted average of labor expenditures in the individual countries (Gündel 1968, 62). Hans-Peter Krüger (1984, 73–6) saw that this is evidently impossible to establish in the two-country-two-goods case since there cannot be an average labor value if each country produces only one good. Such was Ricardo's assertion.

The presentation of the Ricardian theorem in the textbook of Faude et al. (1984, 166–8) runs into difficulties here. The authors simply postulate an international value deviating from the national labor values. By adding a third country or more (Krüger's solution), at least an average can be calculated, but cannot suspend the contradiction, for which demand and the relative size of the two countries are needed. Neither the textbook nor Kohlmeier (1968b) and Krüger (1984) can present a consistent theory

⁴Socially necessary is marginal rather than average cost. But that is a side issue here.

of the terms of trade. Therefore, they are also unable to explain the distribution of gains from trade. Alternative theories of specialization and comparative advantage, like Heckscher-Ohlin or intra-industry trade (Boltho 2023), have not been reflected in the GDR.

An additional problem afflicted not only trade policy in the Soviet Union and the GDR, but also Marxist development theorists. A highly productive country produces a commodity with lower labor expenditures and, hence, with a lower labor value than a less productive country. If the commodity is realized at a uniform international value, gains and losses arise. It looks as if the productive country appropriates labor value from the less productive: unequal exchange. This argument turned up in economic relations between the rich industrial and the poor developing countries. It was proof of imperialist exploitation. “The theorem of comparative advantages as major element of bourgeois foreign trade theory is meant to contribute to obscure the exploitative relations in the capitalist world economy and to eternalize the economic backwardness of less developed countries together with their dependence upon the major imperialist powers” (Faude et al. 1984, 171).⁵ Irrespective of the iniquities of imperialism, the argument is a fallacy. The theorem does not compare the (high) labor content of exports of developing countries with the (low) labor content of their imports; rather, it compares the cost of imports with the alternative cost of import substitution (called in the GDR *Antiimportproduktion*) in the own country. Marx (1959 [1894], 168) had already observed this: “The same may obtain in relation to the country, to which commodities are exported and to that from which commodities are imported; namely, the latter may offer more materialised labour *in kind* than it receives, and yet thereby receive commodities cheaper than it could produce them.”

Such considerations had a certain relevance for trade between the USSR and the GDR. In the Soviet Union, people argued that the exchange of raw materials against manufactures—the bulk of trade between the two countries—did not take place on the basis of equivalence. The Soviets expended more labor (development and transport costs) than was remunerated in the price which was fixed on international markets and not by internal cost of production (Kohlmeier 1968b, 95–7; Krüger 1984, 184–96).

⁵The authors overlook the fact that international trade takes place predominantly between developed countries and largely as intra-industry trade. Driving forces are product differentiation, specialization, research and development, and positive economies of scale on the supply side and increasingly differentiated preferences on the demand side. These factors do not contradict comparative advantage but dynamize it.

The argument may have had some substance, but the fact seems to have been a deliberate Soviet policy of implicit subsidization. The GDR, like other members of CMEA, benefited from advantageous terms of trade. This hypothesis had been put forward most rigorously by Marrese and Vaňous (1983). The GDR imported Soviet raw materials and fuel at lower than world market prices and exported manufactures at higher than world market prices. The hypothesis had triggered a broad discussion in the West but was confirmed by almost all East European experts after the demise of the system (Stone 1996). Such measures for the stabilization of the Soviet empire became an intolerable burden for the Soviet Union in the course of time and were discontinued by Gorbachev.

Under capitalism, independent enterprises decide on import and export. Comparative cost advantage will assert itself via the working of the market. Under state socialism, the central authority has to plan and implement the most favorable trade flows by way of some kind of optimization calculus. This implies explicit knowledge of comparative advantage. Within CMEA, two foreign trade monopolies are negotiating with each other—a bilateral monopoly whose equilibrium is not determined. This is not discussed in East German literature, but the fact is reflected indirectly: “The CMEA price system represents the level of prices, the price relations, and the principles and methods for the setting and changing of contract prices. CMEA contract prices are those agreed upon in trade negotiations between CMEA partners and will be used to value and settle the exchange of goods and services” (Faude et al. 1984, 112).

The complexities of the situation can be analyzed using mathematical economic models. In the reform years of the 1960s, East German as well as Polish and Hungarian scholars worked intensively on such models (e.g., Grote et al. 1970). They formulated profitability criteria, which can play an important role in foreign trade planning (Faude et al. 1984, 175–8; see also Boltho 1971). Examples are:

- Export rentability = export proceeds (in domestic currency) / domestic expenditure for the export goods
- Import rentability = domestic proceeds of the imported goods (import delivery price) / foreign exchange expenditure converted into domestic currency.⁶

⁶Comparative advantage would suggest “expenditure for the imported good / cost of import substitution” as indicator.

The export rentability is the basic indicator by which to judge the efficiency of trade: “According to planning regulations it is to be applied as mandatory plan indicator to kombinats and firms differentiated for economic areas [sc. socialist or non-socialist]” (Dietrich et al. 1986, 42). Such indicators are meaningful only if prices are objectively given and there is a uniform exchange rate. The former is the case with competitive market prices. Theoretically, optimal plan prices or “objectively determined valuations,” as Kantorovich (1965 [1959]) had dubbed them, could be used as well. Similarly, the uniform exchange rate is either fixed in the free foreign exchange market or bilaterally by purchasing power parities. A price equalization scheme with product-specific exchange rates (*Richtungskoeffizienten*) makes the assessment of comparative advantage impossible. In this case, export rentability converges to 1 for all goods, as Faude et al. (1984, 177) tersely remark. Similarly, import delivery prices fixed by the planner obliterate rentability indicators.

5 PRICE FORMATION IN INTERNATIONAL TRADE

Actual price formation in international trade by socialist countries appears slightly schizophrenic. The socialists want to distance themselves from capitalist markets: “It should be beyond question that the socialist economic integration has led to the emergence of a specific structure of socialist international values” (Ambrée et al. 1977, 266). So, there are socialist and capitalist world market prices. At the same time, prices in CMEA trade are oriented toward the prices in the major commodity markets, and those are predominantly capitalist markets. For bulk goods, such prices are easily ascertained since the markets are organized commodity exchanges. For manufactures, a “valuta price effort” is needed “with the help of documents (bills, price offers, catalogue prices, pricelists, price information, exchange quotations, auction prices, price indices)” (Faude et al. 1984, 194–7). Armed with such data, the negotiators entered into bilateral trade talks and worked to reach agreement on quantities and prices in the accounting unit of the transferable rubel. Trade with the NSW was handled in convertible currency, and prices were more directly determined by world market conditions. Production firms do not show up in this picture. They “traded” with their national trade monopoly companies, which had to look after profitability. Due to internal pricing policy and the exchange rate, the mentioned rentability indicators must have served as poor guidance.

Within CMEA, two commodity groups emerged: “hard” goods and “soft” goods. The former could also be sold in the West for convertible or “hard” currency. Soviet raw materials and fuel counted among the “hard” goods. “Soft” goods were less competitive because of quality, poor innovation, and specialization. In market economies, there are more or less competitive goods, too, but no hard or soft goods. This is a question of price. Differentiation within CMEA reflects an excessive price level for “soft” goods compared to the world market. Countries therefore sought to trade them only for “soft” goods and preferred hard currency for “hard” goods. We have nevertheless seen above that there may have been a systematic bias or implicit subsidization in Soviet–CMEA trade.

Bilateralism and categorization of goods limit the size of trade turnover. CMEA was meant to establish an international currency system, with the transferable rubel (TR) as accounting unit. The intention to surmount the restraints through multilateral clearing and an international credit system following the model of the European Payments Union (1950–58) led only to modest results (Clement 1990). The actual exchange rates to the TR within CMEA were fixed on the basis of purchasing power parities of a range of export goods at industry prices. Major changes in the parities allowed for adjustments of the exchange rates (Dietrich et al. 1986).

Foreign trade statistics of the GDR were calculated and published in “*Valutamark*” (VM), a fictitious unit of account with no other function. Internally relevant was the “*Valutagegenwert*” (VGW) or foreign exchange equivalent in marks of the GDR (M). It testifies to the notorious secrecy around foreign trade that the concepts of VM and VGW are nowhere unambiguously defined. The textbook of Faude et al. (1984), for instance, has no such item in its subject index.

Trade within CMEA was handled in TR. For internal use, the foreign exchange values were converted with the exchange rate into VGW. The foreign trade statistics, however, reported the CMEA trade in VM. This is reflected in the economic dictionary *Ökonomisches Lexikon* (1980, 403) explaining VGW as “exchange equivalent expressed in VM,” which can be valid only for CMEA trade. By implication, this trade entered the statistics at the effective VGW or mark value. For the producing firms, it was irrelevant, since, as we saw, they “traded” with the foreign trade monopoly companies using, naturally, the mark of the GDR. But since the exchange rate to the TR was based on purchasing power parity, the price level of export and import goods in VM probably did not deviate significantly

from the internal price level in M or from factor cost (see also Ahrens 2000, 62).

This was definitely not the case with NSW trade. The statistical practice, however, remained murky. Only the last statistical yearbook (*Statistisches Jahrbuch 1990*) provided some clarification. As the monography *Valutaökonomie* (Dietrich et al. 1986, 23) clumsily phrased it: “Towards the non-socialist world the *Valutamark* (VM) is used in the context of the conversion of value terms of foreign currency into the currency of the GDR. The *Valutamark* is a planning and accounting value for exports and imports.” It is based on the fiction “*Mark ist Mark*” (mark of the GDR is equal to DM). Hence, trade with the FRG entered foreign trade statistics at the exchange rate of 1 DM = 1 VM.⁷ The exchange rate of other non-socialist currencies was oriented to the \$-TR rate, in itself not a market exchange rate, and from there converted into VM (Volze 1999). The upshot of this practice is a “split” *Valutamark*, as Volze (1999) has called it. The VM in CMEA trade and VM in NSW trade were two (or more) different units: the data of both areas cannot be added to a uniform aggregate even if this was the practice for foreign trade statistics.

Clearly, an East German firm receiving proceeds from exports to the NSW in VGW or mark of the GDR at those rates would get deeply into the red. Factor cost was markedly higher. This was corrected by the specific *Richtungskoeffizient* or actual exchange rate. In fact, exporting firms received prices covering their costs independent of the revenue in foreign exchange. Export decisions were governed by other considerations than profitability.

An illustrative example is the reflex camera Practica. It could be sold on the Western market at a price of about 200 DM, well below the technologically more advanced Japanese competitors. Production cost amounted to about 900 M, and the camera was sold for this price on the internal market (*Statistisches Jahrbuch 1990*, 311). The producing firm Pentacon in Dresden was credited the VGW consisting of the foreign exchange receipts multiplied by the product-specific *Richtungskoeffizient*. For the firm, the export was profitable. Not so for the GDR economy. This became blatantly obvious when in July 1990 the two German states entered a currency union, with the DM as currency. Wages were transposed on a one-to-one basis, that is, production costs of 900 M amounted now to 900

⁷In fact, trade with the FRG was done in *Verechnungseinheit* (VE), which was equivalent to VM.

DM, while prices (in the West and, hence, in the unified market) remained unchanged. The firm had to be closed immediately (Böick 2018, 300). This was not an isolated incident.

6 SOME STATISTICS

In trying to ascertain foreign trade intensity and foreign trade structure of the GDR, one has to take into account that comparability within CMEA as well as with market economies is thwarted by grave shortcomings. The main reasons are planned and bilaterally agreed prices that did not necessarily reflect scarcity, and that the exchange rates used for statistical purposes were incoherent and unclear, as stated, and so was the conversion of Transferrubel and valuta prices into mark of the GDR.

Industrial countries of the size of the GDR are normally open economies with a high foreign trade intensity. This seems not to have been the case, confirming the widespread hypothesis that socialist economies tend to be autarkic. The authoritative textbook of Faude et al. (1984, 26) indicated the share of exports in national income for the end of the 1970s at 30 percent. This was based not on own national statistics, but on a Soviet source.⁸ Considering that the national income according to the socialist Material Product System is lower than GDP according to the Western System of National Accounts, the indicated intensity in relation to GDP could be estimated at about 23 percent, which would indeed be a rather low figure. And it must have been considerably lower in the preceding decades since East German foreign trade had grown rapidly since 1970.

To relate VM (export and import) with M (national income) does not make sense due to dimensional differences, but up to 1990, this was all East German statistics offered. Only the *Statistisches Jahrbuch 1990* published data on GDP and foreign trade in VGW/M. As expected, the absolute and the structural figures changed markedly, which can be read from the data for 1985, the year for which they are given in both units (see also Ahrens 2000, 56–60).

Udo Ludwig and Reiner Stäglin (1999, 571) reconstructed independently East German national accounts and calculated export and import

⁸The Soviet source had evidently related GDR exports in VM to national income in mark of the GDR. This relation was exactly 30 percent in 1980 (see Table 6.1).

quotas. Their data for 1985 correspond fairly well with those of Table 6.1.⁹ Foreign trade turnover (i.e., export plus import) quota between 80 and 90 percent of GDP is high for a medium-sized country by international standards, whatever our reservations as to the comparability of East German statistics. Autarky had not been a policy option in the Honecker era. This does not imply, however, that foreign trade was particularly efficient. On the contrary, the high export figures in VGW or mark of the GDR were due to ever-increasing expenditures for export goods in internal currency and a parallel increase of planned internal prices of import goods. This is reflected by the deteriorating exchange rate or growing *Richtungskoeffizient*, which was 2.0 on average in 1970 and 4.40 in 1989. The driving force behind the export efforts was the increasing need of imports, supplies and technology for industry, and consumer goods for the population. Financing imports through external debt was a strategy during the 1970s, but it was not sustainable and became a curse in the 1980s. Export receipts had to be generated at any cost. We arrive at a rather paradoxical conclusion: “Foreign trade quota gets higher the lower the Mark of the GDR is valued in relation to other currencies” (Ahrens 2000, 59).

Table 6.1 Export and import of the GDR 1980–89, in billions

	<i>Export</i>				<i>Import</i>			
	VM		VGW		VM		VGW	
	1980	1985	1985	1989	1980	1985	1985	1989
Total	57.13	93.49	148.23	141.10	52.97	86.70	128.29	144.71
In percent of GDP	23.33	29.98	47.55	39.93	25.7	27.81	41.2	41.0
In percent of NI	30.3	38.65			33.4	35.84		

Source: *Stat. Jahrbuch 1990*, 107, 278; own calculations.

⁹See also Ludwig et al. (1996) for a reconstructed I-O table for 1987. It attempts to reevaluate the GDR I-O table in D-Mark and compares the results. The most striking difference occurs in foreign trade. While the share of exports in GDP in Mark of the GDR was 47.3 and of imports 48.3 per cent, these shares dropped to 27.2 and 25.1 per cent in D-Mark (ibid., 45). This may be explained by internal overpricing of foreign trade to match the low domestic productivity and to the chosen exchange rates.

The switch from VM to VGW/M in foreign trade statistics had a remarkable impact on the structure of trade. Internal expenditures (in M) for trade with the socialist world (SW) corresponded, as shown, more to receipts and expenditures in VM than for NSW trade. The structural break in 1985 may reflect an increase in GDR trade, but for the greater part it is due to the recalculation from VM to VGW.

Table 6.2 shows:

- GDR trade grew rapidly between 1970 and 1985.
- Revaluation in internal currency affected SW trade much less than NSW trade.
- While SW trade amounted to roughly two-thirds measured in VM and was so reported in publications and the press, it dropped below 50 percent measured in VGW.
- The drop was less marked for imports from the USSR, which can be ascribed to volatile oil market prices.
- Trade with the NSW, in particular with West Germany, was heavily undervalued in VM compared to internal cost.

While revaluation changed absolute figures roughly by 10 percent for SW trade, they more than doubled for NSW trade and more than quadrupled for trade with West Germany (see Table 6.3). Figures for Austria, Switzerland-Liechtenstein, the Netherlands, and the UK, available only for turnover (exports + imports), are added. With these countries, the GDR had sizable trade relations. This reveals great differences of treatment, which cannot be explained by any consistent exchange rate pattern.¹⁰

Why was so-called inner German trade so grossly undervalued by GDR statistics? Of course, East German literature makes no mention of the fact.

¹⁰Since the internal exchange rates (*Richtungskoeffizient*) were product-specific, the commodity structure of trade may have had some influence. Table 6.3 contradicts the description and data given in Gerhard Heske (2005, 139–40). According to Heske, a former staff member of the GDR statistical office, free currencies were first converted into DM and then noted in VM. (According to Volze (1999), this conversion was done via the TR and its exchange rates to Western currencies.) Conversion from VM into VGW/M need not be uniform for all currencies because of the average character of the *Richtungskoeffizient*. According to Heske, however, it was uniform for most of the years indicated. For the year 1985, which is the reference year of Table 6.3, Heske gives a uniform rate of 2.60 for the DM and other free currencies. For the latter, it can be correct on average. It certainly is not for DM, as Table 6.3 shows.

Table 6.2 Foreign trade structure

	Exports							
	SW				NSW			
	Total		USSR		Total		FRG	
	In billion	In percent	In billion	In percent	In billion	In percent	In billion	In percent
1970 (VM)	14.22	73.9	7.31	38.0	5.02	26.1		
1980 (VM)	39.72	69.6	20.40	35.7	17.41	30.5		
1985 (VM)	60.81	65.0			32.68	35.0		
1985 (VGW)	64.40	43.4	36.89	24.9	83.83	56.6	28.4	19.2
1989 (VGW)	65.29	46.3	33.54	23.8	75.81	53.7	30.2	21.4
	Imports							
1970 (VM)	14.12	69.4	8.17	40.1	6.24	30.6		
1980 (VM)	40.09	63.7	22.21	35.3	22.88	36.3		
1985 (VM)	58.23	67.2			28.47	32.8		
1985 (VGW)	67.02	52.2	41.54	32.4	61.27	47.8	26.8	20.1
1989 (VGW)	61.93	42.8	31.90	22.0	82.78	57.2	26.6	18.4
	Turnover							
1970 (VM)			15.48	39.1			3.4	8.7
1980 (VM)			42.61	40.5			7.3	6.1
1985 (VM)			69.94	38.8			11.4	6.3
1985 (VGW)			78.43	28.4			55.2	20.0

Sources: *Stat. Jahrbuch 1989*, 241–2; *Stat. Jahrbuch 1990*, 277–8; own calculations.

Table 6.3 Relation VGW /VM in1985

Total exports	1.59
Total imports	1.48
Exports SW	1.06
Imports SW	1.15
Exports NSW	2.57
Imports NSW	2.15
Turnover USSR	1.12
Turnover FRG	4.83
Turnover Austria	1.58
Turnover Switz.-Liecht.	2.06
Turnover UK	2.72
Turnover Netherlands	2.29

Sources: Stat. Jahrbuch (1988, 241–2), Stat. Jahrbuch (1990, 277–8); own calculations

Volze (1999, 240) hints at Soviet mistrust regarding excessively close relationships between the two German states, which was brought home to Honecker by Brezhnev in 1970 (Notiz 1970). Trade with the FRG was not to appear as exceeding 10 percent of the total, which it never did statistically. The Soviets seemed to have swallowed this fake, which, in a way, is confirmed by Stone (1996, 5): “Soviet bureaucracy consistently allowed itself to be manipulated and outmaneuvered by the East-Europeans.”

Foreign trade and foreign exchange monopoly “make it possible on principle to control foreign exchange receipts and expenditures in such a way that the concerns of proportionality and stability of the economy are met” (Faude et al. 1984, 39). This would require a sound balance of payments. Balance of payments theory is not a *forte* in the quoted textbook. Neither is it in the published statistics. One reason may have been secrecy: the balance of foreign exchange was among the best guarded information since it would enable evaluation of GDR creditworthiness. A second reason was the practical impossibility to aggregate trade turnover measured in different units in a uniform balance. The balance of payments was therefore divided into SW trade and NSW trade, but never consistently published. Correspondingly, there were two top secret balances of foreign exchange, in TR and in convertible currencies. *Post festum*, the German Central Bank made the heroic attempt to aggregate the two partial balances of SW trade and NSW trade for the period 1975–89 (Deutsche Bundesbank 1999).

It failed ultimately. The first task was met satisfactorily, namely, to rearrange the data conforming to the customary balance of payments methodology. The second task required revaluation of the individual balances in order to get uniform data. This revaluation was not done in VGW or mark of the GDR, but remained in VM. NSW VM were close to foreign exchange in convertible currency (“*Mark ist Mark*”). This partial balance could thus be said to be comparable to convertible currency. If only it were possible to convert SW VM into the same unit, the problem seemed to be solved. However, we have seen that SW VM were in fact VGW or mark of the GDR, obtained by the TR–M exchange rate of 4.67:1. Deflating this exchange rate does not transform SW VM into NSW VM.

The Bundesbank simply halved the exchange rate of the TR and kept it constant for the whole period 1975–89. No reason for this operation is given. Of course, the share of SW trade was thus reduced, but the obtained figures in VM had nothing in common with NSW VM. Revaluing NSW trade in VGW/M could have led to a uniform balance of payments. But the link to the foreign exchange balance would have been lost, and in any case there are two such balances needed—one in TR and one in convertible currency (DM or US\$)—as there are also two foreign debt accounts. The information of the *Statistisches Jahrbuch 1990* (see Tables 6.1 and 6.2) was disregarded, and only would have allowed setting up a balance of payments for the period 1985–89.

7 CONCLUSIONS

The East German stance toward foreign trade was ambivalent. Traditional inter-firm relations from the prewar period with West Germany were advantageous. Both sides did not treat them as ordinary foreign trade, even after the foundation of the European Economic Community, and the GDR benefited from a fixed West German credit line. At the same time, this inner-German trade was regarded with suspicion from the Soviet side, and East German policy was weary of becoming vulnerable to sanctions and sought to reduce strategic links (*Störfreimachung*). Yet in the end, West Germany was again, next to the Soviet Union, the most important trade partner.

Ascertaining total size, growth, and regional structure of East German foreign trade is made difficult by valuation idiosyncrasies, secretiveness, and propaganda efforts. Only the *Statistical Yearbook 1990* aimed to give exact information, “while in the past the influence of agitation could not

be overlooked,” as the long-time head of the Statistical Office Arno Donda remarked in the preface to the last yearbook (*Statistisches Jahrbuch 1990*, III). A planned economy without exact statistical information cannot function properly. Even if scientists and planners used better statistics, classified and hence unpublishable, information lacunae were a notorious shortcoming of the planning process and must have led to policy and planning errors.

With respect to foreign trade, it seemed hardly possible to determine a profitable specialization strategy and derive from it an efficient import and export structure. The GDR, like most socialist planned economies, produced and also exported a broad production portfolio in relatively small batches. At the same time, product differentiation was not elaborate. National as well as international division of labor was not very deep due to planning requirements and the neglect of small and medium-sized enterprises. As a consequence of these characteristics, research and development was slow despite adequate engineering capacities. The pressure of international competition was not felt directly by the firms, since they traded only with domestic foreign trade companies and got their factor costs covered independent of the revenue at the border if their products were selected as export goods by the planner.

As the most productive economy within CMEA, East German manufacturing had a prominent position, while on the capitalist international market its competitiveness increasingly lagged behind. The GDR neglected its traditional comparative advantage. The example of car manufacturing is telling. In the prewar period, two important car manufacturing centers were located in East Germany: Zwickau in Saxony and Eisenach in Thuringia. After the war, the factories were dismantled by the Soviets, and the enterprises closed or nationalized. Some firms and part of the qualified labor force moved to the West. This lasted until the mid-1950s, when car manufacture was taken up again at these locations. They produced simple and solid cars for decennia without innovative changes in technology and design. There was no specializing cooperation with other CMEA countries, let alone with the West. When in 1990, West German enterprises returned to the traditional sites, they set up new factories next to the worn-out old ones. The valuable asset of the locations was labor force. At the same time, West German enterprises engaged in foreign direct investment in the countries of Eastern Central Europe to exploit comparative advantage. The GDR had missed its chances to reestablish a highly renowned traditional industry which, after its relocation to West Germany

(Audi, for instance), became a prime driver of postwar West German export success.

The intensified East German foreign trade activity starting in the early 1970s stands in stark contrast to the simultaneously fading interest in scholarly analysis and modeling of international relations or the economy in general (Wagener et al. 2021). Not only had the reform of 1963 come to a halt, but also critical voices from academia about planning practice were muted. The shock of the Prague Spring made itself felt. Economic decision-making was governed again by Soviet precedents and ad hoc considerations. Strategic long-term planning, which had been central in the original reform ideas and which was crucial for efficient foreign trade activity, did not get off the ground. As we saw, sound efficiency or profitability criteria on which to base foreign trade decisions were also a major shortcoming. Instruments proposed by theory could not be implemented empirically because of unsound statistical information and because of ideological reservations. The needs of the day governed decision-making. A special foreign trade complex, the so-called *Kommerzielle Koordination* (Ko-Ko), was successful in generating convertible foreign exchange. But this could only be achieved by operating outside the ordinary planning system (and in the margin of legality).

The inefficiency of GDR foreign trade with capitalist economies is manifested in the dramatic decline of the effective internal exchange rate (the average *Richtungskoeffizient*). Such huge devaluations normally can be ascribed to large differences in inflation. It is hardly conceivable that the purchasing power of the mark of the GDR (for industrial products, not for consumer goods) fell in the relevant period so much faster than the DM, despite all affirmations of price stability. However, by inflation, one has to understand not only price and cost increases but also quality deficiencies, lacking product and assortment innovation, and commercial deficits. In addition, the need to generate hard currency at any cost in order to meet pressing credit obligations and import demands haunted the planners. In 1989, annual credit obligations amounted to 150 percent of the export receipts in hard currency as reported to the Central Committee by the head of the Planning Office together with the Minister of Finance, the head of the Statistical Office, and the head of Ko-Ko (Schürer et al. 1996 [1989]). The foreign debt problem remained with less than 60 percent of GDP in M (ibid., 454) even within the limits of Maastricht. Still, it was considered alarming because of the time structure of credit obligations, and so it became indicative of East German modernizing and efficiency deficits, which manifested themselves patently in foreign trade.

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