

West German growth means no recession for Europe

*David Goldman on what the LaRouche-Riemann model
has disclosed: startling economic health across the Atlantic.*

West Germany's economic strength, despite economic catastrophe conditions in the United States, has bewildered American and British observers, and scared some of them more than a little. It is now apparent to all but the economists of the Chase Manhattan Bank and the editors of the *Wall Street Journal*—both of whom recently predicted economic downturn in West Germany—that there will be no recession in West Germany, nor, by implication, in continental Western Europe.

We present herewith a sampling from a recent in-depth study of the West German economy conducted by *EIR*'s econometric service, which should settle the question for the time being. *EIR*'s study shows that West German economic policy, by favoring high rates of capital formation particularly in export-related, heavy-goods industries, has developed sufficient impetus to make the German economy almost impervious to higher oil prices. That is an extraordinary conclusion, considering that Germany is twice as dependent on energy imports as the United States. Its strategic implication, particularly in the context of the West German-Soviet trade commission meeting in Bonn at the beginning of June, are equally extraordinary.

Data for the computer analysis of West Germany were prepared by Ralf Schauerhammer of the Fusion Energy Foundation's West German office, Mark Tritsch and Laurent Murawiec of EIR's Wiesbaden bureau, and Alice Roth. Simulations were conducted by David Goldman and Ralf Schauerhammer.

In an April survey of the American economy, *EIR* demonstrated that the principal cause of inflation and low productivity growth in the American economy was *not* higher oil prices, but the Administration's energy conservation policy.

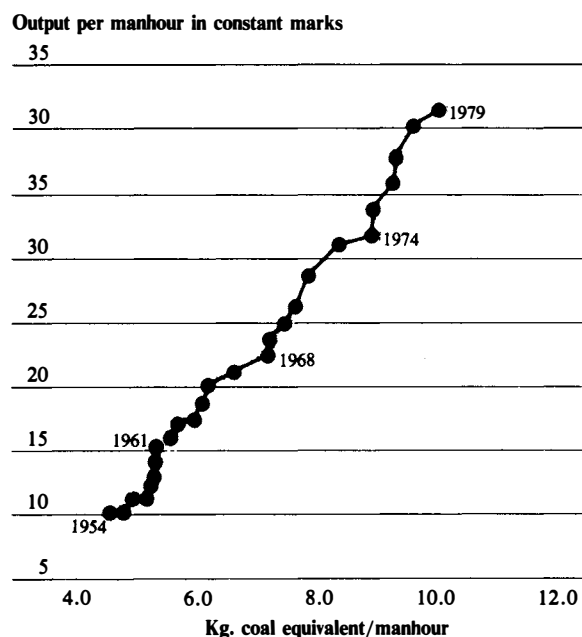
Mirror image?

The case of West Germany provides an instructive, almost mirror-image comparison; the West Germans have done everything the opposite way, and succeeded. Instead of enjoining industry and consumers merely to conserve energy—the Germans did place speed limits on the *Autobahnen* and took other trivial conservation measures—the Schmidt government opted for greater energy-intensity at a higher level of energy efficiency. That requires some explanation.

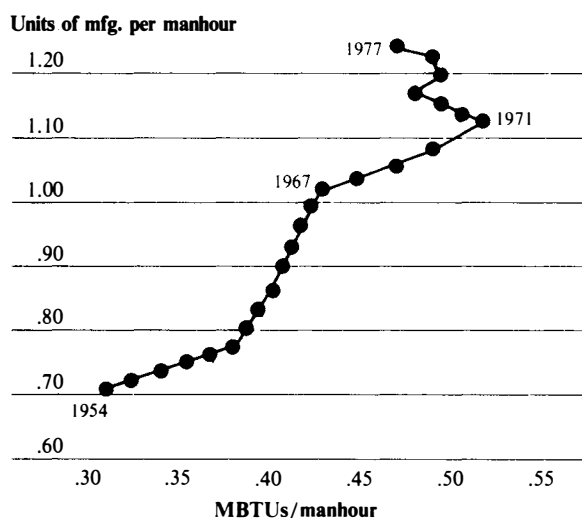
Industrial economies, as Lyndon LaRouche, the designer of the LaRouche-Riemann computer model employed in this study has emphasized, can be measured by four physical parameters. An industrial economy or combination of economies must be studied as a trajectory through a five-dimensional phase space incorporating these four parameters plus at least one measure of time (more than one time scale is possible). Economic "health" is defined by a condition where economic surplus (tangible output above and beyond maintenance) is rising; the rate of reinvestible tangible surplus is rising; and the rate of energy throughput is rising at higher levels of energy flux-density, a measure of energy efficiency.

German steel in comparison with American steel is a

Nominal West German energy efficiencies



Nominal U.S. energy efficiencies



These two graphs plot productivity, measured in terms of output per manhour, against energy consumed per manhour in the manufacturing process. For West Germany, the trajectory shows a sharp rise undisturbed by oil prices. For the United States, the reversal of energy consumption per manhour has been lauded as a success, since output continued to rise. The actual character of energy efficiency and productivity shows up in the growth of the West German economy and the rapid decline in the United States, showing the dangers of substituting labor for energy and capital.

case in point. We recently saw the American steel industry fall to capacity utilization rates of about 60 percent in a space of eight weeks, along with sudden and widespread permanent shutdowns of capacity. American steelmaking uses slightly less than twice as much energy per ton of raw steel as either German or Japanese, i.e., it is twice as energy-intensive, but only half as energy efficient. During the past 15 years, German steelmakers steadily improved their capacity to achieve superior productivity and energy efficiency while American steelmakers—who did not invest even when there were no environmental regulations and high interest rates to hamper them—did little to improve capacity, but shut down the worst of what they had.

Yet when we look at the figures on total energy consumption, it is evident that for West German manufacturing it rose steadily through the 1970s, while American energy consumption fell, both per unit of output and per hour worked. That is to say, in the West German economy, the rate of investment increased in the most energy-intensive sectors, such that total energy-intensity rose, even while those sectors became more energy-efficient. In the United States economy, investment shifted from energy- and capital-intensive sectors to labor-intensive sectors, such that total energy-intensity fell, even though industrial processes themselves did *not* become more energy-efficient.

As Harvard economists Hudson and Jorgenson point out, the American economy substituted labor for capital and energy, unlike West Germany. It is highly significant that the West German rate of increase of manufacturing productivity is much higher than the American (5.2 percent versus 1.4 percent in 1979) but even more significant when we look at the content of that productivity.

Productivity and investment

The LaRouche-Riemann model utilizes a definition of productivity superior to the output-per-manhour definition employed by the U.S. government. Our measure is the increment of labor required to produce an additional increment of surplus. Under optimal conditions, the two measures will move in tandem. In fact, that is the case for the West German economy. However, in the United States, the output-per-manhour numbers show a slow rise between 1976 and 1979, while the LaRouche-Riemann model calculates an average 3 percent annual *decline* in productivity. That discrepancy in the American economy between the two productivity measures, and the lack of discrepancy in the German economy, tell us a great deal about the way both economies work.

The LaRouche-Riemann measure “factors out” gains in output per manhour that contribute nothing to the global productivity of an economy. The manufacture

of antipollution devices may show spectacular gains in productivity on an output-per-manhour basis, but the installation of these devices will contribute nothing to the next year's output. The same is true for investments in auto manufacture geared solely to down-sizing cars, or similar investments in the most short-sighted, dubious sort of "energy conservation." When we factor in investments that lower the rate of productivity of the economy as a whole, such as synthetic fuel plants, which take more capital goods to produce energy than is currently required, we reduce productivity in the LaRouche-Riemann measurement.

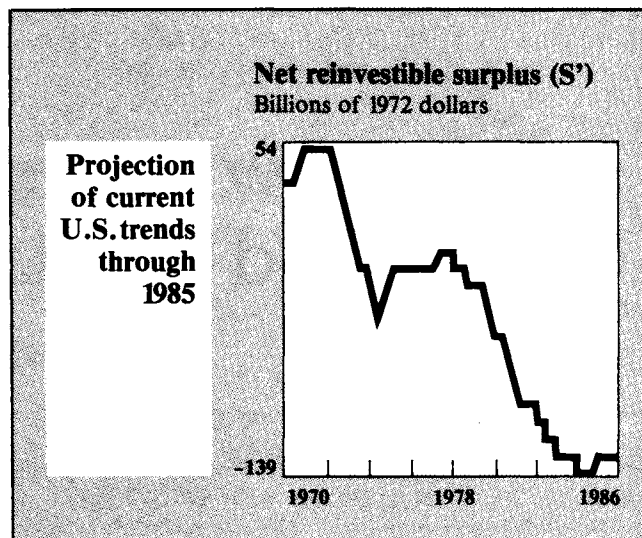
Therefore, the 3 percent annual drop in productivity during the late sixties is a good quantification—measured against the supposed improvement of the productivity rate—of the shift towards non-productive investment. In an economy already suffering from chronic underinvestment, that could produce a fatal sort of anemia. *EIR* reviewed the prospect of U.S. economic death in its May survey, and we include a graph from the computer output of that survey for purposes of contrast in this report.

The fact that the two productivity measurements are in phase in the case of West Germany means, of course, that that economy has concentrated investment in those areas which are both sectorally and globally productive.

We do not wish to give the impression that West Germany is a perfect economy. Far from it. Rather, both that nation's problems and successes are instructive for us and others. We shall see from the LaRouche-Riemann model's measurements that the functioning of the economy by all parameters—except living standards—fell drastically after the 1973 oil price rise, and then resumed growth at about the previous speed. There is nothing spectacular here. By our most optimistic scenario, the West Germans will have barely recovered their 1970 peak growth potential some time during 1982. But the West Germans are not accustomed to being spectacular, only reliable. And it can be stated emphatically that West Germany has slowly built up sufficient productivity and energy efficiency to make it immune from the effects of even fairly substantial oil price increases.

Export expansion

Capital formation is the most political, and international, of questions. No nation in West Germany's position can improve productivity in capital-goods industries without taking advantage of economies of scale that require a substantial and growing export market. West Germany solved this problem during 1979 by investing heavily (in physical terms) in the French and Italian economies—preventing those economies from entering recession—and this year by a major export offensive to



the East. Soviet trade, no matter what the Carter administration says or thinks, is not a mere option for West Germany, but a question of whether German society will prosper or be dissolved. That West Germany chooses to ship the Soviets precisely what the Soviets need to realize their potential for fossil fuels, and possibly nuclear energy, has alarmed some in the United States (who are in any event forbidden by the Carter administration from selling many categories of such goods to the Soviets). However, since the same Americans who show this alarm understand neither why they have nearly ruined the American economy, nor why the Germans refuse to collapse with them, their objections are not especially important in the scale of events.

There is a keen awareness among West German industrialists and bankers that the question of the developing-sector market is also a life-and-death matter for West Germany, even if the Soviet market in itself provides a sufficient avenue for expansion at this moment. That was the original objective of the July 1978 Schmidt-Brezhnev accord outlining mutual development efforts in the Third World; it was an outgrowth of this accord that blossomed into this year's 25 percent quarterly rate of increase in Soviet-German trade. Chancellor Schmidt is considering a major initiative for the reorganization of developing-country finances at the June summit of industrial nations in Venice. To push through such an initiative, since the Carter administration will be hostile, will require more willingness to shake up Washington than Schmidt has yet shown. But the initiative is no less necessary. West Germany could still, through inaction, ruin its success. Unless the West takes measures to rebuild the damaged economies of the developing sector this year, there may scarcely be a developing sector left to rebuild later on.