

# How Germany did it... and can keep doing it

by Susan Johnson

The first series of computer graphs generated by the LaRouche-Riemann model shows the 1962-79 period in the West German economy. The **net investible surplus** available to the economy—that is, the capital and consumer goods available over and above replacement needs to expand the production of tangible goods—reached an all-time high of 74 billion marks (about \$80 billion 1970 dollars) in 1963. Its rise and fall to the low point reflecting the first 1970s oil crisis came in tandem with that of the U.S. economy. But after 1975, starting from a lower level, this indicator rapidly recovers its earlier rate of increase. By contrast, net investible surplus has failed to rise above the zero level in the United States since 1974, and in 1979 fell sharply into deficit.

The West German **free energy ratio** is shown next for 1962 through 1979. This is the proportion of net investible surplus to the capital and wage costs expended in the same production period. It measures the maximum potential growth rate available to the economy. At present, the West German free energy ratio is rising even more sharply than the physical net investible surplus, and by the beginning of 1979 was well above the present 6 percent rate of increase in manufacturing output.

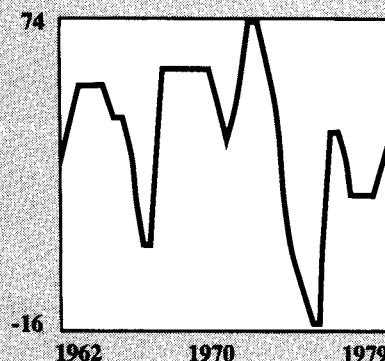
The third graph in this series may startle even readers familiar with recent pitches for foreign investment in the U.S. based on the erosion of American-German wage differentials. Starting at a low level in the 1960s, **variable capital**, or physical consumption of workers in the West German productive sector, rose but then showed a dramatic reversal during the 1969 recession—which had more severe effects in Western Europe than in the U.S.—and triggered a costly strike wave. However, consumption by these workers—blue-collar manufacturing, mining, transportation, construction and farm employees, minus those occupied in retraining or producing overhead goods like military equipment which do not re-enter the productive cycle—was *not* cut during the 1974-75 oil price crisis, and in the late 1970s increased sharply. By contrast, living standards in the United States have fallen a conservatively estimated 25 percent between 1970 and 1980.

This is one way in which the Federal Republic has maintained and expanded its secular productivity and its productive potential. The other way is shown in the fourth graph, 1962-79 **investment net of depreciation**. Recovering from the oil burden, this parameter rises at a

## The West German economy, 1962-1979

Public and private policies of increasing productivity through capital-intensive and energy-efficient investment pulled West Germany out of its post-1973 trough. Not a spectacular record, but a sound one, especially compared with the U.S. economy's shortsighted efforts to substitute elbow grease for modernization and advanced energy utilization methods.

**Net reinvestible surplus (S')**  
Billions of 1970 deutschemarks



sharp dip in 1978. While the graph ends before the final quarter of 1979, total net investment during the four quarters of that year and the first quarter of 1980 rose nearly to the 1960s peak. This occurred while American net investment not only failed to recoup its 1975 deficit of \$10 billion, but fell *into the red* by \$50 billion as of 1979.

In real terms, the West German economy is now growing at 6 percent a year, despite lower official projections for overall GNP. The rate of increase of manufacturing productivity in the first quarter of 1980 was 3 percent—the best average achieved by the U.S. economy during its strongest decade, the 1960s. Between 1960 and 1978, value added per employed person (again, in constant 1970 marks) more than doubled in the economy as a whole, and in the producing sector, rose 115.5 percent.

West German expansion of investment in fixed capital and labor capabilities has been based on a strategy of expanding the volume and market share of industrial exports, as we stressed earlier in this report. Currently West German exports are showing “more biceps than ever,” to quote the business daily *Handelsblatt*. As the world’s number-two salesman, the Federal Republic is only slightly behind the United States (and U.S. export composition is, of course, far more heavily weighted toward agricultural products).

In the first quarter of 1980, total West German exports displayed a 19.6 percent nominal growth, with retail price increases running at an average 6 percent. Exports to European Community partners were up 22 percent; to non-EC European countries (Scandinavia, Austria, Switzerland) 28 percent; and to the Soviet Union, 24 percent. In 1979, the proportion of German exports was roughly 48 percent to the EC, 6 percent to the U.S., 6 percent to OPEC, 5 percent to Comecon countries, and 8 percent to less-developed countries.

The implementation of the Bonn-Moscow industrial

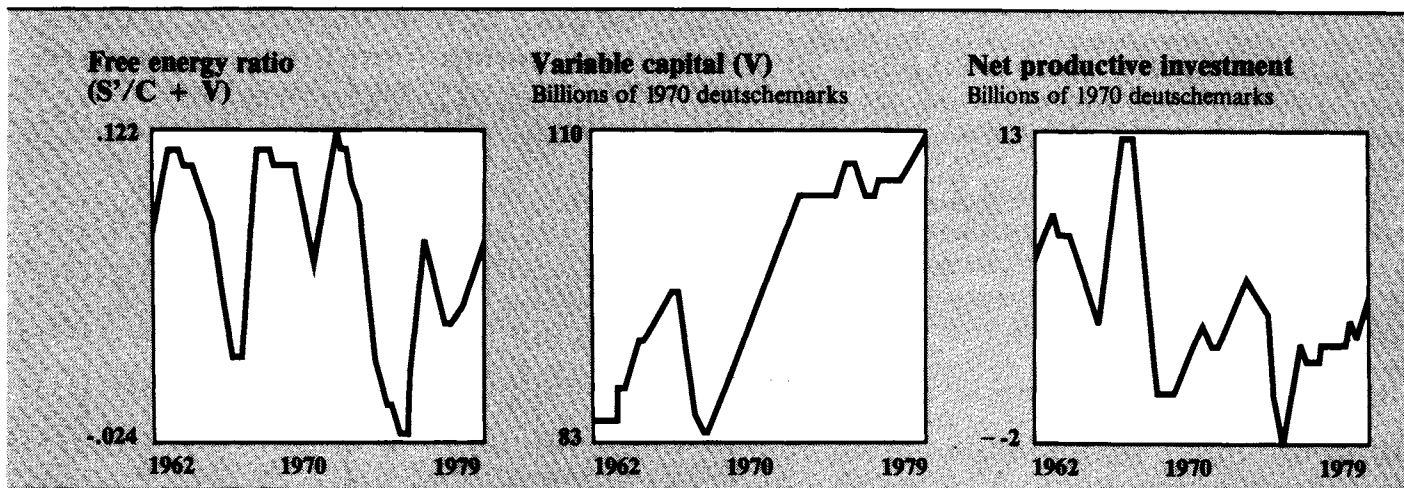
cooperation agreement will mean not only a further dramatic increase in eastward exports, but, centered as they are on energy development and transfer, a new phase of productivity potential. The German Chamber of Commerce and Industry is now trying to accelerate its drive to build up “knowledge-intensive” exports. Depending on how quickly the nation resolves its current nuclear-power development impasse, and/or moves into a more comfortable energy-supply situation on the basis of the Bonn-Moscow accords, the next tough question facing the West German economy will be how to expand labor-force skills sufficiently to meet Soviet capital goods demand and the needs of new high-technology domestic investment.

### Conservative projections

The second series of computer graphs is based on projecting 1962-1979 trends into the four years from 1980 through 1983. This was translated into the La-Rouche-Riemann differential equations employed by the model by specifying values for the composition of reinvested capital, for productivity measured as the ratio of gross surplus to wage costs, and for the nonproductive expenditure ratio as well as the proportion of circulating to fixed capital and the capital depreciation rate—at rates of change extrapolated from that 17-year trend.

Net investible surplus, in this projection, reaches new historic highs. The free energy ratio still remains below its pre-oil crisis peak, reflecting in part the lower value for  $S'$  reinvestible surplus in the  $S'/C+V$  ratio, and the lower productivity ratio relative to the optimistic series, despite the tremendous productivity gains made during the 1962-79 period.

Variable capital requirements show an order of magnitude of 50 percent increase above their 1979 level; this does not include the overhead costs of increased educational expenditure for tomorrow’s workforce, which



have been deducted from net investible surplus. Net investment almost triples in constant-mark value over the pre-oil-crisis peak, in a steady increase.

### Optimistic projections

Based on the 1975-1979 trend line, these graphs show a slower rate of increase in net investible surplus and the free energy ratio—partly because there is a larger volume of fixed capital being depreciated at the same rate as the conservative projections' smaller volume. By 1983, however, both reach higher absolute levels than the conservative projections. The optimistic trend-line also shows the "jags," or relative discontinuities, that tend to occur at higher intervals of growth and consolidation, followed by further growth. Note that the substantial increase in S' net surplus, compared with the conservative projection, is accomplished with only a slight increase in outlays for variable capital wages, although it cannot be assumed that this situation would linearly continue.

### Oil price scenario

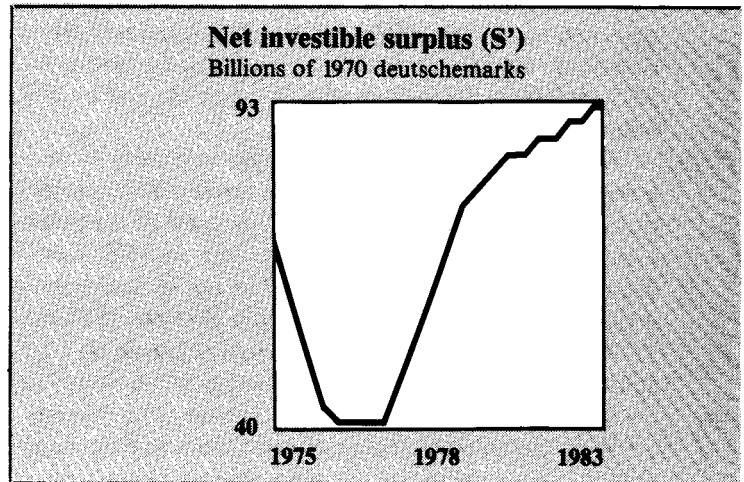
For the final series of graphs, the modelers took the optimistic projections and superimposed on them a high oil price increase in 1980-83. The figures are 15 billion (constant) deutschemarks in 1980, 20 billion in 1981, 20 billion in 1982, and 25 billion in 1983 above the ordinary trend line. The severity of this surcharge can be seen by comparing these costs with net investment levels. Yet this increase in overhead fails to throw the projection into a tailspin, or even significantly decrease growth potential, because the economy has reached higher levels of energy-efficiency and productivity. In 1983, net surplus does not reach the level it does in the optimistic projection, because the oil costs are deducted from gross surplus; the free energy ratio nevertheless continues to rise as do variable capital and net investment.

The full shock of this series comes, however, when it is compared with the U.S. projections published in the May 6, 1980 issue of *EIR*. These carried forward the 1970-79 trends in the American economy through 1986, with no extra oil price increases assumed. Reinvestible surplus by 1983 was \$130 billion 1972 dollars in the negative; the free energy ratio was  $-.170$ ; and wages entered a zero-growth phase in 1981, followed by a sharp decline in 1984-86.

It should be added that both the "conservative" and "optimistic" West German projections are fundamentally conservative in the sense that they do not presuppose any major technological breakthroughs applied on a large scale in the early 1980s, or any reduction of energy costs of the kind which imports of nuclear-produced power could introduce. In another sense, they are both optimistic, since they assume continued demand growth from the West German export markets that account for expanded net investment.

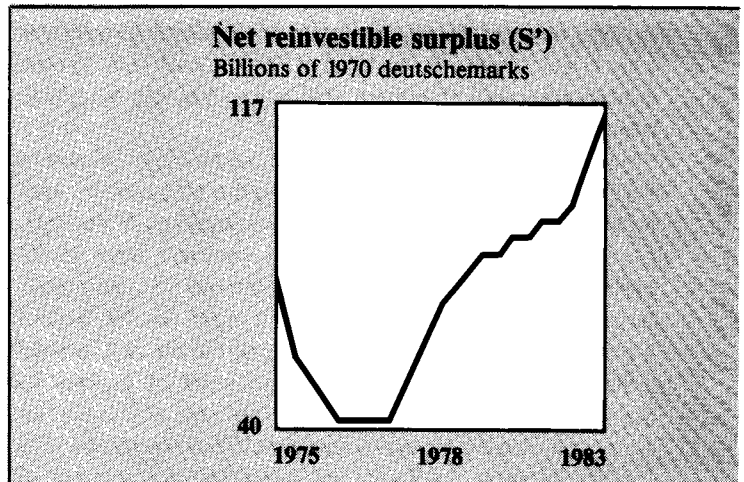
### Conservative projection for 1980-83

Based on 1962-79 trend



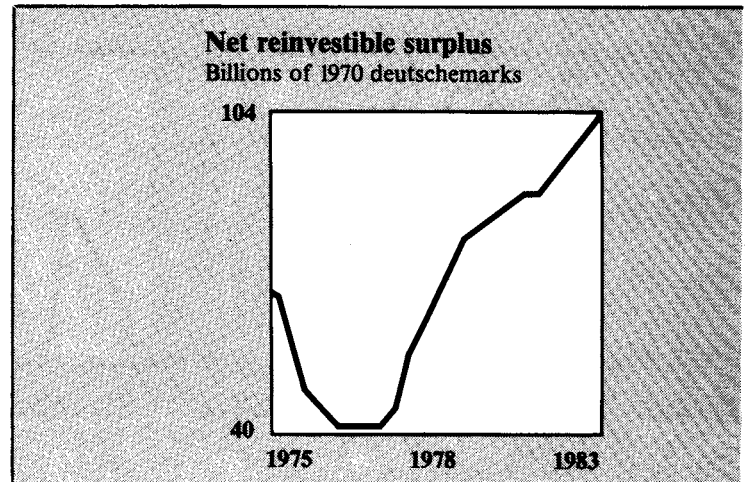
### Optimistic projection for 1980-83

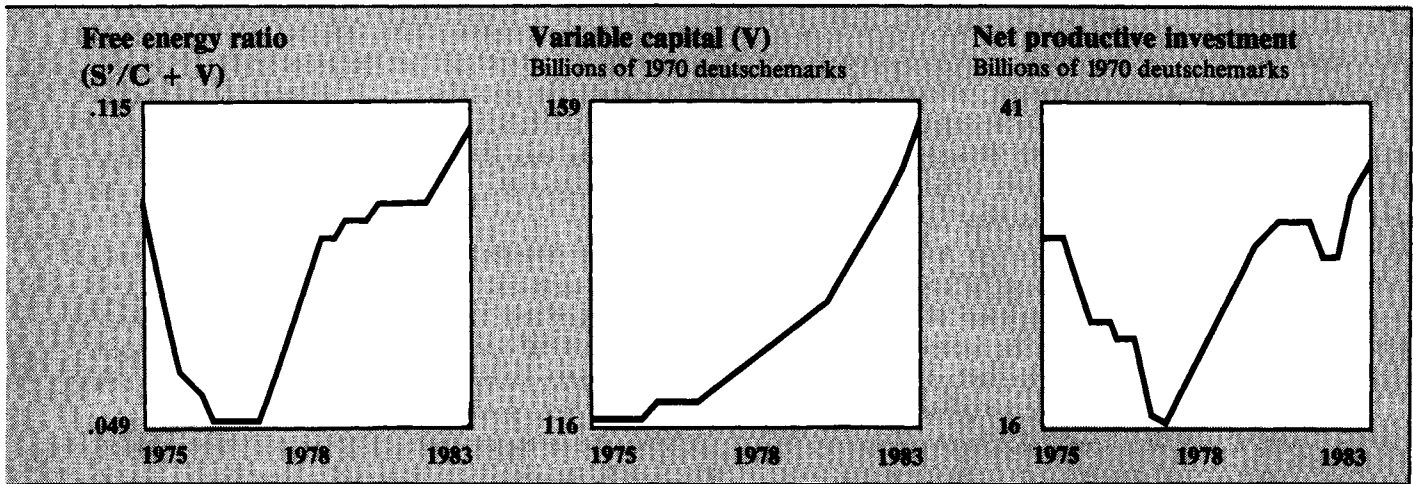
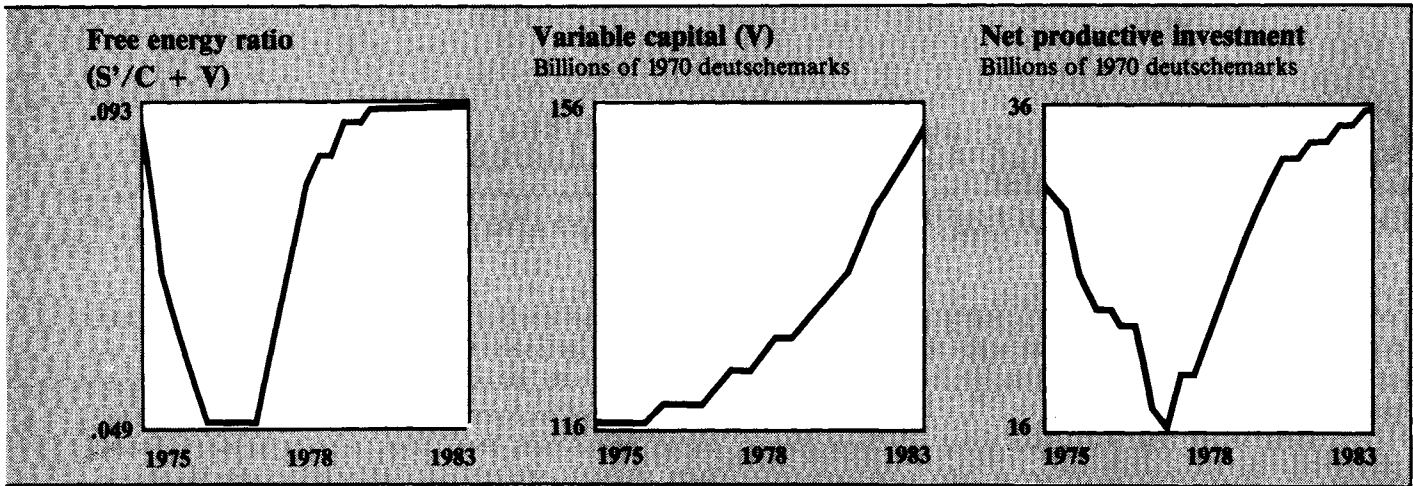
Based on 1975-79 trends



### Sharp oil price increase imposed on optimistic

Added oil cost overhead: over the four years 1980-83 60





**projection, 1980-83**  
billion deutschemarks

