

EIR Special Report

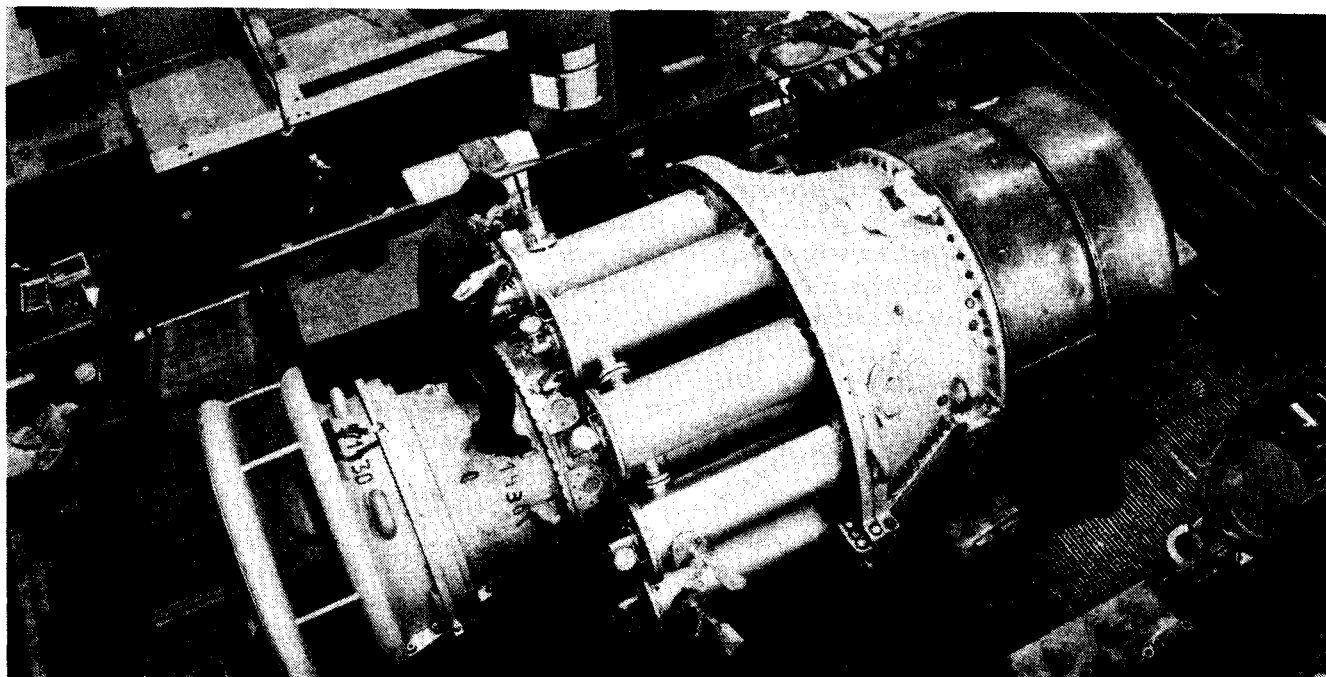
LaRouche-Riemann model analyzes West Germany's colonialized economy

by David Goldman, Economics Editor

West Germany's present economic misery, forced up to the sunlight by the bankruptcy in August of one of the nation's top ten firms, AEG-Telefunken, struck West Germans like the death of a religious dogma. Germany's post-war *Wunderwirtschaft*, its "miracle economy," failed of its magic when international trade declined. For the first time, the delayed charge ticking away under Europe's strongest economy could be heard. West Germany's leaders had long feared this; in his July speech in Houston, Chancellor Helmut Schmidt expressed the astonishment every West German feels when he hears Americans speak of their country as a paragon of economic strength. West Germany, Schmidt said, is a nation with the land-mass of Oregon, occupied by seven armies, and more dependent on international economic trends than Americans think.

Yet the foreboding of West German leaders has not shaken their obsession that the road back to stability depends upon the re-creation of the "good old days" of the Atlantic Alliance, the days when the strength of the American dollar and the international strategic presence of the United States made the growth of world trade an economic path of least resistance. This sort of political-economic romanticism is the dominant theme of Schmidt's attempt to explain the present dangers to the world economy: all was well, he argues, but then came the Vietnam War and the ensuing weakness of the dollar, the collapse of the dollar and the end of the Bretton Woods system, and finally the rise in world oil prices in 1973 and 1979. The old stability is gone, he concludes, and it is up to the United States to re-create that old stability.

The blunders that comprise this analysis define the end of Schmidt's political career, as well as the end of the *Wunderwirtschaft*. We can now demonstrate in the irrefutable terms provided by LaRouche-Riemann economic analysis that the meta-stability Germany enjoyed between the 1958 restoration of the *deutschemark* to international convertibility, marked by the founding of the Common Market, and the 1969 recession, complicated by the start of Willy Brandt's five-year chancellorship, contained the roots of its own destabilization in the following decade. To the generation of West German leaders whose careers, whatever their



Turbines for Bolivia, produced at the Essen factory of West Germany's AEG-Telefunken in the Ruhr. The recent collapse of AEG, one of the nation's top ten industrial firms, has confirmed the depths of the economy's current problem.

individual motivations, consisted of obtaining the best deal available from the Anglo-Americans, it may not be comprehensible that *the Bretton Woods system of 1944-1971 was rigged against the West German economy*. The Bretton Woods system priced West Germany's exports too cheaply and its imports too dearly; the profits of West German export industry, which sent abroad 45 percent of the nation's industrial output, could not be reinvested in capital formation at home. These profits, instead, subsidized the *failure of the United States to emerge as the engine of world trade growth after World War II*.

Lest the following analysis become cause for more West German rancor at the United States—of which there is more than at any time since the German surrender—it is worth quoting again the old Bretton Woods jingle: "Lord Halifax to Lord Keynes/They've got the money-bags but we've got the brains." Britain sold the victor of the world war a monetary system which needed only time to resemble the post-1919 disaster Britain had spawned after World War I, a world economy dominated by debt service, and managed through the London international banking center. The burden now crushing world trade is the debt service emanating from the \$1.7 trillion Eurodollar market, including a clean \$100 billion per year for the developing nations. Its effect on world trade is ultimately no different than the war reparations imposed on Germany in 1919. Now the dollar has taken the place of the over-valued, bankruptcy-prone pound sterling, and the developing sector's (and East bloc's) debt has taken the place of Germany's.

Some of the roles have changed, but Germany is no less

a *colonial nation* now than then. There are two sorts of colonial-model economies; the one exports raw materials to pay excessive debt service, and the other exports industrial goods at less-than-parity prices, to use a term drawn from farm economics. Both subsidize rentier finance, i.e., help pay the surcharge of international trade imposed by the bankers and their associated institutions, the International Monetary Fund and the Bank for International Settlements.

West Germany paid this surcharge between 1948, the year of the Ludwig Erhard currency reform, and 1971, the year of the dollar collapse, through the *25 to 40 percent undervaluation of the mark*. In comparative price terms, the mark is now worth about \$0.48, and trades despite this at about \$0.37. The underpricing of the mark did not, emphatically, apply to the rest of Western Europe and the trade relations within the European Economic Community, but instead to the mark's relationship to the dollar-priced world trading system.

But if West Germany's terms of trade momentarily recovered after the 1971 and 1972 dollar devaluations, no benefit accrued to the country: at higher prices, West German exports could not be sold, because dollar credit was not available to finance them. The quadrupling of oil prices in 1974 ruined West Germany's terms of trade again, and, to the extent that these recovered from 1976 to 1979, the "second oil shock" of doubled prices in June 1979 ruined them again. Finally, the post-October 1979 rise of American interest rates pushed the German mark down to near where it began the decade.

The five-year regime of Willy Brandt—which straddled

the crucial period between the 1969 recession and the 1974 impact of quadrupled oil prices—made matters much worse. Brandt's 1971 taxes on industrial investment and related programs shifted employment and investment toward overhead (white-collar, government, and so forth), away from industrial growth. Brandt's taxes had a devastating impact on Germany's capital stock; no one has yet assessed the more far-reaching damage of his educational reforms, which butchered the surviving classical and scientific curriculum, the source of its historical strength since the 1809 Humboldt reforms.

The functioning of West German industry depends upon its exports. The collapse of world trade, which the OECD means to be permanent, implies the end of the illusory *Wunderwirtschaft*.

What the LaRouche-Riemann model showed

The most obvious question that must be asked of our present economic results is, in what way do they ensure that we will be able to produce next year or the year after? Are we investing our current output in the capital stock, infrastructure, and other material preconditions of future production, let alone the living standards required to produce the next generation of qualified workers, technicians, and scientists? These questions are what Gross National Product measurements evade: If video games become a bigger cash-

earner than machine-tool sales, as in the United States, any normal person would suspect the nation might be in trouble; not so an economist trained at any Western university.

In first approximation, LaRouche-Riemann analysis provides answers to these questions; in its next generation, it employs Riemannian geometrical methods to establish the path between successive technological revolutions. For present purposes we are limited to a first approximation; Our presentation will take the form of answers to these questions, in which each computer-generated result shown below in graphic form provides an additional, crucial, piece of explanation.

Figure 1 shows the *economic surplus* generated by the West German economy in 1962-1980, as it rises from 176 billion constant 1970 marks (the unit in which all data are shown) to 308 billion 1970 marks, not quite a doubling of the economy in 19 years. With some noticeable recessionary interruptions, the growth continues up to the present, when another recession is evident. **Figure 2** shows the same category, i.e., product in excess of the cost of producing tangible goods, or value-added of manufacturing, construction, transportation, agriculture, and mining, in the 1969-1981 period.

Economic surplus represents the capacity of the economy to grow in the future; how it is invested is another question. Before proceeding to analyze the surplus, we show the consumption of the workforce in the tangibles-producing sector,

Figure 1: Total economic surplus, millions of German marks, 1962-1982.

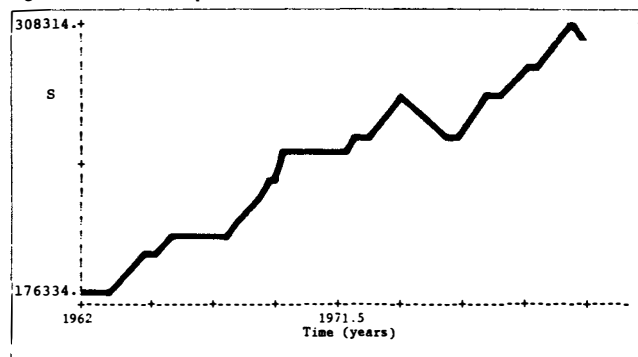


Figure 3: Tangible consumption of the goods-producing labor force (millions of 1970 German marks), 1962-1981.

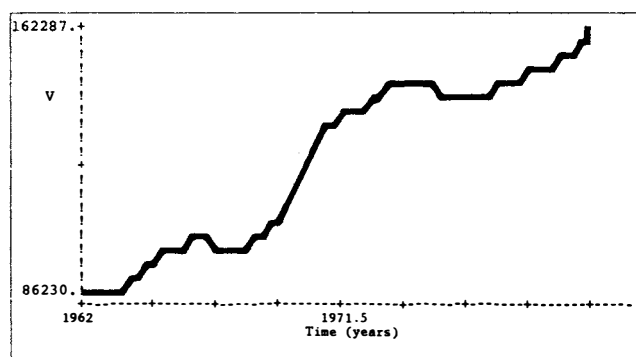


Figure 2: Total surplus generated, 1969-1981, manufacturing, construction, agriculture and mining.

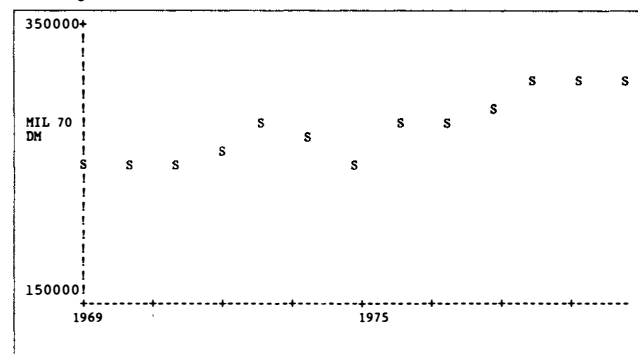
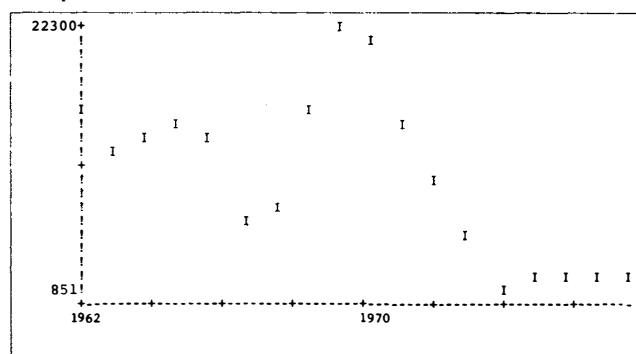


Figure 4: Manufacturing sector productivity (surplus per unit of labor force's tangible consumption), 1962-1981.



shown in **Figure 3**. This doubles, roughly speaking from DM 86 billion in 1962 to DM 162 billion in 1981.

The ratio of surplus to consumption of workforce, or labor productivity, is shown in **Figure 4**; the post-1969 fall of productivity is extraordinary, showing that the marginal product per additional unit of labor consumption fell from a level of about 2.0 to about 1.5 at present. Figure 4 shows the result for the manufacturing sector, which accounts for about two-thirds of total surplus. Before concluding that German labor is overpaid, consider **Figure 5**, which shows net capital investment (spending on plant and equipment net of depreciation of old plant and equipment), which shows a collapse of new capital investment from DM 22 billion in 1969, the top of the scale, to virtually nothing at present. The productivity and net capital investment graphs have virtually identical shapes, which might have expected: the results tells us that after 1969, additional spending on labor took place with unchanged capital stock, whereas previously new labor was employed on new, higher-technology capital stock. It is not surprising that productivity fell.

Figure 6 shows a more refined measure of productivity, "thermodynamic productivity," or total surplus divided by combined labor and capital expenses; it shows how much incremental output is available for every unit of total labor and capital input. This measure fell from a 1960 level of about 1.6 to a present level of only 1.4, a marked decline.

We have learned thus far that West Germany has stopped renewing its capital stock, indeed during the past 13 years, and the result has been a sharp decline in productivity. The productivity measure in LaRouche-Riemann analysis is different from, and superior to, the usual output-per-manhour measure, which 1) does not account for the cost of a manhour of employment, and, more importantly, 2) does not take into account the impact on productivity of the reinvestment of the surplus product. Economic surplus is divided into the following categories of expenditures:

1) Overhead costs, i.e., the cost of government, including the military and social services, as well as office buildings, office equipment, and so forth. Most of the tangible-goods-producing sector's product in excess of its own production costs will, as a matter of course, support the non-productive sector's requirements.

2) New investment in labor and capital, i.e., reinvestible surplus; this margin of reinvestment is the amount of surplus ploughed back into the economy, its real margin for expansion.

3) Net exports.

Figures 7 and 8 show the distribution of the surplus product into productive and non-productive investment; the first is on a regular, the second a logarithmic scale (showing changes in rate of change, accentuating differences in tendency). Although the top-line graph—showing the same surplus output data displayed in Figure 1—continued to grow,

Figure 5: Manufacturing sector, net capital investment, 1962-1981.

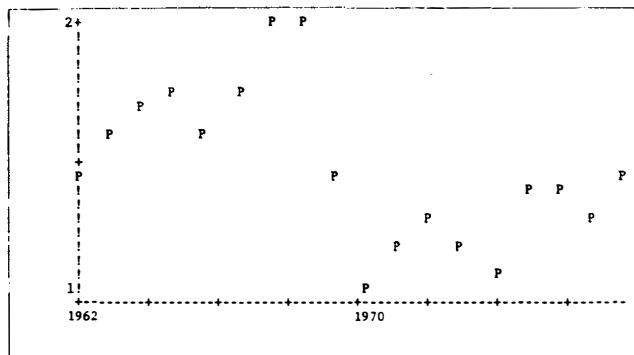


Figure 7: Surplus vs. non-productive expenditures, 1962-1981. Surplus = *, non-productive expenditures = +, reinvestible surplus (S') = @. All figures in millions of 1970 German marks.

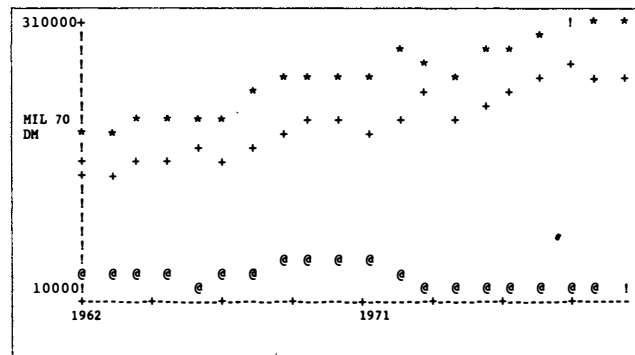


Figure 6: Thermodynamic productivity (S/C + V), 1962-1981.

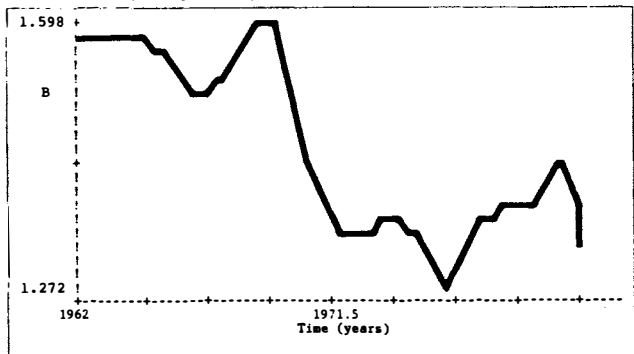
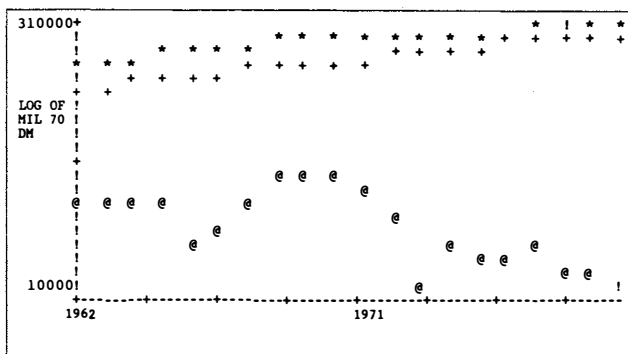


Figure 8: Surplus vs. non-productive expenditures (logarithmic scale), 1962-1981. Surplus = *, non-productive expenditures = +, reinvestible surplus = @.



the absolute amount of reinvestible surplus, or S' , fell absolutely (Figure 7) and in terms of rate of change (Figure 8).

Figure 9 shows the crucial ratio in LaRouche-Riemann analysis, S' divided by capital and labor expenditures ($C + V$), falling from 0.28 to 0.04 between 1969 and the present; that is, in 1969, 28 percent of the economy's current production costs were available for reinvestment, against only 4 percent now.

Figure 10 shows the breakdown of the reinvestible surplus between increases and capital investment and changes in consumption of the labor force (the two components of reinvested surplus), as well as net exports. The lowest line on the graph shows changes in consumption of the labor force; except for a brief period of growth in the late 1960s, the changes are negligible. Both net capital investment (the

same information as in Figure 5 is reproduced) and net exports fall as a proportion of surplus.

Thus far we have only established that the West German economy deteriorated rapidly after 1969, and that part of this deterioration may be attributed to the diversion of surplus towards non-productive expenditures rather than to net capital investment, net exports, or increases in the consumption of the labor force. Still, the West German economy of the 1960s appears relatively strong. But Figure 11 shows a deeper side of the story: the relationship between the *rate* of exports and the *rate* of capital investment. Figure 10 showed that net capital investment and net exports rose roughly in tandem and fell in tandem, i.e., that there never was a choice between investing output at home or exporting that output, but rather, that both categories rose and fell as the economy grew or deteriorated.

Figure 11 shows that the rate of exports (the proportion of total value-added available for export) and the rate of investment (the proportion of value added available for net capital investment) display a near-perfect inverse relationship, i.e., one rises as the other falls. That is a remarkable result, not immediately obvious by any means. It says that both under conditions of growth and decline, the West German economy's ability to make more of its surplus available for investment fell whenever it had to export a greater proportion of its surplus. Note that the capital-investment curve falls more steeply than the export curve rises during the late 1970s, as investment declines to almost zero in net terms.

Normally, an exporting economy earns, through foreign shipments, the surplus required for reinvestment. Not merely did the domestic policies associated with the Brandt chancellorship distort the allocation of available surplus toward non-productive investment; exports failed to generate the requisite volume of surplus in the first place. That fact applies equally to the supposedly halcyon days of the 1960s as to the troubled 1970s.

This conclusion permits us to argue that the present fall in West German exports merely brings closer the economic reckoning for the problems of the past two decades. Should the present government policy of "export-led recovery"—exporting more of Germany's product from a narrower capital base in order to compensate for a weakening German mark and exorbitant oil prices—succeed, the same dreadful results would obtain eventually: the collapse of the old monetary system brings about suddenly what the success of the old monetary system would accomplish in any event, i.e., the decline of West German industry.

It should also serve as a warning that there is no going back to a system that was rotten to begin with; the fall of the old monetary system is an irreversible fact. Either West Germany will aid the birth of a New World Economic Order, or cease to exist as an industrial nation.

Figure 9: Rate of investment of surplus ($S'/C + V$), 1969-1981.

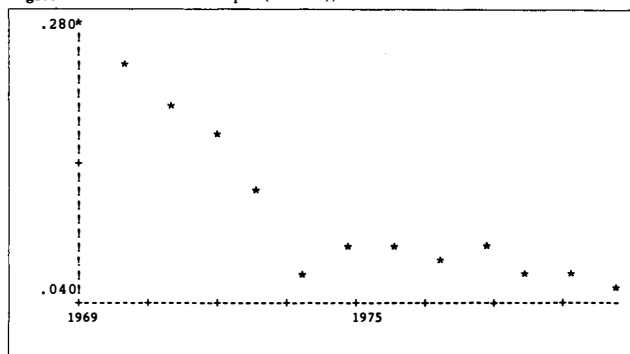


Figure 10: Disposition of surplus 1962-1981 (all figures as percentage of total value added). Net capital investment = #, change in tangible labor force consumption = @, net exports = *.

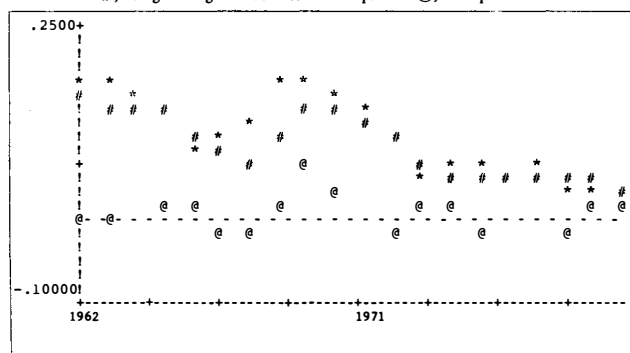
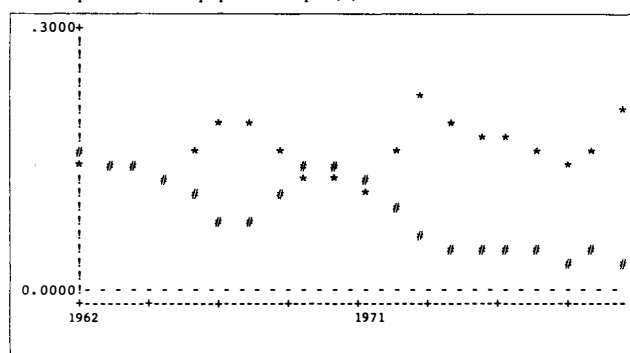


Figure 11: Manufacturing net exports 1962-1981, as proportion of value added (*) and total net capital investment as proportion of surplus (#).



LaRouche-Riemann analysis of the West German economy was conducted by a team headed by Uwe Parpart, including David Goldman, Sylvia Brewda, Peter Rush, and Dr. Steven Bardwell in the United States, and Ralf Schauerhammer and George Gregory in the Federal Republic of Germany.