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Is There Any Hope For West Germany's Economy?

Under present global economic conditions and policies, there is no conceivable way to revive the most advanced and productive economy in Europe: West Germany. Yet without the technology and industrial exports of West Germany, without the import market a healthy West German economy would represent, it is unthinkable that any other part of the industrial world, let alone Third World nations, could recover from the present global depression.

WEST GERMAN ECONOMIC SURVEY

Unemployment in West Germany, despite much government "stimulation" adamantly refuses to leave the 1 million level. Corporate profits and investment rates are at their lowest since World War II. At the root of this, the heavily export-oriented industry of the nation is starving for orders, as region after region of the world economy plunges more deeply into economic collapse.

From the "experts" what one hears is "structural changes," "orthodox monetary principles," "high unit labor costs," "the factor of the oil crisis," and "needed stimulation." The same pretended causes, the same pretended remedies, were all identified at least 10 years ago, and the problem has only been aggravated.

Current policies and remedies all contain one fundamental flaw: the assumption that the present "zero-growth" condition of the international economy is a fixed parameter for national economic policy-making, which must therefore focus on reducing whatever may be credibly selected as the local "culprit" — wages, profits, what-have-you.

This study will prove that an energy-centered program of development aimed at supplying nuclear technology to the developing sector, with correlated monetary-financial measures, is the proper national policy for West Germany's economy. Only this sort of program would permit West German industrial capabilities to be maintained over the short to medium term pending a reorganization of the global monetary system on a hard commodity, nuclear energy-oriented basis for general recovery — the only viable international premise for national economic policy. Short of this, even if crutches can temporarily be applied to either West German investments or exports, there is no chance whatever of delaying the further collapse.

West German Chancellor Helmut Schmidt is oriented toward pursuing the correct policy. The West German nuclear deal with Brazil, another with Iran, ongoing collaboration with the French, are each exemplary. This fortunate fact, however, is tempered by national political realities which do not give Schmidt the political leverage required to pursue the correct policy fast enough. The immediate solution to the problem has been identified by forces backing the Chancellor as a "Grand Coalition," expressing the converging interests of West German industrialists and labor movement forces irrespective of current political party affiliations.

Monetarist forces in London and New York are, however, engaged in all the terrorism and "environmentalist" attacks on Schmidt and the Grand Coalition project they can muster. The following study is therefore aimed at contributing to the climate of informed opinion regarding the West Germany economy which will facilitate an international mobilization in immediate support of Schmidt, and those Italian and French factions who seek to collaborate with his current policy.

The Problem At Hand

West German industry, though the most advanced in Europe, remains senile: a large part of it is undercapitalized, and much of the machinery and equipment little better than junk, a development especially aggravated by the stagnation of the past dozen years.

There was a serious recession in West Germany in 1964, the real end of the postwar "miracle." Since then there has been a frightening acceleration of the rate of accumulating obsolescence of the industrial core of the economy, which began to be seriously felt by 1969. A secular decline set in by then, which has not abated since.

The labor force is now shrinking, and the ratio favoring skilled employed industrial operatives is shrinking even faster, leaving a fast-increasing overhead cost burdening the productive sector. While the output in industry at large and manufacturing in particular has declined only since 1973, in most of its essential components, exports alone have provided the relatively lasting and consistent prop — and it is this aspect of the picture that is now on the wane.

All the tricks in the book have been used both by corporations, the state, and West Germany's central bank, the Bundesbank, to delay the moment of truth. Corporations, holding back from investment and cutting down on their operating costs, have speculated in financial paper to maintain the dividends they pay to shareholders — since profits from productive operations as such could afford very little in the way of dividends. Among other devices used to paper over the problems have been the extension of long-term export credits to insolvent foreign customers, thus keeping the markets alive and the plants running.

This swelling of financial investment in fictitious paper values has been accelerated by the fact that, as the state's taxbase shrank, its swollen budget deficit required issuing of high-interest securities on a large scale. Corporations, among other investors, bought them up. The booming federal debt has consequently soared by 109 percent in only four years!

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The tide of credit available to an economy no longer capable of using it productively has been made larger by the loose credit policy of the Bundesbank, helping to accelerate the shift from productive investment and employment into those kinds of service activity and industrial output which are not self-sustaining, but require constantly greater (inflationary) credit injections, thereby worsening the stored-up hyperinflationary potential in the economy.

In fact, for some time West Germany has been defenseless against any protracted slump in world trade — and that is exactly what started this year.

A Tremendous Investment Gap

The nation's industrialists exclaim, "We are being undersold and outproduced by foreign competitors!" Just recently, the president of the Deutsche Industrie und Handelskammer, Otto Wolff, complained in a speech that a whole period of economic prosperity, full employment, and growth had come to an end. But better than such Cassandra cries, why not look at the dreary picture of investments — which constitute the basis for a "competitive" economy?

In real terms, there has not even been a solid stagnation, let along expansion, of fixed capital investment since 1969, but only a rate of collapse which has accelerated since 1973, in spite of a series of fiscal measures aimed by the government at increasing capital investment; the trend is shown in Figure 1.

1: Fixed capital formation, machinery and equipment, 1973-1976
in billions of DM

	1973	1974	1975	1976
Current DM	96.5	95.0	100.5	109.7
Constant 73 DM	—	89.3	88.44	89.97
DM difference	—	-7.2	-8.06	-6.53
% difference	—	-7.3	-8.3	-6.7

Source: Bundesbank

The computations in Fig. 1, based on the rather dubious Bundesbank measurements, must be complemented by other calculations which show investment specific to the manufacturing sector of the economy, shown in Figure 2.

Up to 1973, on the average, 26 percent of the annual Gross National Product was being poured into investment — and that was the basis for Germany's tremendous international expansion. The cumulative addition required in 1977 to invest just as much as in 1970 is a whopping DM 52.7 billion (constant 1970 DM), while the real cumulative investment deficit — that is, the cost of merely replacing aging and outdated capacity in the industry to maintain the existing productive capacity o the economy — has reached a stupendous DM 157 billion. In such terms, DM 12.4 billion *failed* to be invested in 1973, DM 35 billion in 1974, DM 51.3 billion in 1975, and DM 58.2 billion in 1976.

This establishes beyond the shadow of a doubt that there has been an accelerating collapse in the productive and regenerative capacity of the West German economy. In 1970-71, industry had added 5 percent to its productive capacity, but only 1 percent in 1977. As all polls conducted by West Germany's economic institutes bear witness, the bulk of investment realized in the last few years consists not of expanded or added capacity, but of labor-saving and other "rationalization" investments. So — who complains that it is wage costs which ruin the West German economy? Instead, better investors, abroad, are out-producing and out-selling West German companies.

"But," the deluded conservative industrialist exclaims, "our unit labor costs have soared, and have reduced radically our return on sales, and profits!" Granted, returns on sales, according to the Commerzbank, hover around 1.5 percent, whereas a good 3 percent would be necessary to "encourage, as in the past, capital spending." But, as even the company's accountant could tell his boss, one needs little economic wizardry to realize that under conditions of shrinking total production, even stagnant wage costs imply rising "unit labor costs." Conversely, in a context of soaring production, even rising wages do not prevent lower unit labor costs, soaring profits, and therefore, investments.

Massively *increase* production, and profits will come. That is the prime economic lesson trade unions and industries in West Germany and elsewhere must learn.

The current problem is that West Germany's machine-tool stock is, on the average, 14 years old; only 37 percent of all machine tools are under 10 years of age. For comparison, the corresponding figure for Japan is 67 percent, for the USA 54

These figures should help get rid of a much-touted myth that it is the "Oil Crisis of 1973" which *caused* the current "recession." The world depression had set in long before that, and the West German economy's accumulated depression potential was only realized by the oil crisis. By 1969, capital investment was sagging, and there never has been an upswing since.

Years Of Sagging Production

Taking the very crude "Real GNP" measure of the economy from 1973 onwards, the stagnation is made obvious by the miserable 2.76 percent "increase" recorded in these four years — an increase, we shall demonstrate shortly, which is entirely accounted for by actual *costs* to the economy which have been computed as "product" — more bureaucrats, more paper-shuffling, more unproductive activity, etc. Even the Bundesbank concedes that in that period, manufacturing

2: Investment in Manufacturing Industry
in billions of DM

	70	71	72	73	74	75	76	77
Current	35.5	37.2	34.3	34.2	33.7	32.7	34.1	36.9
Constant	35.5	34.9	31.5	30.3	27.7	24.9	25.0	26.2
Annual gap	—	2.3	4.0	5.2	7.8	10.6	10.5	9.3

Source: DIW Institute, Berlin

output dropped by 0.1 percent. The relevant statistics are shown in Figure 3.

3: Change in Index of Output of Manufacturing Sector, 1973-1976
in %

Total	-2.1
Basic producer goods	-5.0
Capital goods*	-0.9
engineering	-3.6
automotive	+2.2
electrotechnical	+1.2
Consumer goods	- 3.3
Construction	-16.4

* The Bundesbank has the preposterous idea of accounting cars as a capital good, which permits convenient falsification of national accounts.
Source: Bundesbank

What is remarkable about the figures cited in Figure 4, spanning over more than four years, is — beyond the obvious collapse of steel production, construction, light metal construction, mining and machinery engineering — is how they can be used to mislead the public as to the real situation of industrial production. How much does the pump-primed auto boom (— 15 percent) account for in total manufacturing output index? The auto boom is typical of production that can only expand in the present period, so long as constant new amounts of credit to consumers are printed by the Bundesbank and relayed via the banks. It was hoped that the auto boom would itself prime other sectors — machine-tools through retooling, glass and chemicals, nonferrous metals such as copper, electrotechnical and so forth. To a very limited extent it has, necessitating gigantic credit injections to do so.

But it is by now clear that nothing more can be done with it. As inventories have started piling up in factories since last spring, the hoax of an auto-boom-led "recovery" is vanishing. Foreign sales that have propped up production considerably in various key sectors increasingly depend on *political* considerations (to the OPEC countries, to the Comecon nations, etc.), and monetary changes (debt relief to the developing world and so forth). The chemical industry's 6.3 percent plus, the electrotechnical sector's 9.1 percent plus, are both dependent directly on such export conditions and credit injections.

4: Net Output of Industry
Index: 100=1970

	1973	II quarter 1977	% change 77/73
Total industry	112.6	114.4	— 1.6
Mining	93.8	75.1	—19.9
Manufacturing	112.2	115.2	+ 2.6
Basic producer goods	115.9	114.9	— 0.8
Capital goods	109.6	115.2	+ 5.1
Consumer goods	113.3	116.0	+ 2.3
Construction	111.4	103.8	— 6.8
Oil	110.5	101.0	— 8.5
Steel	112.1	95.7	—14.6
Chemicals	126.8	134.8	+ 6.3
Light metal constr.	110.1	97.8	—11.1
Machinery	100.4	95.8	— 4.5
Automotive	112.0	128.9	+ 15.0
Electrotechnical	121.5	132.6	+ 9.1

Source: Statistische Bundesamt

Therefore, to arrive at the genuine underlying trends in the economic dynamic of West Germany, we must conceptually subtract whatever is dependent on "pump-priming" credit. The fundamentals then appear much clearer, as the performance of the machine-tool and stell industries indicates.

Taking a closer look at the components of the manufacturing industry, the truth appears clearly, and is reflected in Figure 5. The booming auto industry engulfed most of new machine tools produced; the consumer-goods segment of the electrotechnical industry gobbled up most of the rest...metal-working machine tools very sizably dropped (-5.6 percent), which should not be surprising, given the collapsing rates of fixed capital investment. The discrepancy between the barely edging up investment-goods segment of the electrotechnical industry, and the consumer-goods remainder, also points to the role of inflationary credit issued by the banking system as installment credits. The sectors that underwent sharp losses or stagnation of their output evidently did not invest anything significant beyond partial replacement of machines and some "rationalizing" devices, which only worsened their underlying productive capacity. They tried to produce as much as they could, especially during periods of relatively peak demand, like 1976, further stretching and overstraining existing equipment. A good chunk of the capital investment undertaken in the West German economy has been accounted for by precisely those industries whose boom is inflationary by nature.

5: Gross Output of Capital and Consumer Goods
1970=100

	1973	II quarter 1977	% change 77/73
Total	108.7	113.3	+ 4.2
Steel products	114.2	103.3	— 9.5
Machinery (total)	101.5	102.7	+ 1.1
Metalworking machinery	86.6	81.7	— 5.6
Electrotechnical			
investment	115.3	118.6	+ 2.8
consumption	136.5	175.6	+28.6
Automotive	110.6	141.3	+27.7
passenger autos	109.8	140.1	+27.6

Source: Statistische Bundesamt

It is high time that the truth be accepted as it plainly is: *there has never been a West German upswing,* and only the most hypocritical fools have been able to "see"

one. There has been (and is) zero growth, but they speak of an "upswing."

A Fragile Export Business

Granted, exports is the one sector of the economy that has been in a relative upswing. As Figure 6 shows, even this should be taken with a grain of salt.

6: BRD Exports, 1973-1976,
Evolution in constant DM,
with % change and
in total exports of various regions

	total	OECD	LDCs	OPEC	Comecon
1973	178.23	136.12	25.28	6.01	10.8
1976	202.59	143.76	28.65	16.36	13.8
% change	+13.66	+5.61	+ 3.37	+171.39	+3.0
% share of total exports	100.00	71.00	14.00	8.00	6.5

Source: Bundesbank, Statistische Bundesamt, Economics Ministry

Major, desirable deals may be made with leading OPEC nations, but they have not the slightest chance, in themselves, of *replacing* the poor trade volume with leading OECD countries. Total exports have increased by 13.66 percent, however, the recent trends indicate how dangerously dependent on collapsing economies abroad the simple maintenance of West Germany now is, as shown in Figure 7.

7: Selected West German Industrial Exports
change, II Qr. 1977 over I Qr. 1977 and
II Qr. 1976

Exports II Qr. 77		% change		Deflated change over	
Bns DM	% weight in total exports	over II Qr. 76	over I Qr. 77	II Qr. 76	I Qr. 77
Machine tools					
12.2	17.9	+ 4.0	+0.7	+0.3	0.0
Automotive					
10.5	15.4	+10.4	+3.9	+7.1	−3.2
Chemicals					
9.0	13.1	+ 3.7	−0.5	+0.4	−1.2
Electrotechnical					
6.7	10.0	+10.7	+5.3	+7.4	+4.6
Iron and Steel					
3.3	4.8	− 5.7	+5.0	−9.0	+4.3

Source: Statistische Bundesamt

For the three groups representing together more than 45 percent of total West Germany exports, the export curve flattened some time during 1977 and started plunging after a short respite, before or after the summer.

Such problems should have been seen before. Out of the 13.66 percent growth of exports from 1973 to 1976, 42 percent of that growth was due to OPEC nations alone. There was never a lasting basis for an export-led upswing, not so long as International Monetary Fund and City of London monetary policies were followed, and willy-nilly accepted by West Germany.

One thing will demonstrate that, under the conditions through which it was effected, the export "boom" has included a highly damaging element for the economy's medium- and long-term productive potential. Since foreign clients, with some happy exceptions, were finding themselves unable to take West German goods due to their own insolvency, massive devaluations of the client-countries' currencies, the continuous appreciation of the DM, and so forth, West German exporters as a rule have extended "soft" trade credits to foreign clients in the last 18 to 24 months. This has played a major role in keeping exports up.

Recorded figures, which do not include "leads and lags" in the settlement of export bills of exchange (which function as de facto credit), are still very explicit. Such foreign trade credit granted by corporations grew a stupendous 143 percent between 1975 and 1976, from DM 7.2 billion to DM 17.5 billion. West German industrialists granted the most extended payments delays, sold at quasi-losses, diverted liquidity from current operations, and so on, to keep factories open and running.

The Financial Insanity

But this is not the worst — it represents an instinctive reaction of self-defense, a kind of West German muddling through. Where the story becomes ludicrous is in the realm of financial policy and its proponent, the Deutsche Bundesbank. The essence of the Bank's cosmetic policy has been to actively encourage the *diversion of resources away from long-term reproductive capacity* into short-term expenditures which afford an ephemeral appearance of "stability." The use made by industrial corporations of the credit they were taking from the banking system tells the story of West Germany's depression economics; see Figure 8.

8: Financial Use of Credit Taken by Corporations
in billions of DM

	1975	1976	% change
Purchase of bonds	2.7	5.1	+ 88.80
Purchase of bank deposits	16.4	17.0	+ 3.65
Purchase of equity	3.3	2.3	— 30.30
Foreign trade credits	7.2	17.5	+143.05
Total	31.7	44.1	+ 39.10

Source: Bundesbank

Since corporations' current operating profits permitted them to pay little or no dividends, they systematically bought up high-yield government and other bonds. Moreover, the apparent stability in their bank deposits should not obscure the drop in demand deposits (short-term), which corporations keep with the banks for their immediate spending. These dropped from DM 12.4 to 4 billion, while corporate holdings of certificates of deposit (CD), long-term interest-bearing fin-

ancial instruments, soared more than threefold from DM 4 to 12.8 billion. Corporate CD holdings increased by 36 percent from 1974 to 1976, and three-fourths of that went strictly into long-term CDs, above four years.

In this way, massive amounts of money were channeled out of productive circulation and "sterilized" into financing government deficits, or into the burgeoning Eurodeutschemark market via foreign bank deposits. The Bundesbank's "orthodox" monetary principles therefore appear to the credulous to have successfully curbed the growth of the money supply and brough down the rate of inflation to an annual 4 percent or below. In reality inflation, in the form of spiraling fictitious paper claims against a stagnating productive base, has merely been "forced underground." West German firms that cannot pass on increased costs through increased sales prices have ingested inflation in the form of reduced profits.

The "excess liquidity" brought about by the collapse of production has allowed easy financing of burgeoning government debt. The depression has sharply eroded the tax revenue of both federal and local governments, by anywhere between -5.4 percent and -7 percent according to different measurements, with the result that public authorities, as of the middle of 1977, had piled up a cumulative deficit of DM 148.3 billion. In the 1973-76 period, the current DM indebtedness of public authorities went up by 78 percent, that of the federal government by a smashing 109.5 percent.

To what effect? We have seen the curve of industrial output. This is the core result of "orthodox monetary policies": more and more taxpayers' money has been expended with smaller and smaller net result. We are very close to a situation in which for every new deutschemark spent in "pump-priming," the corresponding increase in production will be counted in pfennings, a perverse multiplier.

Bondholders, on average, have cashed in 8.5 percent debt-service per year since 1974. Now, however, the overliquidity typical of the depression has depressed bond yield to around 6 percent, the lowest rate in years (11 percent in 1974), while savings bonds carry an interest of about 3 percent! As The Bundesbank itself judiciously remarked, such extremely low rates will tend to deter corporations (and perhaps investors, too) from buying government debt, which would be a disaster.

Corporations at this moment are desperate over what to do with their useless money. For one, they have been attempting to restructure the maturity of their indebtedness in the last few years (no doubt the bankruptcy of Volkswagen was a powerful incentive to do so). Long-term bank debt of corporations represented 45.5 percent of their total debt in 1973, and increased by 36 percent into 1976 to 52.2 percent of total debt. Short-term debt grew only 8.3 percent in the same period, dropping from 40 percent to 36.5 percent of total debt in the process.

Corporations have thus barricaded themselves against "bankruptcy," but not against economic collapse.

The other effect of the mushrooming budget deficits of the government has been to finance and help finance the bogus "consumer-led recovery" of the last two years. Bundesbank figures show that the rate of growth of credit increased 2.1 percent to manufacturing enterprises, 1976 over 1974, versus 15.3 percent to private individuals and 22.3 percent in installment credits.

Compare this with the growth of the public sectors deficit financing. A tremendous time bomb of pent-up inflationary potential is ticking within the West German economy. Figures on price inflation and growth of the "monetary aggregates" are utterly irrelevant to the argument. The amount of financial paper outstanding which demands its quarterly piece of flesh in the form of interest repayments has exponentially outstripped the simultaneous "growth" of present and future productive capacity. An overwhelming share of newly created money went into financing and refinancing the nonproductive burden against the shrinking productive sector.

This is where monetary policy per se can now have a role in preparing for effective economic recovery: *stop it!*

A huge share of West German money has, as we indicated, been channeled away from domestic hyperinflationary potential by way of a sojourn on the Eurocurrency markets. There, the lack of confidence in the dollar and the better-than-average (!) performance of the West German economy converged to produce a big demand for marks — a 30 percent-odd increase of the currency against a basket of 16 main currencies, and a 35 percent plus increase against other Common Market currencies. Speculative "hot money" puring into West Germany at each monetary storm in the last few years has faithfully been passed out onto this Euro-DM market. As the Bundesbank's foreign currency reserves did not increase during the period under review, and indeed dropped marginally, most such speculative inflows have been monetized into DM, then recycled abroad into the fastest growing paper business in town.

From 1968's level of $3.9 billion, the Eurodeutschemark market had by the end of 1976 skyrocketed in size to $48.7 billion, the equivalent of DM 112 billion. For reference, the size of the narrowly defined West German money supply was DM 176 billion at the same time. DM hyperinflation has thus been exported.

What Happened To Skilled Jobs?

Few readers would by now question the imminence of a disaster. But in reality, the disaster is already around, in the form of a collapse of productive employment. This ongoing destruction of society's labor power is occurring via increased permanent unemployment, a tremendous drop in the ratio of employed skilled to employed unskilled workers, and in the ratio of production workers to "overhead" administrative, clerical, government, and related employees.

Figure 9 shows the shifts in major categories of employment. It reveals an almost 11 percent drop in the industrial labor force as a whole. Figure 10 shows the shifts in industrial employment itself. In five years, jobs in the manufacturing sector dropped by more than 13 percent, while paper-shuffling jobs in banks, insurance companies, and other "business services" increased 18 percent, in the context of a 6 percent general drop in employment. The sub-category of "community, social

9: Employment by Major Category

in millions employed

	Employed	wage-earners	Industry	Foreign	short-time	Jobless
1973	26.7	22.6	8.3	2.5	0.04	0.27
1974	26.2	22.2	8.1	2.3	0.29	0.58
1975	25.4	21.4	7.6	2.1	0.77	1.07
1976	25.1	21.3	7.4	1.9	n.a.	1.30
% change	—6.0	—5.75	—10.8	—24.0		

Source: Statistische Bundesamt

10: Shifts in Industrial Employment

(millions)

	1970	1973	73/70 (%)	1975	75/70 (%)
Manufacturing	10.30	9.50	— 7.7	8.90	—13.5
Construction	2.06	2.26	+ 9.6	1.92	— 6.7
Trade	3.88	3.84	— 1.0	3.60	— 7.2
Transport, storage,	1.48	1.55	+ 4.7	1.48	—
Banks, insurance, business services	1.10	1.30	+18.0	1.30	+18.0
Community, social and personal services	4.60	5.10	+10.8	5.20	+13.0

Source: International Labor Organization

11: Wage-Earners Compared to Total Labor Force

in numbers and percentage

	Number (millions)	% in total labor force
Professional, technical and related workers	2.30	9.8
Production, transport and related workers	8.97	36.1
Administrative and manegerial workers	0.50	2.2
Clerical and related workers	4.53	17.5
Sales workers	1.63	8.9
Service workers	2.22	9.5
Total	20.54	100.0

Source: International Labor Organization

and personal services," whose hiring is also booming, represents, aside from employees in "psychological help" and the like, a taxpayer-paid unproductive buffer to keep down, not unemployment, but the unemployment *figures!* More bureaucrats. The numbers in Figure 11 do away with the silly myth that the oil crisis did all the wrong; the long-term trends presently in full swing were already taking off by 1970.

Note that production workers plus professional and technical workers constitute together close to 46 percent of the total labor force, a fast-declining percentage, whereas both socially necessary and totally parasitical "overhead" employment now adds up to a fast-growing 38.1 percent.

An emergency point has been reached, with a dangerously low ratio of productive to overhead employees which burdens the actual profits generated by productive and related workers. For example, in industry as a whole, the ratio of workers to total employment has collapsed from 77 percent in 1970 to 63.9 percent in 1975, according to the Statistische Bundesamt. Stated in other terms, as illustrated by Figure 12: whereas there was in 1970 one white-collar worker "living off" three industrial workers, that proportion has jumped to two white-collar per five industrial workers in 1976 — while the real profits the latter were generating sank. Fewer and fewer producers of real profit have to "carry" more and more paper-shufflers and others employed in parasitical jobs such as clerical work.

The complicated Figure 12 describes the 1970-1976 shifts in both absolute and relative terms of employment of industrial and white-collar workers. The first six columns indicate changes in employment in millions of jobs; the next column indicates the relative weight of each selected industrial branch for the industry as a whole, and the three last columns indicate the percentage change from 1970 to 1976 for the categories of workers and bureaucrats.

A close scrutiny of Figure 12 shows the disastrous development in terms of productive-to-overhead ratio. In *all* branches surveyed (save the auto industry), the number of workers has declined sharply over the six-year period — one miner out of four left the job, nearly one of five workers in basic producers goods, one out of 10 workers in capital goods, including a whopping one out of five in machinery, one out of four in consumer goods production. But the absolute number of non-productive employees has skyrocketed, in spite of the heavy drop in *total* employment. Even allowing for that segment of white-collar employees consisting of socially necessary workers, such as technicians, scientists, engineers, and so forth, the implied burden is rapidly crushing the declining numbers of productive workers, and indicates in the sharpest possible terms a process of *de-industrialization in West Germany.* One out of five productive industrial jobs has been phased out in six years!

At the same time, all standards of productivity used by the Geneva-based International Labor Organization — net production per person employed, net production per wage-earner, net production per employed man-hour, and wage-earner's man-hour, for an index of 100—1970 — show increases of 16 percent, 22 percent, 27 percent, and 34 percent respectively during the same period.

Of course, the definition of productivity should be referred (1) to the enormous weight of the overhead-to-productive workers ratio, which systematically distorts productivity computations by diluting what is fundamentally the productive employees' profit-generating activity onto paper-shufflers whose job is a cost, and no benefit; (2) to the failure of capital improvement to play its lawful role in fostering worker productivity. The arguments concerning a purported too low worker productivity growth rate with respect to 75 to 80% nominal wage increases in the 1970-to-1976 period are absurd, and would be, even if prices had not gone up a good 40 percent in the period. According to the Bundesbank's figures, "mass incomes" (gross wages and salaries), once we deflate the indicated 40 percent or so inflation in prices in the same period, has increased by a tiny 0.6 percent; net wages, once tax and benefit deductions are effected, increased 7 percent, and once social security pensions and benefits have been added, the resulting "mass incomes" has increased by 1.8 percent. Where is the wage explosion?

1977 Trends: Rushing To Disaster

What are the latest indications? It is, or should be, no secret to anyone that the short 1975-76 respite for the world economy, which absorbs 25 percent of the goods produced in West Germany, came to a grinding halt months ago. While West Germany's so is said to have increased by a tiny 3 percent in the first quarter of this year, and a miserable 0.5 percent in the second, deliveries to areas that absorb upward of half of West Germany's exports — France, Italy, Switzerland, the United Kingdom, non-oil LDCs (less developed countries), and the East bloc — have started to *drop* in the first half of this year. Developing countries bled dry by the lower Manhattan and City of London policy of forcible debt-repayment and negative growth are curtailing their imports to divert export earnings into debt service. Comecon countries face significant financial imbalances which they must deal with cautiously, or at least so long as they have not implemented a transferable ruble monetary system. Major OECD countries are either plunging back into recession, such as Scandinavia, France, Italy and Britain, or trying to barely maintain levels of production, like Japan and the USA. Only OPEC is a relative, but under present conditions too small, bonanza.

13: Order Inflows for Selected Industries
comparison II Qr. 1977 to 1976, in %

Producers goods	+4.8
Capital goods	+6.7
Consumer goods	+0.9
Steel, etc.	—7.6
Chemicals	—2.2
Light metal construction	0.0
Machinery	— 0.8
Automotive	+25.3
Electrotechnical	+ 0.1
Industry total	+ 1.6

Source: Statistische Bundesamt

Domestic demand will not pick up. Wages have not been rising so fast as to permit working-class and other households to spend liberally, in spite of small one-time sprees donated by government fiscal agencies. The very high savings ratios bear witness to that, especially in the context of a very gloomy employment perspective. The government's efforts will probably break the pump, not prime it. At best, the latest of the government's umpteen "stimulation packages" will fare no better than its elders, and merely *slow down the decrease* of figures at the statistical offices, while giving yet another boost to the shift from productive to unproductive business activities. To demonstrate that sad situation in detail, let us first glance at the orders flowing into the industry, shown in Figure 13.

12: Proportion of Productive to Non-Productive Employees, by Industry
in millions

	1970			1976				% change		
	Total	White collar	industrial	total	white collar	industrial	weight	total	white collar	industrial
Mining	0.315	0.51	0.263	0.243	0.45	0.197	3.3	—22.8	—11.7	—25.4
Basic producer goods	1.774	0.458	1.305	1.576	0.48	1.088	21.2	—11.1	+ 6.9	—16.6
Capital goods										
—total	3.811	0.994	2.802	3.565	1.082	2.469	48.0	— 6.4	+ 8.6	—11.8
—machinery	1.147	0.347	0.795	1.000	0.346	0.649	13.5	—12.8	— 0.2	—19.6
—auto	0.574	0.109	0.464	0.600	0.122	0.478	8.1	+ 4.5	+21.1	+ 3.0
—electric	1.039	0.299	0.737	0.968	0.388	0.628	13.0	— 6.8	+29.7	—14.7
Consumer goods	2.000	0.352	1.632	1.600	0.336	1.249	21.6	—20.0	—2.8	—23.4
Food, etc.	0.520	0.145	0.370	0.444	0.139	0.302	6.0	—14.6	— 4.1	—18.3
Total	8.428	2.002	6.313	7.432	2.084	5.036	100.00	—12.3	+ 4.8	—20.9

Source: Statistische Bundesamt

Aside from auto, and its spinoff in machinery orders, the future is dreary. Seeing such orders, no industrialist can think of investing. Delayed and cancelled orders mean a further plunge, and so forth. The output trends (Figures 4 and 5) explain why a wind of panic is starting to spread, just as the contents of Figure 7 for major selected categories of exports show that most key export categories, save the automotive, have started what threatens to be a nosedive.

In Conclusion

West Germany's 1978 budget shows a 10.1 percent increase over last year's — and no better idea of how to get out of the mess. The public sector deficit will increase another DM 47 billion. Michael Blumenthal, the U.S. Treasury Secretary, and his London allies will keep on pressing for West German reflation, deutschemark appreciation, "voluntary" export restrictions on the part of West Germany, and so forth.

The City of London monetarists are out to get West Germany. Just as they strive to appropriate by hook or by crook the treatures of Arabia in the form of the Saudi financial reserves, they look to West Germany (as well as Japan and the USA) as a juicy lemon from which a lot of loot can be squeezed. West German reserves, they insist, must be used to bail out insolvent developing and developed nations; West Germany should "sacrifice" its exports and swell its import bill to help others. If this collapses investment, employment, and production, well, they have a good plan in their pockets — just like in the 1920s.

— Laurent Murawiec