

This difference is more than accounted for, however, by the fact that over this period the U.S. civilian labor force grew at an average annual rate of 1.8 percent, while in Germany the labor force actually declined in size. Thus, real GNP per person employed—a rough measure of the productivity performance of the economy—grew at an annual rate of 2.6 percent in the United States but at a rate of 4 percent in Germany.

During the same period, the U.S. unemployment rate averaged about 4.6 percent and the German rate, adjusted to U.S. definitions, averaged 0.5 percent.

Yet during this same period, under conditions of what American economic managers would consider a gross overheating of the German economy, the German cost of living rose at an annual average rate of 2.7 percent, only somewhat higher than the annual U.S. rate of 2 percent.

Nor was this price stability attained at the expense of German workers' wages. On the contrary, they did much better than their counterparts in the United States. During the period, gross hourly earnings in manufacturing increased at an average annual rate of 3.4 percent in the United States and 7.2 percent in Germany. After adjustment for changes in the cost of living, real hourly earnings rose at an average annual rate of 1.4 percent in the United States and 4.4 percent in Germany. It is interesting to note that in Germany the buying power of an hour's work increased at a slightly faster rate than the physical volume of production per person employed, while in the United States it lagged far behind.

The rate of increase in money wages was more than 50 percent higher in Germany than in the United States. This faster increase in wages is partly the cause and partly the effect of the better productivity performance. On the one hand, the rapid expansion of domestic demand due to the rapid increase in wages enabled overhead labor to be spread over a larger volume of production and consequently helped speed up productivity. On the other hand, the rapid expansion of output made it easier to raise wages and consequently demand without increasing inflationary pressure.

Although there was a lag in German expansion in 1967, such data as are available for 1968 indicate that the former strong performance has been resumed. In the first half of 1968 real GNP rose at an annual rate of 6 percent over the last half of 1967. Consumer prices in October 1968 were only 2 percent higher than in October 1967, and the unemployment rate in November 1968 was 1 percent.

The Government is planning for a continuation of this state of affairs, for we find the same combination of low unemployment, high price stability, and high growth rate in the German medium-term economic plan, which covers the years 1969-72. In this plan the Government has set itself the following targets:

- (a) Full employment, defined as an unemployment rate of 0.8 percent.
- (b) Price stability, i.e., a rise in the GNP deflator not exceeding 1 percent per year.
- (c) External equilibrium, defined as a surplus on the balance of trade in goods and services on a national accounts basis of 1.5 percent of GNP.