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THE ECONOMIC POLICY OF LUDWIG ERHARD

by

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There are at least two assumptions hidden in the title of my paper. The first is that Ludwig Erhard really had an economic policy which can be identified and interpreted, the second that his policy was at least of some relevance for the reconstruction of West Germany's economy. In these general terms both assumptions can hardly be denied, but what I really want to challenge is the common view that after the war Germany found a completely new mode of economic policy which overcame the traditional "Wirtschaftsordnung" and which was by and large responsible for the tremendous success of economic performance during the 1950s and 1960s.

I see more evidence in support of a different, more complex mechanism of reconstruction. There is, firstly, the fact that the supply-side of the German economy was in a surprisingly good shape and therefore conditions for reconstruction and growth were not unfavourable. It can even be shown that in the crucial starting period of reconstruction -- from the beginning of steady output growth in 1947 to the outbreak of the Korean War -- Erhard's policy of "free market economy" stood in the way of an even better performance.

And there is, secondly, the fact that by the time the ultimate break-through occurred in the early 1950s Erhard's "social market economy" had already been significantly changed towards a more traditional policy of societal corporatism.

But even if my thesis is accepted and Erhard's policy is largely stripped of its historical merits, it is nevertheless worthwhile to have a closer look at the man and his myth. There is no doubt that the myth of Soziale Marktwirtschaft became an important part of West Germany's "national" ideology and therefore a part of her political reality then and today.

Therefore, I shall start with some brief remarks on Erhard's biography. Then I want to give some insights into Erhard's neoliberal doctrine and the ideological background against which this doctrine must be seen.

Finally, and this will be the main part of my paper , I want to give an outline of the process of transformation which happened to the Soziale Marktwirtschaft under the impact of the Korean crisis on Germany. With other words, my paper will give an idea of the man, the myth and the movie which Erhard was starring in.

I

The Man

Born in 1897 Erhard was brought up in a Franconian middle class family and already at an early stage of his life destined to take over his father's haberdashery. At the end of the First World War he was heavily wounded. During the years of convalescence he started to study economics at the Handelshochschule in Nürnberg. After his successful graduation he joined the University of Frankfurt where Franz Oppenheimer, a radical, left-liberal, anti-monopolist was his supervisor. Having written his doctoral dissertation on "Das Wesen der Werteinheit" in 1924 he first worked in his father's shop in Fürth (Franconia). In 1928 he succeeded in getting a junior position at the Institut für Wirtschaftsbeobachtung der deutschen Fertigware, one of these typical offshoots of the well-organized scene of the German "Verbandswesen". In fact, the Institute was the market research office of the "Verband der deutschen Porzellanindustrie" and gradually expanded its competence to other household goods industries and finally to some finished products of the consumer goods sector such as stoves, watches, toys and pianos ¹. In 1933 he joined the board of directors of the Institute which then was associated with the Handelshochschule Nürnberg and in the same year he was appointed one of the editors of the Institute's periodical Die deutsche Fertigware.

In these positions Erhard became familiar with the bureaucracy of the Reichsgruppe Industrie which represented industry within the NS-framework of authoritarian corporatism after 1936. Numerous articles written by him during this period show him to be an ardent advocate of the interests of the small scale consumer goods industries and demonstrate considerable skill in adapting to the rapid changes of his clientele's political position ². After 1935-36 he also taught as a guest docent at the Handelshochschule -- the last time (1940) on topics such as "Current problems of war industry" or "Economic planning and central allocation".

Although Erhard was an opponent of NS economic policy before 1933, there is no conflict apparent over almost ten years of publishing and teaching after Hitler's seizure of power. This is not surprising for -- notwithstanding his liberal approach -- he had at that time at least three principles in common with the NS ideology:

- he rejected sharply the idea of class conflict;
- he conceded the necessity of state intervention (but within very narrow bounds);
- and he called for the subordination of the economy under the primacy of politics.

Therefore it was not his academic position in the initial debate on the condition of the postwar German economy which made him leave the Institute in 1942. As he presented the case, he had to leave the Institut für Wirtschaftsbeobachtung because they refused to join the DAF -- the German labour front ³. Other sources see him involved in an intrigue within the supervisory authority of the Institute ⁴. However that may be, this was in fact the real starting point of his career. The Reichsgruppe Industrie kept him on its pay roll as a one-man institute (Institut für Industrieforschung) and adopted officially his 'Denkschrift' on Kriegsfinanzierung und Schuldenkonsolidierung which was written in 1943-44 and which presented rather a programme for postwar 'Wirtschaftsneuordnung' than a memorandum on war finance and consolidation of debts, as the title promised ⁵. Now he could concentrate all his efforts on propagating his idea of a neo-liberal reform of the German economy which he believed to be his mission since the days of the world depression.

Surprisingly enough his 'Denkschrift' achieved an almost official character when, during the Götterdämmerung of the Third Reich the fascist upper échelons of the Reichswirtschaftsministerium tried to improve their weak position within the chaotic framework of NS organizations by attempting an alliance with the Reichsgruppe Industrie. With the restless energy of a true believer he finally managed to make himself heard both by the top ranks of the Reich's economic authorities and by the head

of the conservative opposition to Hitler, Carl Goerdeler, who was killed by the NS regime after the failure of the attempted assassination of the Führer ⁶.

Unfortunately Erhard wasted his efforts with the wrong addressees. After May 1945 he had to start again almost from scratch. Even his 'Denkschrift' had disappeared and was not published before 1977 (!).

At the same time he cannot be considered as 'homo novus' in 1945. He was well known by the top ranks of German industrial bureaucracy, to all of whom he had once offered his 'Denkschrift'. Probably he was the only insider on the industrial scene in Bavaria who did not belong to the NSDAP and not even to the DAF. So the Americans had almost no choice. They appointed him Bavarian Minister of Economic Affairs after the occupation (October 1945-December 1946). His administration did not end without attracting attention far beyond the Bavarian boundaries. The Landtag of Bavaria set up a committee of inquiry to investigate Erhard's alleged violations of the denazification law and his responsibility for some corruption affairs ⁷. Although he was indeed politically burdened with "the biggest corruption scandal in recent time" -- as the CSU-chairman of the committee put it ⁸ -- there arose no personal consequences from this for Erhard. After November 1947 he spent his time as honorary professor of economics at the University of Munich.

Erhard was still quite unknown on the political scene when in the spring of 1948 the Americans looked for a new economic director of Bizonia. They had dismissed the former director Johannes Semmler after he had ^{spotish} derisively referred to American corn deliveries as "chicken-feed". To the Americans' mind Erhard might be more easy going than his predecessor. This would prove to be an error -- as we shall see.

He was now in a position to get his ideas carried out and he did not hesitate to make use of this opportunity. However, he had to push through his plan to abolish all restrictions on consumer goodsproduction against the opposition of nearly all

groups which had power or at least some influence in Germany. Even the majority of business leaders opposed his reform, highly suspicious of his, as they put it, dogmatic approach. But they let him have his way, because his policy had at least one important advantage for them; Erhard's approach did not depend on complicated institutional experiments. In 1948 the Americans did not want to wait another one or two years until a new organization, as might for instance be needed in the case of socialization, had settled and overcome their initial difficulties⁹. The only precondition Erhard needed in order to instal his Soziale Marktwirtschaft was permission to abolish central allocation in the consumer goods section. He got it from the Wirtschaftsrat, the then bizonal Parliament, on 24 June 1948 and, what was more important, from General Clay, who overruled the objections made by his economic advisers.

II

The Myth

In 1945 economic liberalism was not popular at all. Nearly all political camps shared the conviction that a free market economy was a luxury which Germany was too poor to afford. Moreover, there was practically no tradition of a liberal economy in Germany. There had been a short period of economic liberalism in Prussia and other German states during the 1850s and 1860s, a period which coincided with the take-off in Germany. But under the influence of the Gründerkrise, the sharp crisis which followed the boom of the early 1870s, laissez-faire ended the mode of German economic policy and interest mediation changed completely. At the end of the so-called Great Depression of the 1880s and early 1890s Germany had become the first post-liberal nation by setting up modern interest-group policies, market regulations and a framework of bargaining between state and organized interest groups ¹. This modern corporatism turned out to be extremely efficient if measured by the yardstick of economic growth and of modernization of economic structures and business methods.

Up to 1945 the alternative in German economic policy was, therefore, not between corporatism and liberalism but rather between societal corporatism and authoritarian corporatism ². The former appears to be a concomitant, if not the essential, component of the post-liberal, advanced capitalist, democratic welfare state; the latter can be defined as an element of the anti-liberal, ^{utroqem} delayed capitalist, authoritarian state. It was more or less this type of state corporatism which Germany had to overcome in 1945.

What was the beauty of Erhard's policy in this situation? There is a common view that the Germans simply were fed up with regulations and therefore accepted gratefully any abolition of direct controls which created incentives to economic growth.

I think this must be considered as an ex-post simplification of what happened in 1948. It is true that all Germans wanted to get rid of the burden of the war economy, but not even a majority of businessmen preferred to run the risk of full free

market competition instead. What Erhard really profited from was the myth of currency reform.

Of course, Erhard had virtually nothing to do with planning and realizing that operation ³. The plan had been made as early as 1946 by Gerhard Colm and Raymond W. Goldsmith, two experts on the German financial system who emigrated in the thirties from Germany to the USA. Erhard's own plan, the so-called Homburger Plan, was not taken into consideration like some dozens of other German plans ⁴. The operation was finally carried through by the US Army and mainly seen as a logistical operation. Therefore it was not Ludwig Erhard who was the "father of the DM" but Lieutenant Edward A. Tenenbaum, who was in charge of this operation, "Bird Dog".

Nevertheless Erhard, not Tenenbaum was the hero of the year when the reduction of 93.5% of the entire circulation turned out to be successful. After 20 June 1948 output growth was no longer reserved for disposal by central allocation or destined to be hoarded by private business firms but was available to the normal consumer, if he had the money to pay for rising prices. Nearly all German politicians criticized the monetary reform for its shameful injustice. Only Erhard defended it right from the beginning because a monetary reform was absolutely necessary as a prerequisite of his economic reform. So he could win the image of a monetary reformer and profit from the myth which was attached to such an operation since the currency reform of 1923-24 had seemed to have suddenly stopped the catastrophe of hyperinflation. The monetary reform, nevertheless, was not the heart of his reform. As most other German experts he saw in it a necessary but not a sufficient prerequisite for recovery ⁵.

There is another myth about Erhard's economic reform of 1948. His unshakable faith that forces of untold dynamism would be released once people became aware of the value of freedom is broadly considered to have "transformed hopeless, homeless, and hungry Germans into the economically most powerful nation in Europe and the second biggest trading country in the world" ⁶.

By dramatically freeing the country from the fetters of central planning, rationing, and price controls in direct violation of the existing regulations of the Allied Military Government Erhard had established the widespread belief that the free market system had enough virtues to solve Germany's economic problems.

He formulated his credo as early as October 1946, when he was still Bavarian Minister of Economics: "When the state insures that neither class privileges nor artificial monopolies can distort the natural balance of economic forces and creates elbow room for interplay of supply and demand then the market itself will make possible the optimum allocation of all economic resources" ⁷.

I do not want to go into the details of the rhetorical framework of Erhard's economic reform. The facts are easier to explain. He got permission to abolish direct controls on prices and allocation of consumer goods, while basic industries continued to be subject to such controls. He put high hopes in the incentives which should result from that. Investment in consumer goods industries were to be financed by extremely high depreciation allowances and in general by high profits which would result from a sellers' market.

At the same time capital formation in basic industries was expected to be financed by the Marshall Plan. Erhard hesitated, as he put it, to lead the German public down the "thorny path" of forced saving. With the Marshall Plan financing capital investment all classes of the public could consume the entire national income.

No doubt a reconstruction strategy which concentrated its efforts on consumer goods as the leading sector of recovery had a popular appeal. But there were at least two problems which made this strategy doubtful from the beginning:

- a free market economy on a sellers' market (together with the results of a monetary reform without any form of burden-sharing between the owners of money and fixed assets) had disastrous consequences for the dis-

tribution of real incomes and wealth;

- expansion was soon impeded by production bottlenecks,
such as coal, steel, transport, electricity and other
non-liberalized sectors of the economy.

Whereas the first problem did not seem to be so important from
the perspective of 1948, ^{erforder} the second one would soon jeopardize
the Soziale Marktwirtschaft and modify Erhard's strategy
decisively.

III

West German economic reconstruction: A reappraisal ¹

Early revival

In May 1945, to start at the very beginning, the German economy was certainly in a poor condition. But industry had not been substantially destroyed by strategic bombing. As far as productive resources were concerned, conditions were not as bad as they appeared to be.

As can be seen from Table 1 real investment in West German industry had been tremendously high since 1936, whereas losses through war damage had been kept within bounds. Obviously it was easier totally to wipe out residential districts in the central areas of cities than cripple the German war economy by strategic bombing. Measured in quantitative terms the capital stock in industry was actually one fifth higher in 1945 than it had been in 1936. The quality of fixed assets was also remarkably high.

Indices both of average age and net-to-gross value of fixed assets had reached an extraordinarily high peak at the end of the war (Tables 2 and 3). Even in 1948, the end of a period of supposed disinvestment and dismantling, the condition of fixed capital was remarkable in both respects.

When dismantling stopped in 1950, only 38 per cent of industrial plants ^{to be dismantled} rescheduled for dismantling by the 'Plan of the Allied Control Council for Reparations and the Level of Postwar Economy' of March 1946 had been disassembled ^{Dismantling} ². A careful estimate indicates that dismantling reduced the German pre-war capital stock in industry by no more than 5 per cent. The huge majority of plants affected belonged to relatively few industries, in particular those which had expanded the most since 1936 ³. They included aircraft, machine tools, ship-building, iron, steel and chemicals. In short: at the end of the Second World War German industry was well equipped with fixed assets and there was no lack of capital. Clearly, the causes of German stagnation lay elsewhere.

This is also true for the labour force (Table 4). Though it must be admitted that the age-structure and sex-proportion of the labour force had changed for the worse, the more important fact is that its training had not. It is even more probable that the quality of the labour force had improved, because during the war a lot of people had been able to gain experience in doing more skilled jobs without having the necessary technical qualifications ⁴.

As far as the most important productive factors, capital and labour are concerned, the conditions for the start of reconstruction were surprisingly good. They improved even more after the beginning of the long, sad trek of refugees from East Germany into the Western zones of occupation. Up to August 1961, there was also a permanent 'brain drain' of highly qualified workers and academics from the German Democratic Republic to West Germany. This immigration is thought to have raised the value of West German human capital during the 1950s by a total of 30 billion marks, considerably more than the European recovery programme after 1948 ⁶. West Germany was therefore well-equipped with trained labour for the 1950s, a time when human capital increasingly limited the, to be sure still very rapid, European rates of growth.

Of course, the millions of refugees were a burden at first. In 1946 some 7.1 million inhabitants of the Western zones had come from outside their boundaries. By 1950 this category of people had grown to 10 million. They had to be fed, clothed, and housed. On the other hand, once gainfully employed they could only stimulate economic growth.

As John Gimbel ⁷ and John Backer ⁸ have shown, the American Military Government attempted this from the very beginning. As early as May 1945 Lucius D. Clay asked Washington to modify the restrictive directive JCS 1067 in order to get German industry producing again. He succeeded in this respect. From that moment West Germany's economic revival was never seriously restrained by political restrictions or military government measures, with the exception of the French zone of occupation. This is true, even when the effects of the import embargo imposed

by the occupying powers are included. At this early stage of recovery West German industry was not yet crucially dependent on raw material imports ⁹. At the same time, until 1949 there was no net inflow of foreign aid to give an initial impetus to economic revival. Hidden reparation deliveries in barter goods such as coal, wood, electricity, scrap material, food for the allied occupation personnel and transportation services, far ^{Uberschuss} excelled the value of the Anglo-American food imports. These the military government kept at the minimum level necessary to prevent disease and unrest. The Germans also had to pay for this food.

Under these circumstances West Germany was dependent on her own resources up to the autumn of 1948. They were, however, both surprisingly large and in relatively good shape. Germany was poor at that time, but by no means underdeveloped. In 1945, however, certain obstacles stood in the way of economic reconstruction. This was not apparent at first. From the virtual standstill caused by the disorganization of May 1945 until the end of 1946, the Anglo-American occupation area saw 'a limited but genuine revival of industrial activity' ¹⁰ as OMGUS reported. This was not even interrupted by seasonal fluctuations. In December 1946, however, what OMGUS officials were beginning to call the "inherent vitality of German industries" ¹¹ was being pent up by transportation bottlenecks. They began with the destruction of the railroads in 1944 and 1945 and were aggravated by the unusually harsh winter of 1946 ¹². By the winter of 1946-47 most tracks, roads, bridges and waterways had been repaired but the transport system as a whole was still in poor condition. For one thing, the lack of raw materials, spare parts and workshop facilities ^{betrieben} hampered railroad repair shops. Lack of repairs and maintenance in turn resulted in a serious reduction of serviceable rolling stock. In May 1947 30 per cent of the entire rolling stock was out of commission and 25 per cent of all locomotives was also in a state of disrepair ¹³. Consequently, in the depth of the very hard winter of 1946-47, when industry urgently needed coal, stocks piled up at the pits of the Ruhr valley owing to the deficiencies of the Reichsbahn. ^{Reichsbahn} The aftermath of war had overtaken the German economy.

Nevertheless, during the same winter, the military government was very successful in raising coal production in the Ruhr valley. Lacking virtually all other basic raw materials and isolated from the world market Germany was much more dependent upon coal than most other industrial countries. In fact, coal was the backbone of all German industry. In January 1947 a so-called point-system was introduced to reduce absenteeism. Although there was no rise in productivity, production rose nevertheless. This was due to the rules of the point-system; the more work, the more food. This improvement in miners' rations resulted in a significant rise of output until March 1947, when they were cut again for a short time.

But there was no chance to profit from this fact until the transport bottleneck had been overcome. To this end the military government launched a crash programme to concentrate all resources available into clearing the major bottleneck. The repair of rolling stock of the Reichsbahn provided a crucial test for a new round of efforts to plan pragmatically the German recovery. To accept the challenge the German Verwaltung für Wirtschaft, the bizonal economic office, organized a small number of so-called Partnerschaften. These were modelled after the so-called Ringe, which played a crucial role in the organizational framework of Albert Speer's war industry. These Partnerschaften were given full authority by the military government to acquire the scarce resources they needed. In this way the transport bottleneck was broken by October 1947. From that time on industrial production rose sharply. Even during the winter of 1947-48 industrial output continued to grow fast. The German reconstruction period had definitely begun ¹⁴.

Breaking the major bottlenecks of the bizonal economy, i.e. the economy of the British-American occupational area, meant a decisive success for economic planning in postwar Germany -- but not in the public's mind. Most consumer goods produced before the currency reform were hoarded by trading firms or by manufacturing firms themselves. From the beginning of 1946, hoarding became an accepted feature of economic life in the bizonal area. By early 1948, even German officials, in particular

Ludwig Erhard, were encouraging the practice in the belief that it was indispensable to the success of a future currency reform¹⁵. It is difficult to quantify the extent of hoarding from current production during 1947 and in the first half of 1948, but it is safe to say that 50 per cent of the output was either hoarded or used for barter purposes, while the other 50 per cent was produced for the legal market. It is even possible that a significant part of current production did not find its way into the statistical returns. Therefore, official figures on economic growth in the pre-currency reform period are biased downwards. This downward bias may have reached some 25 per cent¹⁶. When taken into account in assessing the output figures of the pre-currency reform period, the importance of the pump-priming effect of the currency reform in increasing output is greatly diminished. Furthermore, all high German administrators including Ludwig Erhard knew that currency reform could not be successful without first raising levels of production. This is not to dispute the fact that in the normal consumer's mind the currency reform was the starting point for recovery, because only then did living conditions begin to improve distinctly.

Foreign Aid

Breaking the state of stagnation of German industry in 1947 was certainly helped by the Military Government. This did not, however, involve substantial foreign aid or a net inflow of resources from abroad. This is true of the Marshall Plan funds, too. The official announcement in 1948 of German participation in the ERP raised unrealistic hopes in the German public. Many socialists, for instance, welcomed the programme as a step towards a planned economy¹⁷. German officials hoped that Marshall Plan funds would finance, among other things, the importation of foodstuffs, raw materials, investment-, and consumption goods, all of which were needed to support the planned currency reform, and in addition mobilize German's economic resources generally. German officials even

interpreted the announcement that their country could participate in the ERP as a sign that the US had committed itself to providing aid in amounts greater, and in a far more useful form, than had been granted under the so-called "Garioa" programme (Government Appropriations for Relief in Occupied Areas). "Garioa" grants were deliveries in kind provided through administrative channels of the War Department. German officials feared that the US would use the programme as an opportunity to reduce stocks of ageing goods while charging an arbitrarily high dollar price for them. In any case German officials fully expected that the Marshall Plan would make it possible for Germany to obtain the necessary raw materials for the recovery of industry on the basis of free contract.

Even more importantly, many expected the Marshall Plan to be the main source of capital formation¹⁸. In Erhard's view, Germany lacked sufficient means to finance this. The German side also put high hopes in the counterpart fund provision of the ERP. This worked as follows. The ERP treaty of July 1948 between the United States and West Germany provided that the payment was made in Deutsche Mark by the German businessmen who were the recipients of ERP-imports would be collected in a special counterpart account with the Bank Deutscher Länder, then the West German state bank. The counterpart funds were available to the government, under control of the ECA Mission in Germany, and served as special investment funds. On the basis of this agreement the German authorities drafted an 8.3 billion mark financial reconstruction plan to run for two years, from July 1948 through June 1950. The contribution of ERP counterpart funds was not set at a definite level, but the plan foresaw that other countries should finance 50-75 per cent of their investment with ERP means, and recognized that the needs for finance in West Germany were at the very least greater than in these countries. Priority was given to investment in public utilities, electrical equipment, coal, the optical industry (relocation from East to West Germany, exports), and the mineral oil and chemical industries (fertilizer). The



actual benefits of the Plan, however, lagged considerably behind the expectations. Shipments from overseas arrived too late and were too small to help the German economy significantly during the crucial period of its recovery. In fact during summer 1948, after the combined monetary and economic reform, West German industry stood on the razor's edge between a short inflationary boom and relative stagnation. Although the wage freezes in effect until 3 November 1948 kept incomes stable, both living costs and industrial prices increased sharply by 14 per cent during the second half of 1948, and raw material prices by no less than 21 per cent (Table 6). The lack of consumer goods and raw materials on the one hand, which caused even some parts of the textile industry to stand idle, together with the inflationary expansion of monetary supply on the other, from about 6.0 billion DM immediately after the currency reform to 14.3 billion in December, seemed to destroy the hopes Erhard had placed in his economic experiment. Public confidence dwindled and on 12 November the trade unions organized a general strike against 'Preistreiberei' (forcing up prices). At the end of 1948 the federal government and the central bank succeeded in controlling inflation. At the same time rising unemployment created a new social problem; this increased from 700,000 in November 1948 to 1.1 million by the following March and 2 million in December 1949 (Table 6).

The currency reform had also made investment in bottleneck areas more difficult. Prior to it the Reichsbahn, public power stations, coal mines, the steel industry and other former problem industries had received their funds through central allocation. Now they had to finance investment themselves while the prices of their output were still frozen. Therefore, they had to curtail investment programmes. The future of these industries again became increasingly problematic.

In this critical phase of recovery, that is after the currency reform and Erhard's 'New Economic Policy', the Marshall Plan helped much less than had been expected in 1948, indeed much less than present-day myths about the Marshall Plan would have us believe¹⁹. Rather, the gap between the en-

thusiasm of the first half of 1948 and the disillusionment caused by the actual workings of the Marshall Plan made things even worse. Out of the total of 111 million dollars planned and approved by the bizonal authorities and the Bipartite Control Office for the First 90-Day-Recovery Programme from April through June 1948, only 32 million dollars of imports had actually been delivered by early September 1948. In late November 1948 total ERP imports had reached 54 million dollars as opposed to the 342 million dollars targeted. German and Allied authorities were very much concerned and tried to speed up the process, but the total for 1948 Marshall Plan imports confirms the slow and difficult beginnings of the European Recovery Programme in Germany. Of total planned allocations of 361 million dollars 328 million dollars (91 per cent) had been approved by ECA Washington, 244 million dollars (68 per cent) had been committed in purchasing contracts, but only 99 million dollars (28 per cent) had actually arrived in imports. Of these, 77 million dollars consisted of foodstuffs and 22 million dollars of raw materials and industrial products (16 million dollars alone on raw cotton).

The official report of the German Marshall Plan Representative of early 1949 managed somehow to overlook these difficulties. Nevertheless, in an unofficial confidential memorandum ²⁰, the German Marshall Plan representative admitted that up to then it had done a better job by far in public relations than in discharging its economic mission. He criticized both the delays in deliveries and the structure of imports, which showed a bias towards non-essential foodstuffs and raw cotton. Nevertheless, the representative applauded the Marshall Plan for winning acceptance of West Germany on the international scene.

Dollar aid did, however, provide a means to stop hidden reparations, which Germany had had to pay in barter terms to the 'United Nations', and also to entice a French agreement to fuse with the US and British zones ²¹. So, the Marshall Plan aid should not be denied its historic merits.

It must nonetheless be stated that the ERP did not prime West German recovery; the amount of dollar aid was simply too little to have been an important factor in this process. ERP imports accounted for only 7 per cent of a total of 1.4 billion dollars in 1948. In that year, German exports totalled 600 million dollars or 43 per cent of imports. Foreign aid, in other words, still financed most imports. In 1948, however, most foreign aid was still in the form of the old GARIOA programme, which also involved compulsory exports of German raw materials (especially coal) at extremely low prices calculated in Reichsmarks. Overall foreign aid (GARIOA and ERP together) equalled 37 per cent of West German imports in the last quarter of 1949, 18 per cent in 1950, 12 per cent in 1951 and 3 per cent in 1952²². This is quite a lot measured against the background of permanent passivity of the trade balance with the dollar in this period.

The way the ERP counterpart funds were employed is quite another story. These funds were very important indeed as a means in promoting minimum investment in certain especially troublesome bottleneck sectors of the German economy, such as coal-mining, electric power, steel and transport, in a period when preference was given to consumer goods sectors by Ludwig Erhard's New Economic Policy. Ironically, given the supposed US policy preferences, counterpart funds supplied the only planned investment in Germany and the German economic administrators allocated them effectively.

Therefore, the role of the counterpart funds is even more important than its 8 per cent average contribution to overall net investment suggests. But there are no technical reasons to link these funds to Marshall Plan aid. This was used in many different ways, to finance trade deficits, pay off foreign debts, raise consumption levels, even reduce budget deficits. Counterpart funds have been described by Sir Andrew Shonfield as containing "large elements of formalized nonsense"²³. Perhaps they can be better understood as being a useful fiction. They represented the value in local currency,

DM, of the goods provided by Marshall Plan aid. The money stood in place of dollars which the recipient country was too poor to pay. It in fact amounted to a credit owed for repayment to the United States at an unspecified future date. Until such a time, however, the DMs in the counterpart fund account were employed to finance industrial investment. The US, and this is an important point, retained a veto power over the use of these DM funds.

In Germany the link-up between Marshall Plan aid and counterpart funds remained very close, for three simple reasons²⁴. First, the arrangement was a good way to win the confidence of a public traditionally suspicious of government money creation. Although there was no danger of inflation and other financial methods might have worked equally well, this placebo was effective. It seemed a proof of the government's financial reliability and provided a welcome counter-check on the central bank which had the power of preventing any government from creating credit. Thus it had practical political significance.

Secondly, the US authorities had reserved to themselves the right to give permission (or deny) any single application for credit out of the counterpart fund. The fund was, in other words, an instrument of control over German recovery, which the Americans did not want to relinquish. Finally, this fund represented the chief masse de manoeuvre of investment planning. Thanks to these means Ludwig Erhard's men could correct the poor investment results in basic industry produced by his New Economic Policy.

To sum up on this point: the counterpart fund was a very useful element in German economic policies. But there is no reason to subsume the fund under the category of foreign aid. And as far as the Marshall Plan dollar aid is concerned, it only gained economic momentum when the controversial phase of currency reform and economic liberalization was over.

The Korean Crisis and the revival of societal corporatism

What was the role of the Soziale Marktwirtschaft in leading the German economy to economic growth? From the foregoing discussion it should be clear, that "the heroic legend of German reconstruction as a spontaneous upsurge of aggressive private enterprise" ²⁵ is indeed without strong foundation. In the beginning of the 'Wirtschaftswunder' there was much more planning, state intervention and direct control than could be compatible with any concept of a full market economy. Even after the currency reform and the upset of Ludwig Erhard's New Economic Policy, wide sections of the economy, such as housing, farming, transport, coal-mining and so on, were not regulated by market forces alone. And the heart of any capitalist system, capital formation, was not integrated into the market economy at all. As far as the consumer goods industries were concerned, most new investment was financed by exceptionally large depreciation allowances, but not by capital market operations.

Basic industry, however, whose administered prices were deliberately forced down, was thrown upon Marshall Plan aid. But this was no more than a drop in the bucket. The world market boom which began at the end of 1950 created shortages of coal, steel and raw materials. Erhard's bias in favour of the consumption goods sector seemed, in short, to have disastrous consequences for the German economy. The coal market, which had been liberalized only in 1950, again faced rationing. Coal deliveries had to be curtailed by one half or even one third of the former allotments. German industry faced collapse. Misinvestment at the expense of basic industries had jeopardized recovery and was preventing German business from exploiting the boom to full advantage. The failure of the market allocation system in basic industry in fact imperilled Soziale Marktwirtschaft as a whole.

At this point the US High Commissioner dropped a bombshell. On 6 March 1951 John McCloy put forward a démarche clamouring for an immediate modification of the market economy system ²⁶.

The Americans demanded nothing less than direct controls on prices and factor allocation, for Erhard blasphemy. This was, moreover, not intended to be temporary. McCloy exerted pressure on the German government to set up large planning authorities to channel raw materials and investment into the basic industries in order to strengthen the defence production of the Western World. The Federal Government was ordered to do everything possible to prevent the so-called wastage of resources in the production of alleged luxury goods. To emphasize his seriousness, McCloy threatened to impose an embargo of raw materials and a cut in foreign aid.²⁷

McCloy's démarche was not the first intervention in Erhard's economic policy but it marks the climax in a long series of tensions between the High Commission and the German Minister of Economic Affairs. Even Erhard's economic reform was viewed suspiciously by the economic advisers of the High Commission. While on the level of theory they welcomed the principles of free market economy, they also doubted its suitability in this crucial period of German recovery. Economic developments as of 1950, moreover, seemed to back their position.

In August 1949 the Allied Bizonal Control Office (BICO) for the first time urged the head of the German administration to launch an active programme to deal with the economic problems facing Germany.²⁸ The American advisers of the High Commission criticized above all the lack of concrete programmes to reduce unemployment and turning pointedly against the 'philosophy' of Erhard's economic policy, argued that the fate of Germany would have to depend more on divine intervention than on the will of its citizens.²⁹

Eventually the Minister of Economic Affairs was forced to agree to the institution of job-creation measures.³⁰ The SPD supported the US position³¹. Erhard could not withstand the concerted pressure of the High Commission and the Bundestag. Resistance in parliament extended even to the CDU/CSU group. He indeed had to admit that perhaps capital investment had been too low on his list of priorities. Still, his concessions on the unemployment question were mainly cosmetic in character.³²

Ludwig Erhard described the intervention of the Allies as a "general assault on the German market economy", blaming it on a curious "alliance between the apostles of Keynes and the US High Commission".³³ This was patent nonsense. The High Commission did not make policy on the basis of abstract economic models. But it is true that despite their supposed attachment to liberal principles they were not willing to accept results which seemed to jeopardize the aims of occupation, political and social stabilization and the strengthening of the economic potential of the west. Since the end of the Second World War they had, moreover, been obliged to use national planning and control as necessary instruments in pursuit of these aims ³⁴.

After the outbreak of the Korean War this attitude towards the Federal Republic of Germany was no longer confined to general principles of economic policy but resulted in concrete measures of raw material distribution and export promotion for the benefit of armaments production. Even on 20 October 1950 as a precondition in order to revise the occupation statute the Allied High Commission had demanded that the Federal Government ensure by means of planning that raw materials would be distributed in the interests of western defence³⁵. Erhard had no objection in principle to this but wanted both to restrict the imposed controls to a minimum and manage them in such a way as "to avoid undermining the principles of our economic policy".³⁶ A few days later, however, the Minister of Economic Affairs was compelled by the breakdown of the coal supply to restore economic controls. Having dismantled the government's own apparatus Erhard was forced to vest the accessory powers in business, trade unions and federations of industries, thereby, of course, strengthening their influence. Nonetheless, coal allocation was not carried out as desired by the Allies. The coal industry and the interested federation of industries and trade unions managed to avoid reducing drastically the coal supply to the 'less important' industries, as desired by the Allied High Commission.

Rather than close down a part of its light industrial capacity, West German industry imported as much as it could get of the limited raw material from abroad, notwithstanding the weak foreign exchange position. The Federal Government also requested the High Commission to encourage the International Authority for the Ruhr to reduce the forced exportation of coal. This the Allies firmly refused, referring to the European character of the energy crisis. For their part they accused the government of the Federal Republic of having failed to supervise coal allocation and raise prices³⁷. Against this background the American High Commission decided to put more pressure on the Germans to take a larger share of the burden. This was the target of the intervention on 6 March 1951.

The American Government was in a strong position to push through its plan. Against the background of the Korean crisis Germany was completely dependent on dollars to finance imports of coal from overseas and strategic raw materials which were in fact controlled by a cartel organized by Washington. So the American High Commission held all the trumps and was prepared to play them.

The American intervention was, of course, completely incompatible with Ludwig Erhard's Ordnungspolitik. His resignation, offered to Bundeskanzler Adenauer, would have presented a problem for the Federal Government. A 180 degree turn in such a sensitive matter would have destroyed the ideological concept of market economy. At this crucial moment, the informal directorate of German industry (Gemeinschaftsausschuss der deutschen gewerblichen Wirtschaft) rendered a good service to Adenauer. The Federation of German Industry (BDI), the main supporter of the Gemeinschaftsausschuss, offered its services in providing the Americans with what they wanted, direct controls on factor allocation and investment planning. Adenauer accepted gratefully.

Obviously this shift in the distribution of power towards corporative business organizations was a defeat for Ludwig Erhard. He hated the tradition of planning by industrial associations as much as he did state bureaucracy and state planning.

But the arrangement arrived at saved his face. It avoided the most obvious kinds of state planning which he detested. Still, he had to put up with a growing extension of 'Wirtschaftslenkung' and planning by the 'Spitzenverbände' (top associations of businessmen) and the trade unions. As far as the reaction to the US démarche is concerned the BDI organized a cartel to supervise raw material distribution. The BDI also joined the international raw material conference and its commodity groups which had been launched by the Truman-Attlee-treaty. The BDI appointed as head of the newly founded Bundestelle für den gewerblichen Warenverkehr (Federal office for the control of commercial goods) a man from within its ranks who later became the president of the Bundesvereinigung der Deutschen Arbeitsgeberverbände (BDA) and at that time was a decided opponent of Erhard's neo-liberal policy³⁸. This was Otto A. Friedrich. He, the BDI and the trade unions together organized the compulsory transfer of more than one billion marks of investment funds from consumer goods industries favoured by Erhard to basic industry³⁹.

During the 1950s the German Marktwirtschaft changed its face towards corporatism, but not its image. Ludwig Erhard even boasted of having saved West Germany from government planning and direct state intervention, which is of course true. Erhard did reduce the power of the state in the management of the economy. This change was not large enough, however, to satisfy such exponents of neo-liberalism as Franz Böhm, who up to then had been an ally of Erhard. In a confidential memorandum he described in gloomy terms the defeat of the Soziale Marktwirtschaft⁴⁰: "If this development goes any further, we will have a completely different political and social system than the one called for in our constitution. Parliament, parties, and in short self-determination will be replaced, so to speak, by a corporatist structure, which is controlled by private centres of power". I think there is some truth in this, at least as far as power-sharing between government, 'Spitzenverbände' and trade unions is concerned. They indeed make decisions of national importance in addition to dealing with industrial

relations. It must be pointed out, however, that this type of decision-making has proved effective in the face of such serious problems as the reorganization of bankrupt coal-mining in the late 1960s and the recent wage-price-spiral.

The United States was not interested in the ideological views which lay behind Erhard's concept of Soziale Marktwirtschaft. Its priorities were first, economic and social stability and, after the outbreak of the Korean War, a larger German contribution to the defence of the Western world. These aims obviously were easier to achieve by modifying the free market economy, even if this involved tolerating to a certain extent a return of traditional, that is corporatist, German modes of economic policy.

Conclusions

1. The pre-1948 period can not be characterized as a time of 'stagnation' and 'economic chaos' with no possibility of recovery until the currency reform and the liberalization of trade. In actual fact, stagnation did not last for long. But the transport system could not keep pace with this economic growth. By means of a crash programme that assigned absolute priority to transport, coal mining and steel production, Anglo-American and German administrators succeeded in putting the West German economy back on its feet during the summer of 1947. An increase in output was a basic condition for currency reform and gave the necessary room for manoeuvre for economic policy experiments.

2. Perhaps the most important long-term result of this early period of reconstruction was the revival of societal corporatism. This traditional German mode of economic-interest representation and decision-making was highly developed in the 'golden twenties' of the Weimar Republic but was in disarray during the world depression and finally replaced by a kind of authoritarian corporatism, during the NS period. The return to societal corporatism provided the necessary degree of stability when recovery was threatened in the early fifties. Soziale Marktwirtschaft, which has been a tremendous success story in public relations, is well-known as an innovation in German economic and social life after 1945. But the reality was less impressive. Immediate post-war economic growth and the Ordnungspolitik are much more deeply rooted in the past than the advocates and admirers of Soziale Marktwirtschaft would care to acknowledge.

Table 1: Gross Industrial Fixed Assets of the British-American Occupation Area 1936-1948 (1936=100)

Gross Fixed Assets 1936	100
Gross Industrial Investment (real) 1936-45 as % of 1936	+ 75,3
Depreciation (real) 1936-45 as % of 1936	- 37,2
Destruction by war (real) as % of 1936	- 17,4
Gross Fixed Assets 1945	120,6
Gross Industrial Investment (real) 1946-48 as % of 1936	+ 8,7
Depreciation (real) 1946-48 as % of 1936	- 11,5
Restitution (real) 1945-48 as % of 1936	- 2,4
Dismantling (real) 1945-48 as % of 1936	- 4,4
Gross Fixed Assets 1948	111,1

Source: Abelshauser, Wirtschaft in Westdeutschland, pp. 116-121.

Table 2: Relations of Net to Gross Structure of Fixed Assets ("Gütegrad") in Industry (Federal Territory)

Year	Mining and Basic Industries	Investment- Goods Industries	Industry (total)
1924	52,8	54,1	53,8
1929	51,4	52,1	53,1
1935	48,5	47,1	49,7
1939	54,4	51,4	53,5
1945	63,7	62,8	61,3
1949	56,3	57,4	55,7
1957	59,6	68,0	62,6

Source: Krengel, Rolf, Anlagevermögen, Produktion und Beschäftigung im Gebiet der Bundesrepublik von 1925 bis 1956, Sonderhefte des DIW, 42, Berlin 1958, p. 79.

Table 3: Age-Structure of Gross Fixed Assets in Industry

Age Groups (years)	1935	1945	1948
0 - 5	9	34	16
5 -10	20	21	34
10 -15		6	12
more than 15)	71	39	38

Source: Krengel, Anlagevermögen, p. 52 f.

Table 4: Potential workforce in the British-American Occupational Area 1936-1948

Year	Total (1000)	% Growth rates in relation to preceding date	1936-1948
1936	20 610		
1939	21 247	3,0	
1946	22 780	7,3	
1947	23 822	4,6	
1948	24 249	1,8	17,7

Men in the age groups 14-65, women in age groups 14-60.

Source: Abelshauser, Wirtschaft, p. 105.

Table 5: Industrial Production of the German Zones of Occupation, 1945-1949^a (1936=100)

Year/ Quarter	American Zone	British Zone	French Zone	Russian Zone
1945
III	12	15	.	.
IV	19	22	.	22
1946	41	34	36	44
I	31	30	32	39
II	37	33	36	40
III	46	37	38	47
IV	50	37	38	50
1947	44 ^b		45	54
I	34		39	41
II	44		46	48
III	46		48	.
IV	50		48	.
1948	63		58	60
I	54		50	.
II	57		54	.
III	65		61	.
IV	79		67	.
1949	86		78	68

a) 1945-second quarter 1948, estimated figures

b) Joint British-American Occupational Area

Sources: Abelshauer, *Wirtschaft*, pp. 36, 39-40, 43, 57; Manz, *Stagnation und Aufschwung in der französischen Besatzungszone*, pp. 25, 32-36; *Statistisches Jahrbuch für die Bundesrepublik Deutschland*, 1959, p. 264.

Table 6 : West German Economic Development 1948-1953(quarterly)

Year	Industrial Production (1936=100)	Persons employed (Million)	Unemployment Rates (per cent)	Industrial Producers' Prices (1950=100)	Cost of Living (1950= 100)	Gross Wages (1950= 100)
1948						
II	57	13,5	3,2	92	98	77
III	65	13,5	5,5	99	104	84
IV	79	13,7	5,3	105	112	89
1949						
I	83	13,4	8,0	104	109	90
II	87	13,5	8,7	101	107	94
III	90	13,6	8,8	100	105	95
IV	100	13,6	10,3	100	105	95
1950						
I	96	13,3	12,2	99	101	97
II	107	13,8	10,0	97	98	98
III	118	14,3	8,2	99	99	100
IV	134	14,2	10,7	104	103	105
1951						
I	129	14,2	9,9	116	115	108
II	137	14,7	8,3	121	119	117
III	133	14,9	7,7	121	108	118 ^a
IV	146	14,6	10,2	124	112	- ^a
1952						
I	136	14,6	9,8	122	111	120
II	143	15,2	7,6	121	109	122
III	144	15,5	6,4	121	109	123
IV	158	15,0	10,1	121	110	124
1953						
I	146	15,2	8,4	120	109	125
II	158	15,8	6,4	119	108	128
III	160	16,0	5,5	117	108	128
IV	174	15,6	8,9	116	107	128

a) not reported

Source: Statistisches Jahrbuch für die Bundesrepublik Deutschland 1952-1954; Wirtschaft und Statistik 1952-1954.

Table 7: Distribution of Net Marshall Aid^{a)} 1949-1950
(selected countries)

Country	Total (million \$)	Per capita (\$)
West Germany ^{b)}	595,0	12,0
Austria	249,5	36,2
Denmark	101,9	24,9
France	896,7	21,7
Italy	364,6	8,0
Netherlands	431,8	45,0
United Kingdom	850,7	17,2

a) dollar aid minus or plus drawing rights

b) GARIOA (426.0 dollars) and ERP (169.0 dollars)

Source: G. Keiser, Konstruktionsmängel des Marshallplans,
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