

The Economic Development of Germany, 1948-1958

by

Walter Willborn



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Preface

Economic development and growth are outstanding problems in economics. The theory is far advanced into the econometric field, where pure mathematical methods are applied. It seems that comprehension and improvement of the elaborated models, equations and coefficients are rather difficult, since they are abstracts of real economic development, actions and reactions. A comprehensive theory on economic development, as far as underdeveloped countries are concerned, is not yet written. Possibly, mathematical methods and modern tools in economics are not very suitable in this field and need to be supplemented. Development problems in individual countries vary largely, as they are determined by a great number of different economic and non-economic factors. The scientific work in this field indicates a renaissance of historical analysis in economics. Here, the study of historic cases seems to be a proper method and an important component to mathematical explanations.

We consider the German economic recovery after the second World War as a historic case, that deserves special study. Although being a phenomenon sui generis it might provide interesting details for the general economic development problem in other countries and in Canada in particular.

The author is a German and lived in Germany, before he came to Canada in 1958. He has experienced the recovery period 1948-1958 and also its preludes during and before the war. As a student of economics at the Hamburg University and as an economist with

From research he had good opportunities to study the subject. A historical analysis, of course, requires considerable distance. Two years might not be sufficient for final conclusions. Another handicap was the scarcity of material on the subject here in Canada. In this respect, we are very grateful for the help, given by the German Consulate in Winnipeg, German Embassy in Canada, German Department of the University of Manitoba and many friends in Germany.

We extend also thanks to several friends, here in Canada, who were so patient in reading the "germanic-english" version and who suggested many alterations. The reader may kindly excuse some strange wording and phrasing in the text. English is still a foreign language for the author, who shares this problem with many other recent immigrants.

In completing the charts, teacher and students of the Graphic Arts Department of the Technical and Vocational High School in Winnipeg provided valuable technical assistance. Our gratitude is expressed to them too.

Above all, we are indebted to Dr. K. J. Charles of the University of Manitoba, for his kind and understanding guidance and advice during the preparation of this study. Finally, we gratefully remember our teacher and colleagues in Germany.

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Walter Willborn

Investigation of the German Economy 1945-4

After the previous political and economic system had been abolished, destruction and extreme privation prevailed.

As a result of the war and the national-socialistic regime Germany was reduced to the stage of an underdeveloped country in many respects. The preparation for the war, the warfare and the defeat itself led the country and its people to a complete economic disaster. Before the economy with its productive capacities had been widely destroyed, it had reached an advanced stage of development and industrialization.

The government, which until 1945 was the only real entrepreneur, as it was the central and decisive power in all economic affairs, ceased to exist after the military defeat. The Military Government of the allied occupational forces did not assume the economic functions the previous government had operated. Factories and industrial centers as well as distribution facilities, which could have supplied commodities and services to the consumer and also work for the people, were badly shattered. Cities and residential areas were widely destroyed and the population dispersed over the country areas. The unity and organization of the country and its economy was completely disrupted by the decision of the Yalta Conference in early 1945 to divide the German territory and to allocate areas to each of the Allied Powers. The following table shows that only 57 percent of the German population in 1939 and 58 percent of

the economic capacity measured in terms of national product, were located in what is now the Federal Republic of Germany.

Population and Economic Production in Germany
in 1939

	Population		Production	
	million	percent	billion DM	percent
Federal Republic	39.3	56.7	119.4	58.2
Saar	0.9	1.3	2.6	1.3
West Berlin	2.8	4.1	12.7	6.2
East Berlin	1.6	2.3	6.4	3.2
Soviet Zone	15.1	21.8	44.3	21.6
East Germany	9.6	13.8	19.6	9.5
Germany-Total	69.3	100.0	199.0	100.0

The chiefly agricultural areas were left behind the "Iron Curtain". The population in the western, more industrialized, part of Germany which grew until 1948 by about 15 percent mainly on account of refugees, suffered serious privation during the early post-war years. The production remained at an extremely low level and there was practically no foreign trade. But, on the other hand, the demand for consumer and production goods was, as a result of the war, very high and steadily growing during these years. Money supply and savings were abundant in consequence of the war economy. As there was subsequently an expanding

1. Atlantik Bruecke, Meet Germany, Hamburg 1959, p.55;
In the following outlines we deal with the Federal Republic of Germany, which is the western part of the former German Reich and which is a member of the Western Alliance.

channels came to a halt and provoked an extensive black market. A complete disruption of the most needed supplies and a galloping inflation could only be avoided by retaining the rationing and price control system, which had been established during the war. Under these circumstances the money had lost most of its value and no incentive was given for the people to work for money and to supply the normal legal channels of distribution with merchandise. Features of a primitive bartering economy prevailed. This means that in the essential monetary field there appeared those characteristics which are to be found in an underdeveloped country. In this economy without valid money, savings and investment were extremely hindered and consequently a free capital market no longer existed. It took three years to establish the foundation of the new German economy with the necessary currency reform.

The Reparation Policy of the Occupational Powers increased the economic difficulties.

During the years 1945-48 the economic situation did not improve and the economic conditions developed mainly in a negative sense. Although the administration of the western and eastern occupational forces disagreed in most respects and further aggravated the economy with grave consequences, they nevertheless invariably dismantled and diminished the productive capacity of the German

economy by these actions. It was concluded at the Yalta Conference to take reparations from German industrial plants by dismantling, confiscating from current production and through use of German labor.¹ As it became obvious that this policy would not be able to satisfy justified claims against Germany, the Western Powers and America in particular gave up the dismantling policy and taking reparations in the spring of 1951. Up to this date the capacity of the dismantled industries had a value as high as three quarters of the war damage suffered by the German economy.² Mendershausen appears to be correct when he writes: "That all reparations were damaging, was a common conviction among observers, at least in the early post-war years. In the course of the recoveries however, this judgment gave way to another one: some of the effects of the defeat were seen as stimulants. The two views are not necessarily contradictory, granting the recuperative power of the subject. 'The greatest industry', said an early British economist, 'has ever been the effect of the greatest necessity'."³ Many factories which had been dismantled were later or even during this period reconstructed in a more modern manner than originally, this with the effect of increasing economic growth and productivity.

Under the direction and administration of the Military Government, an economic development and growth as such did not take

1. Presse- und Informationsamt der Bundesregierung, Deutschland Heute, 5. Auflage, Bonn 1959, p.354
2. Press Office German Diplomatic Mission in Washington, Handbook of German Affairs, Washington 1954, p.6
3. H. Mendershausen, Two postwar Recoveries of the German Economy, Dinslaken 1955, p.23

plans. The occupational powers nevertheless adopted a policy of a large-scale cooperation in those regions through which the supplies which the Americans particularly gave considerably since the end of the war.¹ Under the direction of the occupational government, a combined and united economic territory of the western zones was formed in early 1947. This measure relieved the situation and became a stepping stone for further unification and economic recovery.

The re-orientation of the policy of the Western Occupational Powers, probably influenced by the general development in world-wide politics and the East-West split in particular, and the subsequent close co-operation with the German officials and people, gave way finally to a re-development of the German economy. The beginning of the economic revival was thus delayed for three years and commenced with the currency reform in 1948. The following ten years, from 1948 to 1958, which will be analysed in this thesis, became a period of an impressive economic recovery and expansion. We shall consider the economic development during this period primarily from the aspect of what might be called a "re-development". There is not an other example in modern history, where a highly developed and advanced economy was destroyed to the extent that it was in Germany during the war and early post-war years. Chiefly owing to this fact the German re-development commands interest. In the following outlines we shall deal first with fundamental factors and then with the development in particular fields and finally with the general growth.

1. Deutschland Heute, op. cit., p.355

Part II: Fundamental Factors for the Revival

Chapter I: General requirements for an economic revival

Potential Redevelopment of Post-War Germany

It was stated that the German economy had degenerated in certain respects and showed typical features of an underdeveloped country. The organization was disrupted, the administration paralyzed, the productive capacity demolished, traffic and commerce could operate only on a very small scale, cities and working centres were ruined, the money devalued and the country occupied. In spite of these conditions in Germany during the early post-war years, it cannot be considered as an underdeveloped country.

The basic characteristics of a poor underdeveloped country are, according to Meier and Baldwin¹, primary production, population pressure, backwardness, capital deficiency and foreign trade orientation. Only to a limited degree were these characteristics found in post-war Germany. There still remained many of the important and valuable assets of a highly developed economy.

Sociologically the population with its knowledge, habits, attitudes, education, skills entrepreneurial abilities, and desire for a higher living standard was basically unchanged.

1. Gerald Meier, Robert Baldwin, Economic Development, Theory, History, Policy, New York 1957, p.6; See also K.J. Charles, Indian Economic Development, A Study in Economic History and Theory, Dissertation unpublished, McGill University 1958

our institutional factors, the law in particular, a major task, although under a new system and policy many changes in connection with the establishment of a democratic society may be performed. Foreign relations, the well trained public administration, traffic facilities, educational institutions, associations and trade union all remained as essential assets.

Does the Economic Theory cover the Case of a partly destroyed Economy?

One could assume that the scientific publications in the field of economic development would also include a case like that of post-war Germany, where only some of the conditions of an underdeveloped or poor country prevailed. The modern authors, however, understand by an "underdeveloped country" merely those cases in which a country is generally backward. Wallich¹ appears to be right when he points out that Germany's resurgence from wartime destruction is in many respects a *phenomen sui generis*.

We come, however, to a different conclusion, when we study in this respect classic writers², who also dealt with the development problem.

1. H. C. Wallich, Main Springs of the German Revival, New York 1955, p. 5
2. This means most of the economists before Keynes. Modern economists are chiefly dealing with problems of "mature economies" and the maintenance of growth and development. Germany during the years 1948-1958 cannot be classified as a mature economy, and therefore these theories are beyond the problems in our field of study.

What are their statements in respect to a situation like post-war Germany? What do they list as requirements for the and re-development of an economy, which was partly destroyed? The classic writers too did not base their theories on an economy in such a destroyed state. Their emphasis, however, on the saving and capital accumulation problem and on the perfection of the markets make their theories more applicable for the German reconstruction than any other of modern writers. According to these sources the problem of reconstruction seems to be primarily a problem of saving and investment.

We also can apply the theory of Schumpeter, as in his world the entrepreneur and innovations are main factors that lead an economy from a destroyed and paralyzed condition to a new and higher level of development. The theory and prophecy of Karl Marx, however, cannot easily be related to the German situation and it seems that the German re-development became a refutation of Marxian dogmen.

In conclusion we find in the economic theories only generalized guides for analyzing the requirements and measures for the revival and reconstruction of a disrupted and disorganized economy such as it was in Germany in 1948¹.

Fundamental Requirements for an Economic Reconstruction.

First of all, certain indigenous factors have to exist. A funda-

1. In history economies were quite often partly destroyed and disorganized by wars and revolutions and modern economics, there-

material needs for economic attainment and the importance of non-material achievements must arise first, a new world. Wright writes that economic growth results from basic morale and political attitudes favoring change and adaptability to change. He points out that the fundamental factors making for economic growth are therefore non-economic and non-materialistic in character.³

These statements of requirements for economic growth seem to be easily adaptable to an economy that is about to be re-developed.⁴ The only slight difference in the situation is that people have experienced an advanced economy and therefore wish to re-obtain their former standards. The necessary change in conditions, which is essential for any growth, is already a fact, due to the destruction of the economy by the war. This in fact could lead to the assertion that the process of destruction in itself bears the germs for the reconstruction and progress, as, for example, Schumpeter saw it. Certainly the change and disruption of the status quo will force people normally to adapt themselves to the new situation. This situation, therefore, gives way to a certain attitude of the people that favors the re-development. - We cannot pursue these fundamental factors for any economic reconstruction, that are involved in attitudes, morale and initiative of the people any further, as these are non-economic factors.

fore, should cover problems of economic re-development.

2. See Meier and Baldwin, op. cit., p.334

3. B. M. Wright, "The open Secret of economic Growth", Fortune Febr. 1957, p.145

4. The process of re-development can be considered as a growth process sui generis. Wallich, op. cit., p.22, distinguishes "reconstruction" and "new development". He finds that "new development" is easier to achieve.

might list as a further requirement for social growth an expansion of labor, resources and knowledge. As far as the category, economic institutions and an efficient government, reconstruction like growth in general will require furthermore a perfection of the markets. In the case of a reconstruction this is more a renewal of markets.³ Most writers, of course, realize that any economic growth necessitates capital accumulation and expansion of investments. This in turn requires a sound and suitable fiscal and monetary policy.

Fundamental Factors to be analyzed in the following chapter.

In the following outlines the mentioned essential requirements for growth and re-development can be used as a guide. In analyzing the basis for the reconstruction we have to investigate and consider the population factor, capital stock, and natural resources at the beginning of the period under review in 1948. After that, the impact of the previous war economy and socialistic economic system then in effect must be considered, as well as the present political settings inside and outside the country, as they were of deep influence on economic development. The policy of the government itself, primarily the market and fiscal policy was a decisive factor. But very influential was not only the policy of the government, but also the policy and pressure of the business asso-

1. D.M. Wright, Capitalism, New York 1951, p.30

2. Arthur Lewis, The Theory of Economic Growth, Homewood Ill. 1955, p.57

3. See Meier and Baldwin, op. cit., p.335

relations and trade unions were determining in Germany during the post-war period. Besides these internal groups foreign aid played a significant role in the aid, and the policy and aim of the international economic recovery of European countries had many aspects on the economic development. Finally we have to analyze a major factor: the monetary policy of the Central Bank and the currency reform, as both were a mainspring of the successful economic revival in Germany after 1948.

While investigating these determining factors of the German economic development during the years 1948-1958 we shall keep in mind, that the growth process involves mainly problems of economic policy. In our study we have to deal primarily with problems of reconstruction, which we consider as a special kind of growth process. The final aim of economic policy was the expansion of income and employment and also the raising of productivity and living standard. Before we can analyze to what extent these aims were approached in particular fields and branches of the economy and in general, we have to study the methods and policies on which the economic development was based.

Chapter 2: Natural Resources, Population and Capital Stock

Natural Resources.

When taking stock as of 1948 of the fundamental factors for any production we have first to consider the remaining and available natural resources. Type and consistence of the resources endowed by nature to the people widely determine the structure of the economy. With the division of the German country and after the unsuccessful attempt to re-unite the zones, the pattern of the natural base for the western, federal part, of Germany was extensively changed. During the long development before the war the eastern section of the territory had been fostered by the favorable natural conditions and by history into a primarily agricultural area. In the western part, however, on account of the respective natural resources and raw materials, the principal manufacturing industries and commercial centers were located. This means that after the separation from the agricultural eastern territory the structure of West Germany had to change after the loss of its economic agricultural component.¹ As the extension of agriculture was limited the structure had to be shifted toward an even higher industrialization. Part of the raw materials required by the industry had to be imported, while the coal and iron of the Ruhr district remained as an important resource for the old large centre of heavy industry. Here the iron and steel industry with production

1. Presse and Information Office of the Federal German Government, Facts about Germany, Bonn, 1959, p.30 states that the countries self-sufficiency in food decreased from 80 percent before the war to 66 percent in 1950.

facilities for capital goods of all kinds had kept its traditional natural base.¹ Besides the Ruhr district numerous other raw materials were produced by mining in various areas of West Germany and provided a good base chiefly for middle and small sized industries.

Not only raw materials but also the geographic location of the country in the heart of the European continent and the coast with its location for efficient harbours were very valuable natural gifts. The harbours are connected with the hinterland by navigable rivers. A relatively large volume of goods had been transported via inland waterways, where the destruction had not too extensive during the war.

The relatively mild climate of the country contributes positively to the development of the economy. As a consequence construction works, for example, are interrupted for only a short period during the winter.

With these natural resources not only the native industries kept their favorable natural base and location right from the beginning of the re-development, but also fugitive industries from the eastern part could without severe problems relocate their plants and businesses in West Germany. Not only the resources themselves but also the exact knowledge of them and their location encouraged investors and entrepreneurs in all sections of the economy to rebuild the factories in the traditional

1. The increasing fuel oil imports have caused a serious crisis for the native coal industry since 1958.

areas as soon as possible. In this regard too, the destruction of the natural resources had a deep positive effect on the rapid revival of the whole economy.

In addition to the location and orientation of the manufacturing industries near the mines, the large harbours even more than before the war attracted heavy industry too. The re-orientation toward free foreign trade and improved transport facilities made available sufficient raw material supplies at relatively low costs at the shipping points and consumption centres. The destruction of the war thus enabled many industries to use natural resources in all respects more profitably by relocations than had been possible before the war.

Population.

Population density and growth.

Writers on modern development problems have rightly stressed the importance of the population, qualitatively and quantitatively. West Germany has always been one of the areas with the largest population density. There are now about 539 inhabitants per square mile, nearly as many as in the United Kingdom with 546 and far more than in France with 207. In comparison with the prewar density it had been mainly increased by regular refugees in spite of the war losses of roughly 10 percent. In 1939, 58 percent of the population of the German Reich, then 69 million, lived in the area which now constitutes

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the Federal Republic¹ and this area supplied about 59 percent of the total national income. The population, however, increased until the end of 1958 by more than 12 million people, or by 30 percent. The Federal Republic is now inhabited by 54 million people as shown on the chart of the following page.²

Every fifth citizen was a refugee.

The large increase of the population was due less to the excess of birth over death³ than to the stream of expellees and refugees from the eastern areas. Now almost every fifth person in the Federal republic belongs to this displaced group of persons. This tremendous influx of people of all age groups had a deep impact on the economic development. While they were a burden during the early years, when not enough working places and foodstuffs were available for the native population, they were relatively quickly absorbed, since most of them were willing to work hard and to start "from scratch".⁴ In 1958 refugees worked on all levels of responsibility and in all branches of the economy. The

1. Facts about Germany, op. cit., p.30

2. See also, Deutschland Heute, op. cit., p.25

3. 1957 5.7 birth for every 1000 inhabitants.

4. H. C. Wallich, op. cit., p.9; The American author W.S. Schlamm, Die Grenzen des Wunders, Zuerich 1959, p.25, even goes as far as to maintain that the "miracle" is to a wide extent due to the contribution of the refugees, which is an exaggeration but which undoubtedly has a grain of truth in it.

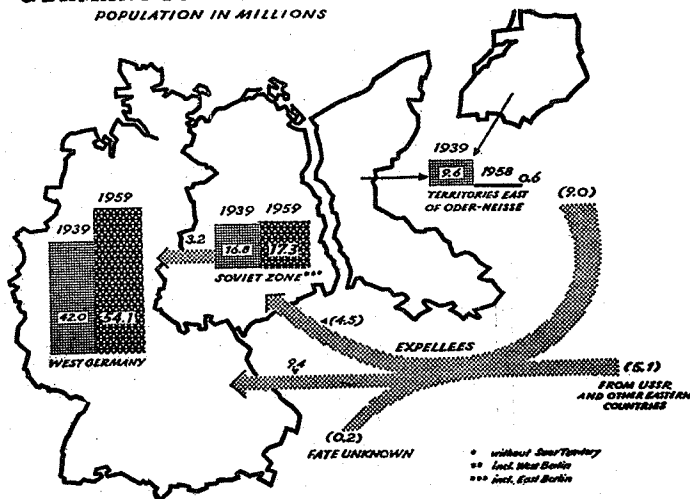
economy. The absorption of the refugees is shown in the following statistics.

The refugees in proportion to total number in 1957

Population	18.3%	laborforce	14.9%	in agriculture	20.1%
15-65 years		independent	7.0%	in industry	19.6%
old	18.1%	civ. l. servt.	18.0%	in commerce	8.7%
births	19.2%	laborer	19.2%		
deaths	14.1%	unemployed	22.8%		

Chart 1

GERMANY PREWAR AND TODAY
POPULATION IN MILLIONS



Source: Stat. Bundesamt

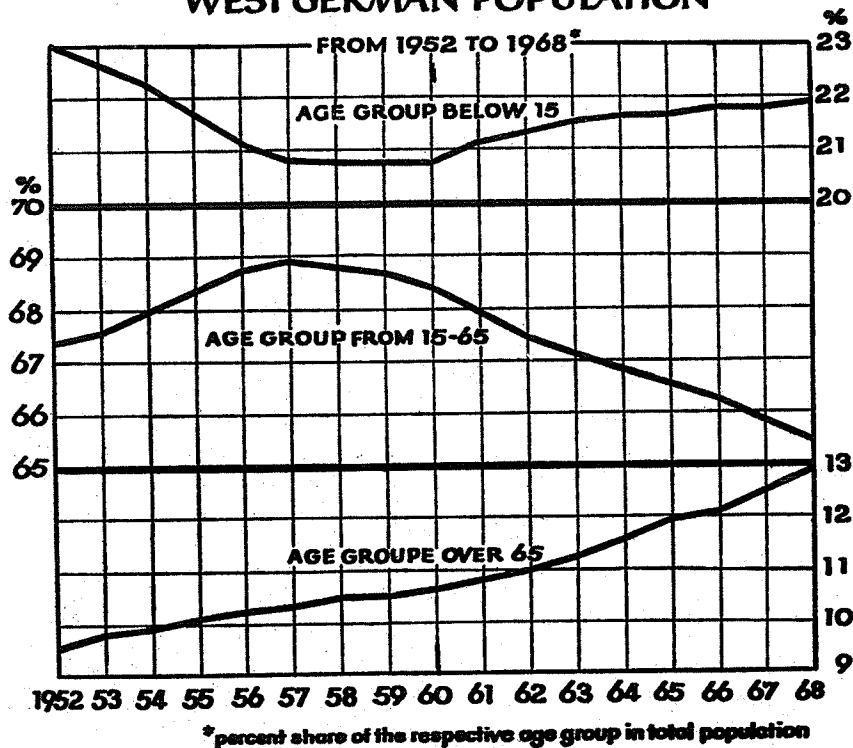
Preponderance of old and female persons

More important than the total number of inhabitants was the qualitative structure of the population for the economic

1. Statistisches Bundesamt, Statistisches Jahrbuch 1959, Stuttgart 1959, p.42

mic development. The structure of the population in regard to age shows the negative impact of both wars. There were proportionately many old people and few children. The labour force was consequently small and there was still a preponderance of women. The following chart indicated that this situation will gradually change after 1958.¹

CHANGES IN THE PRINCIPAL AGE GROUPS OF THE WEST GERMAN POPULATION

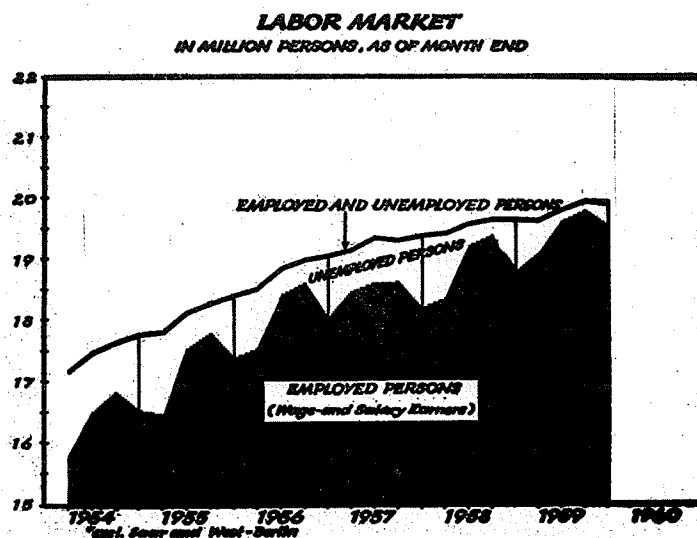


Source: Stat. Bundesamt

During the years 1948-1958 this structure of the population caused a number of handicaps and led for instance to a noticeable scarcity of men who were qualified to carry high responsibilities.

1. Statistisches Jahrbuch, op. cit., p.39

In 1950 about 46 percent of the population was gainfully employed and took directly part in the re-development of the economy. During the early years after the currency reform until 1954 the number of unemployed persons remained relatively high, but in the following years, as the chart below shows, the gap between the total labour force and employed persons was almost closed. The chart also demonstrates that the number of workers grew steadily during these years.¹



Source: Stat. Bundesamt

About one third of the working population earned its income in industry and handicraft and about 15 percent in agriculture and forestry. The small proportion of the latter demonstrates again the high degree of industrialization, which we mentioned.

1. Statistisches Jahrbuch, op. cit., p.114

Full employment and high efficiency of labour.

Unemployment among the working population not only decreased during these years, but in 1958 and the following years the full employment developed into a serious shortage of labour. This means that during the years under consideration full use of the potential labour force was made. In this connection it should also be mentioned that the work intensity of the workers was remarkable high and their work day and week in comparison with other countries was very long. These factors too, contributed to the rapid revival of the whole economy and to the rise in productivity. The spirit and attitude of the people, their longing to improve their living conditions, the dreadful experience of the war and post war, new modern materialistic ideals and requirements, social distinction, pleasure in work, application of their relatively good education and training, created a labour force that was extraordinarily fit and able to rebuild and re-develop a destroyed economy. Furthermore, it contributed to the rapid growth of the economy, that these efficient workers were accustomed to a small wage and diet and reluctant to engage in strikes and other forms of work stoppage.

High Proportion of Entrepreneurs.

Almost one fifth of the labour force were self-employed persons. This figure indicates the high proportion of the initiating independent entrepreneur. The business men

had acquired one of the most influential positions in the German Democratic society, and the civil servants and politicians retained a very impressive power too. The public administration has always had a strong influence on the economy in Germany. These powerful and energetic leaders among the working people were largely responsible for the rapid and successful economic development after the currency reform in 1948.

The nature of the country and its history reflected an industrious people.

The leading groups could not have achieved the growth of employment and income without able and skilled followers and workers. The German people are industrious and ambitious mainly because the nature of their country requires it. As Wallich puts it¹: "one need not to seek far to discover at least some of the facts of life that taught the Germans to become industrious. Much of the soil of their country is poor, the winters are long and severe; in large parts of it, there is little opportunity for dozing under trees and reaching up into the branches at mealtime In many cases this compulsive urge to work seems to be connected with a sense of insecurity that some observers regard as a basic German characteristic."

In addition to these incentives for working hard and to lose themselves in their work, the mere fact that the people lost

1. H. C. Wallich, op. cit., p.332

most of their belongings and wealth and realizing that people in other countries with similar conditions enjoyed a higher living standard, certainly encouraged and pressed the working people to regain what they lost and above all to catch up with other countries. Many writers on the German recovery who regard the spirit of the people as a mainspring of the rapidity of revival and new growth, do not stress the point that most Germans were really working at the limit of their capacity all the years during the war and that when the war ended they "just kept on going." Work presented not only the best way to forget but the new freedom gave enough incentives to work for their own individual welfare and with this feeling many grew beyond the apparent original capacity. The early post-war conditions challenged everyone, as soon as they realized that their work and cooperation bore fruit.

Capital Stock and National Wealth.

The extent of War Damage was over-estimated.

We have seen that post-war Germany retained essential values and assets for any kind of economic development in the natural conditions of the territory and in the type of population. With these valuable fundamental factors that survived the war, the physical damage caused by the war to industrial plants and the belongings of the people was overcome. Wherever there was enough left to start with, these other two components assured an economic revival.

The extent of the war damage had always been greatly overestimated.¹ By obvious reasons were usually the effects of the dismantling policy of the occupational forces exaggerated in negative respect. Later it was found that much damage was repairable during the first phase of revival and many plants had to be dismantled and modernized anyway because of the necessary transformation from war production to peace output.

The partition of the German Reich favored the industrial Potential of the Federal Republic.

The partition of the country was for West Germany not unfavorable, although it might seem so, as the industry lost large markets in the east, not to speak of the agricultural supply bases. The area that before the war was the home of 56 percent of the population retained 61 percent of the industrial capacity.² Industrial plants that were lost in the east were easily reconstructed in the west mainly by skilled refugees. Also the loss of markets did not show detrimental consequences as primarily capital goods were urgently required in many other areas of the world. The foreign demand for German export goods was the most valuable asset which West Germany regained after the war and after a long period of austerity and autarchy. By the loss of its hinterland West Germany was forced to obtain a higher degree of industrialization and a wider integration with the world economy.

1. H. C. Wallich, op. cit., p.200

2. ibid., p.6

These factors we have to bear in mind when evaluating the capacities that were left after the war.

The National Wealth was still considerable.

A study published by the Institute of Konjunktur in 1947¹ estimated the loss of national wealth, which included industrial capacities, at about two thirds. These figures are more of theoretical value. The currency reform devalued all assets of money value by nine-tenth. But as Balogh states², many business men were able to convert their money values by selling hoarded goods after the reform at par or even better. Those who held their wealth in real estate and stocks, bonds and shares retained more value than primarily expected, in spite of retarding measures of the administration.

Another point which should be stressed while evaluating the remaining wealth was that the wide integration and the powerful cartels of the German economy and industry in particular were practically unbroken and the allied anti trust policy in this field was not carried out completely.

Non-material assets and wealth remained.

In spite of all real material losses, which were undoubtedly extensive after such a war, the positive factors that remained were numerous. "Only the knowledge to elaborate capital equipment of the modern economy and of its organization and basic resources facilitated the rebound of national wealth..."

1. Institute fuer Konjunkturforschung, Deutsche Wirtschaft zweiwei Jahre nach dem Zusammenbruch, Berlin 1947
2. T. Balogh, Germany: An experiment in Planning by the free Price Mechanism, Oxford 1950

It helped to account for the amazing rate of physical reconstruction when', so Mendershausen writes¹.

As we have already outlined, natural resources and indigenous values of the population were the main resources for a rapid reconstruction. As soon as the money was revalued and the detrimental allied dismantling policy discontinued it became obvious that enough material assets were left to start the revival and reconstruction of the economy.

Another major factor that contributed very much to the rapid re-development were those not inherent in the natural resources, population or capital stock, but rooted in the general conditions and development in the previous war time and prewar period. The impact of national-socialistic economic policy was heavy during the post-war period and determined to a wide extent the economic development. This impact will be briefly analyzed in the following chapter as one fundamental factor in the economic development during the years under consideration.

1. H. Mendershausen, op. cit., p.27

Chapter 3: The Impact of the war-time and post-war period

The positive Impact.

German people experience a "free economy" and a "centrally planned economy".

The economy of an underdeveloped country is lulled into a backward state. The problem for any development here, is to get the economic expansion under way and to reach the "touching off" point. The people of that country have not experienced different economic conditions, at least not in their generation. The situation, however, in an economy that had been destroyed by war is quite different. The people in post-war Germany had experienced after the first World War a more or less free economy which ended in a world-wide economic crisis and depression. After this period a planned economy was established under Hitler which finally led to the war and its destructions. When the National-Socialists obtained power in 1933 their political program contained a plan for economic reconstruction.¹ Under this socialistic regime a planned economy was established in accordance with the program, which was accepted by many people, who wished to end the economic chaos. In the so-called "Four Years Plans" the economy was directed toward certain production aims and patterns. This means the economy became completely production orientated. The individual consumer no longer determined the production and supply of goods. The public administration and production councils gradually took over the position of

the free and independent entrepreneur. Within a short time liberty in the economy ceased and a dictatorship and economic control were established. Thus the preparation for war became possible. Many people in Germany, however, did not realize this. They were convinced that under this system their economy flourished and expanded. They saw that masses of unemployed workers got back to work and regular income.¹ The people found that they survive even without large imports by improving the self-sufficiency of the isolated economy. They were of course not informed about the world-wide reactions of this economic policy.

During these years the entrepreneurs lost their self-confidence and became accustomed to fulfill set production aims and follow instructions closely. The workers were strongly disciplined under the supervision of the "Betriebsfuehrer"² and they found that this apparently helped too, to raise productivity. The consumer lost the conviction of his own power and strength as a central figure in the economy and accepted willingly low wages and bought what was supplied.

Worker and consumer did not demand full freedom after the war.

One would assume that after the war and defeat these conditions and the attitude and spirit of the people changed abruptly; this means that the workers and consumers demanded their complete right and freedom in a democracy. That this reaction did not

1. H. Buschmann, "There is no German Miracle", The Listener Jan.14, 1960, p.57 writes: "In 1933 the measures introduced to produce full employment were hailed with wild enthusiasm." For such a reconstruction everyone had waited for years after the economic development had led the country into a chaos.

2. means "leader of the enterprise"

system was remarkable. This fact alone was a determining factor in post-war development. It appears that the Germans have always kept political and economic thinking and acting separate. At present in 1969 it is again demonstrated as it was preponderant during the years under review that, while the political insecurity is still extremely high, the economy flourishes under a continuous boom, which is mainly caused by the deep optimism, confidence and courage of the people. As Erhard the minister for economic affairs puts it¹, "the German people have become immune to any adverse political development." Consequently in remembering the pre-war conditions and economic development many people disregard the general politics of the nationalistic and socialistic period and still tend to follow the economic pattern of those days.

The main change in attitude and thinking, however, took place among the intellectuals and entrepreneurs, who have demanded their liberty and have become very powerful. Also the public administration remained very influential and shared a very strong position in the economy during the post-war years.²

These social and economic conditions, strong entrepreneurs and

1. L. Erhard, "Der Deutsche immun gegenüber politischen Entwicklungen," in Die Zeit, Nov. 11, 1959

2. This attitude gradually changed during the years 1948-1958 in connection with a democratic re-education. It is indicated also in Erhard's statement in L. Erhard, Prosperity through competition, Thames and Hudson, p.175

civil servants and relatively weak worker and consumer movement during the first post-war years and facilitated the process of re-orientation of the economy. The mass of the people still remembered the world economic crisis which ended the first liberal economy. After the second war, for many of them, it was the second time that they had to reconstruct the economy. At the end of the war they were confident that the economy could be re-developed once again, but in general one tended to prefer the pattern of a planned, socialistic economy.

The war experience of the people was of advantage for the re-development.

Another factor that enabled the German people to share in the revival of the economy was their experience in reconstructing and improvising, to which they were urged during the war. To rebuild plants and traffic facilities was soon a daily necessity and many became experts in this field. Under these conditions they improved their skill to adopt technological progress and the reconstruction most often led to an advanced and higher level of productivity.

Furthermore, as an impact of the war, almost everyone had to start "from scratch", the refugees in particular. After the war any kind of change meant an improvement and the demands of the consumer were moderate as most people did not realize the wide gap with countries, where people enjoyed a high living standard. Therefore it became possible for instance that primarily capital goods were produced and a fiscal policy was tolerated that enforced savings and investments. If one would imagine that the German economy of the national - socialistic period, with

The reconstruction of war-polluted, and to be reconstructed, the German economy and culture, after the war, had to be done in a form, without the possibility of being carried out in a way, in which the reconstruction process would have led to far more serious and severe difficulties than the rebuilding from the lower level or even from scratch, which involved the whole economy. This is because the German people are very conservative in their attitude to economic changes, an attitude which is typified in its craftsmen for instance. Their basic morale and thinking does not favor change and adoption of new conditions, which Wright¹ regards as most important for any economic growth. But in the case of post-war Germany this change in economic conditions, as often before in the German history, had been an accomplished fact caused by political development. This means the people were confronted with a radical change and they simply were forced to adapt themselves. The war with its destruction left no choice. This had become a great advantage for the post-war economic development.

Minor impacts of the previous economic system and development

As minor impacts we could list the higher appreciation for material values², destruction of class barriers and social change, intensive work as an antidote for suffering, survival of combines and cartels, emphasis upon technology rather than on distribution, improved capacity for administration and organization³, revival of

1. D.W. Wright, "Open secret", op. cit., p.145

2. Meier-Baldwin, op. cit., p.5: "this was only a minor factor as reconstruction of ancient monuments indicate." Although this seems to be true, we know that also pyramidbuilding can create income. Wallich, op. cit., p.329 disagrees in this respect. The extensive construction of churches and operas proves that the people willingly contributed willingly to these non materialistic investments.

of religion among the people as a reaction to war, the relatively large requirement for commodities of all kinds after the war, disillusionment of the people, desire for supernational integration, the control and rationing system set up during the war and which could be lifted gradually, all these had a more positive impact on the economic development during the years 1948-1958.

Negative impacts of the war time and pre-war economy

So far we have in this chapter dealt exclusively with the positive impact of the previous system on the post-war development. And indeed, one tends to conclude that the positive factors surpass the negative, when we disregard the destruction and damage caused by the war itself. The occupation policy in its very nature had been more hindrance than help for a time at least. But as already outlined, one can find some positive impacts in this respect too, primarily implied in foreign aid, which was granted by the former enemies. The occupation was practically not considered by the people as an oppression but as a power of order and as a preliminary for a new state and new democratic institutions. It kept the people disciplined. On the negative side, of course, were the losses of valuable manpower in consequence of the war, the expulsion of a great number of able persons by the National-Socialists the discredit of Germany all over the world, the disruption of

3. Wallich, op. cit., p.339 writes: "The Germans have developed to a high pitch of perfection the capacity both for imposing order and for gladly submitting to it."

foreign relations, poor health conditions of a large number of people, a large number of invalids, loss of property and other minor consequences due to war and pre-war policy and other minor consequences.

Summarizing we can state that the impact of war time and pre-war economy and policy on the post-war development was extensive and perhaps decisive. In this connection we have mainly considered economic and not political factors. It is obvious that general politics and the political revolution and reform after the war had a wide influence too, on the economic development. Therefore we shall analyze the political framework of the economic development in the following chapter as one of the fundamental factors.

The German people have experienced and carried out political experiments.

A strong federal government and political internal stability were favorable for the economic development.

The state and nation, its constitution and the way it is governed are of course of great importance for any economic development. In the previous chapter we have mentioned that the German people were not very interested in purely political developments. As they had experienced within one generation the fall of a free and afterwards of a planned economy, they also saw weaknesses and disruption of the monarchy, democracy and dictatorship. And what one regards the political mosaic of the German territory of today one will find behind the "Iron Curtain" mainly element of an extreme dictatorship and in the West the conservative form of a democracy. But in both parts of Germany the economy has been reconstructed somewhat. It therefore seems that the reconstruction of the economy is not determined primarily by the type and form of the political framework, but by a strong state and administration, which guarantees order and what is called political stability. These two are fundamental factors, neglecting the form and the way human rights are dealt with. A destruction of the economy must continue whenever order is not established and maintained. Also constant and frequent political changes diminish confidence of the people and disrupt the economy.

When the first World War ended the paternalistic monarchy was reformed into a democracy and the German people had the possibility to govern themselves for the first time in their history.¹

1. see H. Kenderhausen, op. cit., p.28

The so-called "Business Republic" brought with it a new order. Immediately, economic measures were taken which had a stabilizing effect on the dictatorship. After the second world war the occupation forces established a military government, which also had more or less a dictatorial power. The will of the senior commanders was supreme and any form of self-government and political opposition did not exist and was not tolerated.¹ This means that the political background had not fundamentally changed although the national-socialistic regime had disappeared. This of course had certain negative effects but in respect to maintaining order in this political interregnum was a great advantage. As already mentioned, everyone regarded the occupational forces as the only power which could uphold order and therefore they recognized and cooperated with it. This in turn meant that political stability which had been forced on the people during the national-socialistic regime prevailed more voluntarily under the occupation after the war.

Under these conditions and with their aim of establishing a new peaceful German state the Allied Powers succeeded during the early post-war years in setting up a sound democracy and strong German government. They achieved this by starting at the community level. Finally in 1948 a "Constituent Assembly" was summoned, known as the "Parliamentary Council", after negotiations with the Soviets for a common political solution and unified German state had been unsuccessful. At the same time in 1948

1. H. Mecklenhausen, op. cit., p. 29



After a delay of three years the German people had obtained their German officials and institutions in order to collect the German people's votes for a new German state, the Federal Republic of Germany and its organization were established in the following year and it acquired competence to perform the functions of a government with full responsibility for the welfare and the economy of the country. While the German people and their government re-obtained gradually the sovereignty, the occupation government retracted simultaneously and the new German state and nation became a fully independent member in the group of the Western Nations. In its constitution, the so called "Basic Law",² the concept of democracy and representative government is combined with experience and conclusions earned during the Weimarer Republic. One aimed for stabilizing the government and the position of the Chancellor in particular.

The delay in the institution and establishment of a German state and government has been of great advantage to the economic reconstruction. Under these circumstances, which were caused mainly by external political development, there was no rush in the reorganization and every step could be well prepared and timed. The occupation powers as a sort of strong watchdog assured that democratic fundamentals and principles were reinstated and observed and therefore a government came into power which had the backing of the people, who are now in their majority convinced that democracy is the better choice. The subsequent political stability as one of the main prerequisites of an economic revival, which was maintained during the years under consideration resulted from the fact that almost unnoticed by the people the above mentioned strong government was elected. This government, after having

Footnotes next page.

taken over from the military government still remained. It accepted and maintained many safeguards for order and political stability under which the economy could rapidly develop.

The same political Party and Government has remained in office since 1949.

Another factor that undoubtedly was of great advantage was, the same party, the Christian Democrats, have remained in office since they were elected in 1949. The people with their strong desire for order and stability obviously were afraid that the political chaos of the Weimarer Republic with its numerous cabinets might once again develop. This, and not so much the party and its program kept the Christian Democrats in power and responsibility and gave them an increasing majority in the elections. Attractive slogans, such as "No experiments", and the strong personality of Dr. Adenauer and Erhard, who were regarded as symbols for order and progress, were largely responsible for the results of the elections. It is more or less the same attitude that gave Hitler and his party the great chance in Germany. Although the same party and government remained in office it had

1. Deutschland Heute, op. cit., p.93: "The American and British occupation established this council in regard to adverse economic conditions. It was recognized and recruited by member of Laender parliaments and elected Erhard as its Director. This was the nucleus of the following economic ministry. It planned and carried out the wide decontrol of the economy right after the currency reform.
2. It is only a provisional constitution, as the German unity had not been restored. In it were outlined the principle for the economic and monetary policy and the establishment of a Central Bank.

to elect a relatively strong opposition party. This led to a parliamentary process and political cooperation. The fact that a two-party system developed after the war and that the Weimar Republic was avoided, has had also a positive influence on the economic development. Furthermore it is noteworthy that the program and democratic principles of the two political parties did not differ so widely that a cooperation in the legislation was hindered. In spite of frequent heavy criticism from the opposition party, of the Social Democrats positively contributed to the rapid economic recovery of the country.

In the external political framework the East-West split was favorable for the economic development in Germany.

The internal political recovery and reform was in its outset widely determined by the political development among the allies and the East-West split in particular. The Allies had agreed to set up a democratic and peaceful Germany. But soon after the war the eastern states under the leadership of the Soviet Union followed their own pattern of democracy. The unification of Germany, as it was originally intended and planned for an early date after the war, had become temporarily, at least, impossible. This external political development, which was beyond any German influence, has had a great effect and strangely enough in respect to the redevelopment and revival of the German economy, primarily a positive effect. The western occupational powers had, by this development, to reorientate their policy toward Germany and to accelerate the German reconstruction politically as a democratic nation worthy to become a member of the union of western nations

and economically as a country and politically as a nation, Germany was able to escape internal security and economic collapse. In the case of the external political development war, the German threshold of its economic revival, that the reparation policy, dismantling, gradually ceased, and that foreign aid was generously granted.

Not only did the direct policy of the western nations toward the previous enemy change and favor the economic development, but also the incident of the Korean War was of great advantage for the German revival. While Germany suffered at this early time after the currency reform, a slight recession with rising unemployment, many foreign countries suddenly required capital goods, which Germany could readily supply. This gave the German export trade an excellent opportunity to reestablish itself in the world market and to expand its domestic capacities. This export boom along with a lag of imports made the liberalization of foreign trade, which was a mainspring of the economic recovery, possible.

Last but not least the rearmament in general which soon included Germany has also had many positive effects on the economic development.

Summarizing, we can state that the internal and external political development was very favorable for the economic expansion and revival. One could assume that the east-west split and the dangerous situation of Germany in world politics discouraged the German people in their economic ambitions and efforts. But as already pointed out, they widely negated political facts and concentrated on economic affairs. The political aim of the

national unification, which would involve the economic and political security appears not to be the ardent desire of all Germans, including refugees. Many people apparently prefer the European unification as the political risks are probably smaller and the economic benefits larger. In fact the European unification and integration policy had a deep influence in the German economic development since the war.

After we found that, internally and externally, the political factors gave a favorable framework for the economic development, we shall in the following chapter analyze the policy of the German legislation and government in the economic field more in detail.

Chapter 5: The policy of the Federal Government

The economic Policy

The policy of the ruling political party, the Christian Democrats, and its representative minister for economic affairs undoubtedly determined the positive economic development. It appears that some admirers of this policy and its results, who are mostly anti-socialists and liberals, attribute the rapid recovery of the German economy to the policy of minister Erhard only, which is not completely justified.¹ Here, in this connection, we shall attempt to describe the policy during the years 1948-1958 and determine how far it has contributed to the economic development.

The policy cannot be classified as a prototype of Liberalism.

First of all we have to realize that Erhard as the responsible member of the cabinet for economic affairs was, continuously, during this period, a politician. He could only operate with the backing and assistance of his own party and of the people, the entrepreneurs and workers in particular.² The revival and redevelopment of the economy was a practical political problem and Erhard had to regard it more as such than follow strictly a doctrinal theory or dogma of any kind. Any political program

1. T. Balogh, op. cit., p.53 wrote at an early date after 1948: "The German government tried to apply to real life an abstract, adolescent and internally inconsistent economic theory and certainly did not succeed." This judgement seems not justified in view of the later results and also Balogh altered his standpoint later as indicated on p.67. E. Schmen, Competition and Growth: the Lesson of West Germany, The American Economic Review, Dec. 1959, p.987 states apparently more correctly by saying, "the post-war reforms in West Germany stand out as one of the most ambitious efforts in the

is tailored for a certain situation in order to become accepted by the people and to win an election. Therefore, if we want to understand the economic policy of Erhard, we must first consider the situation briefly.

The general conditions during the early years after the currency reform are clearly reflected in the first political program which helped the Christian Democrats to win a small majority in the first election and to become the government. The so called "Ahlener Programme", which was compiled in early 1947, that means before the currency reform and any economic revival, includes the following statement¹: "The capitalistic system did not meet the demands of the national and social interests of the German people. a fundamental reorientation and new order has become necessary. Content and aim of this new economic and social order cannot continue to be the capitalistic endeavour for profit and power". Here-after, in this program, freedom for everyone in accordance with democratic principles and human rights was demanded. They required in a later passage the nationalization of certain basic industries.² One can easily state that this first program of the Christian Democrats was a typical socialist one. And in fact the situation in those days required such aims in the economy, as most people were afraid that complete freedom would once again result in chaos. They tended to prefer any kind of socialistic attempt to make our economies more competitive.

2. Before the war Erhard was Director of a private Market Research Institute and only closely in touch with the liberalistic schools. He has never been a distinguished theorist.

1. Politische Jahrbuch der CDU 1950, Stuttgart 1950, p. 226

2. Nationalization was again recognized in 1949 but as an aim later dropped.

and planned economy. Although the planned economy under Hitler had led them into disaster, it was generally felt that the economic system was not to be blamed for that. They thought that a controlled economy had achieved a high capacity and productivity and gave full employment. Of course the people did not want a new dictatorship but as soon as they had confidence in the democratic aim of the new German government, they wanted a strong and influential administration, which could assure order and economic progress. Noone for instance demanded the de-nationalization of the extensive public property in industry and no public plant in spite of the de-cartellisation policy was sold during these years. As H. Risse writes¹: "The wisdom of the economic policy was in the fact that it liberated the energy of the people". This was achieved more by creating order, confidence and optimism than by proclaiming and following ideological and more theoretical doctrines.

The so called "Social Market Economy" aimed for a maximum wealth for everyone

The government with its economic policy had to assure individual freedom and also security, stability and economic progress. The primary aim of this policy was according to a party document² "The raising of the living standard, which is chiefly a problem of production. The capital accumulation had to be increased as well as the productivity." This aim was to be approached by a system and an economic policy which was called "The Social Market

1. H. Risse, Wirtschaft zwischen Skepsis und Vertrauen, in Merkur, Deutscher Geist zwischen Gestern und Morgen, Stuttgart 1954, p.40

2. Politisches Jahrbuch, op. cit., p.75

Economy" in which the freedom of the individual was guaranteed and protected against any power and monopolistic groups.

The word "social" was to indicate that they were willing to follow principles of social justice.

Erhard, who during all these years and even before the currency reform was continuously in charge of the economic policy had not in all instances followed the program of the party and some of its socialistic aims. By his strong personality he soon gained the confidence of the people and it is said that later it was he and not Dr. Adenauer who won the elections for his party.

The nucleus of Erhard's policy appears to be, that after he succeeded in gaining the cooperation of the entrepreneurs, workers and the consumers, he as a politician was tireless in his efforts to transfer his optimism to the people. While leaving them maximum freedom as producer and consumer, he used the modern instrument of information and persuasion very successfully in his economic policy. During this time he kept a close contact with the public and declared the aims and the policy of the "Social Market Economy" in very attractive slogans, such as, "Wealth for everyone" or "The Consumer is the important person", which everyone understood and which expressed surely that, what the people wanted and expected of the economic development.¹ By this Erhard became for the German people a kind of symbol and leader for the successful economic revival and as such he became well known all over the world.

1. L. Erhard has described his economic policy in the book "Prosperity through Competition", Thames and Hudson, which has in the German edition the title "Wohlstand fuer Alle" (Wealth for everybody).

The extensive decontrol of the economy immediately following the currency reform was a mainspring of the rapid revival.

The main aim for the economic policy was to free the market, to establish a stiff competition and create a favorable cooperation of entrepreneurs and workers. With a deep conviction in the power of liberty he abolished the wartime controls wherever it seemed possible and adviseable. These measures following the currency reform gave a tremendous incentive for all entrepreneurs who were willing to meet the challenge of free enterprise and competition. Although main sections of the economy were not decontrolled, such as housing, capital market, foreign trade, basic industries, the partial lifting of production and price controls was sufficient to cause a considerable stimulus. But in general the economy in its essential fields remained planned and controlled and it is not true that the free price mechanism and full competition were restored and led to rapid growth. While the remaining wide controls were gradually lifted this process was not as yet completed in 1958. The free market in decisive sections of the economy was at least during the first years more an aim than a reality in the German economy. It is therefore difficult to determine whether the elements of a free and liberal economy or those of the previous planned economy were prevalent during these years. Wallich seems to be right when he speaks of the "freeing of markets"¹ that means only some markets were liberated and only partly the free price mechanism and competition were reestablished. But nevertheless

1. H.C. Wallich, op. cit., p.125

the decontrol in the retail merchandising field for instance, demonstrated to all people what the new economic policy was. As this policy resulted soon in a revival and growth, more and more people became convinced. This the more, as Erhard carried out the early decontrol against the will of the occupation administration and a strong opposition of the Social Democrats and in his own party. With the greater assistance of the people Erhard was able to influence the monetary and fiscal policy in respect to a close anti-inflationary policy¹. He also helped the workers to obtain and improve their co-determination in business affairs and create a positive cooperation of entrepreneurs and workers. With his strong position in the German economy Erhard could also help to solve the investment problem by leaving the entrepreneurs a relatively large part of their profits by tax exemption for reinvestments. Also the workers had to pay a lower tax, whenever they were saving. By this, not only the cooperation and productive energy and efficiency of the working people was increased^d, but also the saving and investment problem and the problems caused by the lack of a free capital market, were successfully solved within a short time. Energy and capital was directed into the right channels and projects with a minimum of direct investment controls and a maximum of economic liberty. Although this policy led to an increase in profits and economic power of the entrepreneurs, the social order and stability could be maintained because the welfare of everyone improved, as the economy as a whole expanded. Erhard himself watched closely that he acted and was regarded as a re-

1. With the backing of the German people he obtained a strong position in the cabinet, became Vice-Chancellor in 1957 and the candidate for the Chancellor in 1959.

representative of common interests. His individual policy for assistance which in many points was opposed by the socialists and in his own party was assisted and backed by the Social Democrats and the trade unions, which are normally the opponents of the Social Market Economy. Whenever he found that federal organs and trade associations and other pressure groups did not give sufficient assistance he explained and discussed the matter in public in order to find a broad backing.¹ In this policy Erhard was fortunate that most of the time his policy in certain subjects and problems, which was criticised by certain groups, was most often successful. The fact that all measures were timed properly and that the economy was booming and not detrimentally effected from outside depressions during these years, which means that the liberal policy of Erhard did not encounter a serious economic crisis, has helped very much in the policy of information and persuasion.

When we describe Erhard as a politician of high caliber whose economic policy was based mainly on psychological factors, we should also emphasise, that he was not a politician without an economic doctrine. His doctrine was indicated in the above mentioned slogans such as "wealth for everyone" and not dressed in theoretical terms, which the people could not understand. When W.S. Schlamm writes², "The only miracle was the deep faith

1. L. Erhard, *Prosperity*, op. cit., p.205: Here he describes his policy of direct contact.

2. W.S. Schlamm, op. cit., p.10.

with which these men showed confidence in the principles, it seems that he is right only on a certain aspect. One aspect of the economic policy was that it did not follow a doctrine which was adhered to under every circumstance. But on the other hand this policy had definite aims and sound principles such as the wide restoration of free enterprise and competition on the one side and security and wealth on the other. These aims were not intended to be realized immediately, but only after a considerable and slow development.

The German School of "Neoliberalism" was the theoretical foundation of the economic policy

German Neoliberalism is often named as the theoretical background of the diagnostic economic policy of Erhard. Although Erhard constantly was advised by economists of this school centred around Professor Eucken and the "Ordo" circle, theory and policy were kept separate. If Erhard would have followed the neoliberal theory closely, his policy would have been different and far more aggressive². Oliver in his study of German Neo-Liberalism³ points out that this teaching and doctrine in itself is not standardized. Only this fact would compel any politician to compromise.

The Neoliberals in general wish to establish a new order, in which the free price mechanism is fully operative. Only the price regulates the distribution on all markets and for a vigorous competition no monopolies of any kind and no government inter-

1. L. Erhard, Deutschland im Wiederaufbau, Tätigkeitsbericht der Bundesregierung fuer das Jahr 1958, Bonn 1958, p.18: "The Social Market Economy has never been pure theory."
E. Salin, Ein "westdeutsches System", Die Zeit, Oct., 14, 1960: "Es ist dagegen unmöglich, ein modellmaessig konstruiertes System totaler Wettbewerbswirtschaft in praktische Wirtschaftspolitik zu uebertragen....."

vention was permitted. This is the ideal situation of laissez faire liberalism in which the government has no role at all in the economy.

In the Social Market Economy, however, the administration has a more active function of fostering and maintaining conditions under which the price and competition allocate the resources and distribute the income. Here the monetary and fiscal policy must be used as an instrument for this purpose and they therefore are not absolutely neutral as the neoliberals want it. Tasks which cannot be performed by competition in certain sections and situations must be taken over by the government under this economic policy. The administration and the government has in the Social Market Economy, a more active role as it has not only to intervene occasionally, in order to restore order and liberty, but can intervene continuously whenever it seems necessary. This means that the distribution is not exclusively determined by the price mechanism. Both free enterprise and public administration have to cooperate and to secure fair social conditions.

No deep differences in the economic policy of the two political opponents

Although the Social Democrats were in many issues and economic problems in disagreement with the policy of Erhard and the Christian Democrats, their basic economic principles are not very

2. Erhard has never been a member of the "Ordo" circle. In "Deutschland im Wiederaufbau", op. cit., p.53 he writes: "Die Entwicklung der Gesamtwirtschaftkommt im Laufe des Jahres dem wirtschaftspolitischen Leitbild immer nacher."
3. H. M. Oliver jr., German Neoliberalism, The Quarterly Journal of Economics, No.1, Febr. 1960, p.118

Erhard. The Social Democrats in their last program have described their economic policy with the slogan "as much as possible, planning wherever necessary". Any Marxist doctrines have finally disappeared in the program of this socialist party. This slogan is also true in respect of the economic policy of Erhard and it is in fact difficult to detect any differences in the two economic policies. In fact it is mainly a matter of where the stress is placed. Erhard goes farther in his concept of competition while the socialists, of course, prefer more the methods of planning and direction by public control. The fact, that in Germany the two political opponents did not differ much in their economic principles, has obviously contributed to the internal order and stability and rapid economic revival.

After having tried to explain the Social Market Economy as an aim of the economic policy and as a decisive framework and factor for the economic development, we still have to consider the fiscal and monetary policy, as these have determined the economic development. We have to bear in mind that the economic policy of Erhard and its aim and conception extensively influenced the fiscal as well as the monetary policy.

The Fiscal Policy

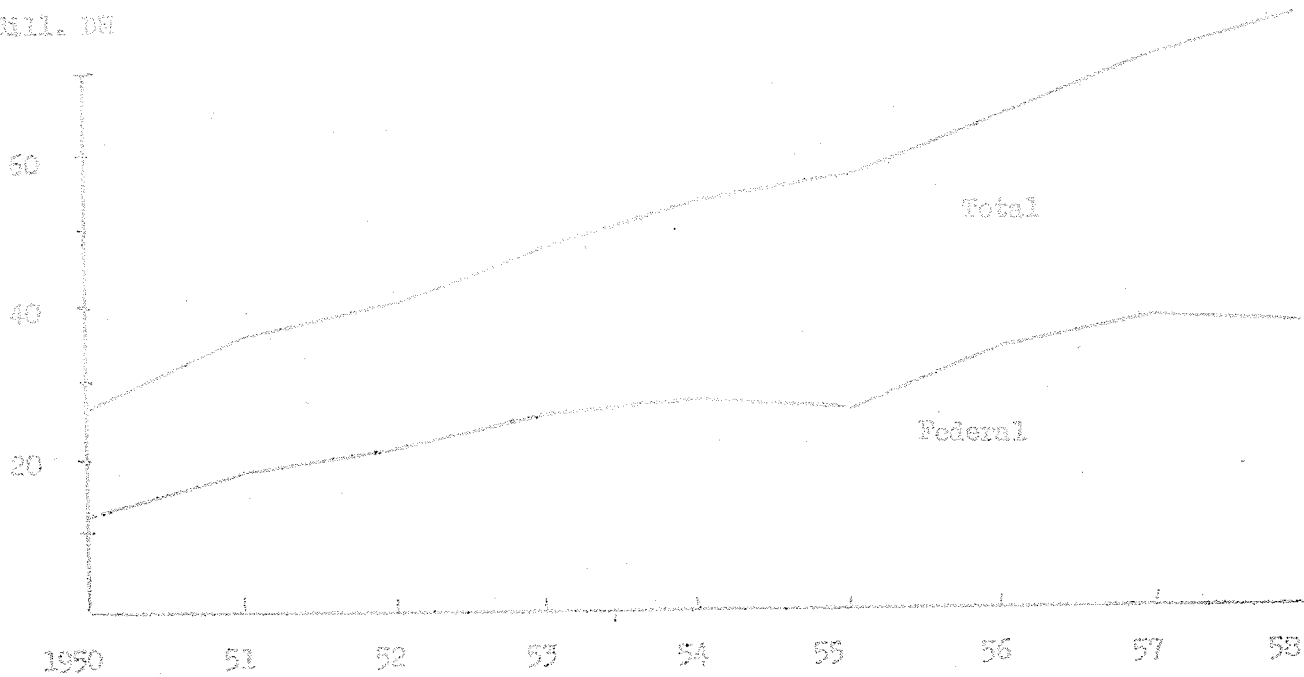
The fiscal policy was used as a powerful instrument in the economic revival.

The fiscal policy as one of the most powerful modern instrument in economic policy had to be of decisive influence in the economic development. We have seen that under the so called Social Market Economy which aimed at a maximum of competition and free price mechanism, the state had to intervene and guide. The economic problem and function for the fiscal policy was the same as for the economic policy in general: to give incentives for redevelopment and to lead energy and investments in the proper channels by allowing maximum freedom. Besides this economic aim any fiscal policy will have to fulfill the other task of raising sufficient means for the public administration and expenditures. During the years under consideration the fiscal policy was widely co-ordinated with the general economic policy and used for the aims of the Social Market Economy. The minister for the fiscal policy, Etzel, describes the principles of his policy as follows:¹ "A budget, which is in order is only that in which income keeps pace with the expenditures. just as it is in privat life. It should never be the interest and aim of the finance minister to take over for the state as many functions as possible and therefore to let the tax burdens

1. Deutschland im Wiederaufbau, op. cit., p.165

Public Budget *

Bil. DM



* = Federal, Provincial, Communities

Source: Stat. Bundesamt

ever wished to do, but in the end it was not possible to do so. I think it cannot deny. The problem is... common requirements are still there. The demand on the public administration should neither impair the growth of the economy nor the effort of the citizen.....The Federal Government endeavoured to adjust the financial order to the Social Market Economy." Its aim is in the regard to maintain competition and the stability of the currency."

This statement indicates a policy by which state intervention is kept at a minimum but it says at the same time that it is also used to assist the establishment of the Social Market Economy. He obviously does not follow the principles of a completely neutral fiscal policy. The more administrative function of raising and spending public funds he considers the fiscal policy subordinated to the policy of the Social Market Economy.

This economic feature of the fiscal policy and its application in this field is not unrestricted. As an anticyclical device the fiscal policy is virtually renounced, as the income has to cover the expenditures.¹ But in its tax legislation, its policy with expenditures and subsidy payments and the budgeting in general, the finance minister had numerous possibilities to determine and influence the economic development. Particularly the income tax legislation and the turn-over tax were not merely regarded as a mean and method of raising the coverage for public expenditures but at the same time extensively applied for the

1. see E. Schmen, op. cit., p. 939.- The fact that during the years 1956 and 1957 a remarkable surplus was accumulated in the federal budget, which at that time was heavily criticized in the public, shows that the fiscal policy was not as neutral as often maintained. The policy of a balance budget was laid

purposes of the revival and redevelopment of the economy.

The tax legislation aided capital accumulation and investment

Sohmen states:¹"The West German authorities made considerable and highly successful use of tax legislation in order to spur capital formation. These measures cannot, however, be classified as functional finance. Their intention was not a rise in aggregate demand but an increase in private investment, accompanied by a reduction of consumption by the same amount. The unwillingness to use fiscal policy for the purpose which many economists are inclined to consider as one of its most important functions left monetary policy in virtually exclusive control of the regulation of aggregate demand." The German finance minister indicates his standpoint and principle in this respect by the following statement: "Budget now serves a much wider purpose than its original one of providing finance for traditional government tasks. Today its impact on the national economy and currency is so strong that the budgetary policy can more and more be likened to a central switchboard controlling the country's inner and outer financial stability and the general level of its economic activity."

During the years 1948 - 1958 one of the main objectives of the German fiscal policy was to revive and recreate a sound capital

down in the constitution in accordance with the demand of the occupation powers. In "Deutschland Heute", op. cit., p.477 it is said that this surplus had to compensate the great foreign demand and limit domestic consumption. Finally Etzel himself states in Finance Policy, Financial Times Survey "Western Germany" March 28., 1960, p.3: "I share the opinion that the authority (Minister of Finance) should aid the Federal Bank in its effort to curb the boom." All this seems to prove that the fiscal policy was to a certain extent also anticyclical.

1.. E. Sohmen, op. cit., p.989

market, that means to improve saving and direct investment. Because at the end of the war and with the currency reform, only small investible funds were left and investments had come to a standstill, new funds had to be created. During the first years after 1948 a free capital market for financing investment did not exist. For this reason the fiscal policy was applied to remedy the situation.

Income tax legislation was used for increasing saving and directing investment

The German tax law is considered by Wright¹ as one of the outstanding features of the German post-war economy. Although the income tax schedule was very proportionally progressive in its rates, it recognized the need for encouraging capital accumulation and investment by an elaborate system of exemptions, which in effect largely nullified the high rates. According to Wallich² tax incentives have been used for two main purposes: "One, to reduce the marginal tax load and two, to stimulate saving and investment..... This investment stimulation has been very important in aiding the German economic recovery." Although this tax policy had favorable effects for the general economic development and for relieving the investment problem, it was strongly criticized for some negative social consequences. Balogh³ and the political opposition in Germany found the method of charging investment against pre-taxed income discriminating and causing

1. D.M. Wright, Post-war West German and United Kingdom Recovery, American Enterprise Association, 1957, p.3
2. Wallich, op. cit., p.128
3. T. Balogh, Germany: An experiment, op. cit., p.59

social injustice and hardship.

The heavy tax load and the steep progression of the rates had been introduced by the occupation government early after the end of the war in order to restrict the purchasing power of the people. Probably for the same reason the new German government after it became responsible for its own public affairs did not change the tax rates during the first years.¹ Shortly before the currency reform the occupation government adjusted the rates slightly and eased the load a little by relatively generous allowances for depreciation and a series of other privileges, in order to promote investment and production. This taxation policy was later carried on and elaborated by the German authorities.² While prices and production were widely de-controlled the following trend of rising prices, caused by the great demand, effected relatively high profits in many sections of industry and trade. These funds, whenever they were ploughed back and re-invested were exempted from income taxation. This of course gave a tremendous stimulus for saving and investment in those sections ^hwhere these profits and funds accumulated. During the following years this system of tax exemptions was more and more elaborated and widened as the government attempted to channel the funds into the proper projects. They became as Wright says, one of the main features of the German economic development after the war. Finally almost any form of saving became exempted. At the same time the policy of tax exemptions encouraged the people to work hard and to gain a high

1. see Politische Jahrbuch, op. cit., p.83

2. L. Erhard, Prosperity, op. cit., p.19

income and a similar type into the income tax. The original system was quite simple, but the exemptions were restricted. In 1931 this system was not yet discontinued completely.

The German finance minister, Etzel, admits¹ that this fiscal policy smacked of regimentation, but as he says, it was dictated by necessity. It was always understood that measures more in line with a free market economy and the liberal tenets of the federal government were to take their place once the necessary conditions had been created generally. But this change in the fiscal policy with its socialistic feature of investment control was not fully possible during the years under consideration.

The turnover tax was also used for improving capital accumulation and economic revival.

This kind of regimentation and planned economy was not the only feature of the federal income-tax legislation. The turnover tax, which was the second main income source for the federal government, with its special feature of accumulation from level to level was extensively used as an instrument to intervene in the course of economic development and to relieve bottlenecks and hardships. Here again the main method used was that of exemptions and different rates and classifications. In the field of export trade the federal government gave aid and subsidies by means of the turnover tax legislation. It also protected the domestic industry and agriculture by higher rates of tax and by custom tax for imports.

1. F. Etzel, Finance Policy, op. cit., p.3 - As already stated in regard to the economic policy we find also in the fiscal policy an undogmatic attitude.

Public expenditures and state enterprises aided the economic development.

The federal government contributed not only by controlling its tax policy, to the rapid economic development, but it also devoted its expenditures largely for purposes of economic development. Large amounts were spent for the reconstruction of roads and public utilities, for direct subsidies in certain sections of the economy, wherever the common interest demanded public aid. ~~Now~~ Under the fiscal policy which helped to solve economic problems one has to consider and evaluate the administration of the public property in industry and the reconstruction of the large number of productive facilities, inherited from the previous socialistic regime. While the federal government declared it as an aim in its fiscal policy to sell its own plant it did not execute this de-socialization during these years¹. This gave the government additional income and helped to plan a favorable tax policy.

1. see De-Socialization of industry in West Germany, Swiss Review Sept. 3, 1959, p.3

Chapter 6: The monetary policy of the Central Bank

The central banking system was independent from the government

One of the main features of the new banking system in Germany was that the government, which was responsible for the economic and fiscal policy, could not interfere in the monetary policy of the Central Bank. Mainly in view of the monetary policy of Schacht under the previous national-socialistic regime and its financing of rearmament and assistance of the autarchy the military government made the central bank free from any control by the federal government. The central bank, called "Bank Deutscher Laender" was established as a public institution which was controlled by the provinces as well as by representatives of banking and business. The intention in this "rather quaint form of a credit system"¹ was to outlaw any fiscal sins of the government, and "expenditures of public authorities must be covered by current income; the procurement of funds by means of credit shall be lawful in anticipation of future revenues."

A centralization of the monetary policy and an adjustment of this strongly provincial banking system was laid down in the Constitution in 1948. But it took several years of severe struggle between federal and provincial authorities to conclude the law for the establishment of the Bundesbank. It was not until the end of the period under consideration that the final banking system was set up. In its adjusted form it is still independent from the federal government while the influence of the provinces remained relatively strong. In order to avoid that this might hinder the economic and fiscal policy of the federal administration. H. Mendershausen, op. cit., p.660

tion, the central bank must according to its statutes assist the federal policy as much as it seems advisable and possible to them.

The main function and responsibility of the central bank is to secure the value of the currency and to issue money. In its monetary policy, the central bank employs the following instruments: determination of the discount rate, operations on the open market, setting the rate for minimum reserves of the commercial banks. Besides this, it is provided with some minor instruments and rights, which help to influence money circulation and credit. The central bank has also applied successfully the modern method of informing businessmen about the economic development and situation and persuading them to adopt favorable attitudes and measures. The central bank is not allowed to give credit directly to business and has to act therefore as the bank of the commercial banks. The only exception is that it can issue credit to the federal government and other public authorities up to a certain amount. The government must in return deposit its money with the central bank.

The monetary policy assisted the economic revival successfully.

The monetary policy of the Bank Deutscher Laender and of the later established new Bundesbank was successful in applying the traditional instruments and methods. The value of the new currency was maintained during these years. This is the more remarkable as it was separated from the federal economic and fiscal policy.¹

The monetary policy was also successful in so far, as to secure and assist the revival and reconstruction of the economy. The

1: E. Sohmen, op. cit., p.900: modern theory owes an explanation.

monetary policy was well coordinated with the economic and fiscal policy. The "fiscal-monetary order" consisted mainly of such conventional measures as stimulation of productive incentives not only through tax reduction, but also by regulating the quantitative money supply and the credit volume. Large-scale monetary injections were shunned since they would be likely to lead to large price increases rather than to absorption of unemployed resources. However in order to overcome the low rate of savings and the lack of a capital market, the high liquidity preference as well as the sluggishness of investment energetic use was made of tools like discount and open market policy. Public administration and business took careful notice of the information and advice, which the organs of the central bank and their public relation department gave continuously. The economic information section of the central bank became one of the best known and recognized information centres, which simultaneously guided the economic activities in the right direction.

With its successful control and incentive for investment and saving and maintenance of the value of the currency the monetary policy determined decisively the rapid revival of the German economy. It became the essential component of the economic and fiscal policy of the government, as it performed a task which the government alone could not perform to the same extent. Many observers and critics have regarded the reliance on the monetary policy to such a degree as not advisable and sufficient during the early years after the currency reform¹. The recession before the Korea

1. W.W. Hellerer, The role of fiscal-monetary policy in German Economic Recovery, Proceedings of the American Economic Association 1950, p. 555

Boom in 1949 and 1950 seemed to justify this impression.

During the first months of the new banking system in 1948 the bank supplied sufficient short-term credit, but already near the end of this year it restricted the credit, as prices were rising. But as this could be done only generally, the lack of economic discrimination seemed to prove that the banking control of the credit volume was by no means a safeguard against inflation and misdirection of resources.¹ The difficulties were increased by the lack of balance between the regional and industrial components on the one hand and on the other hand by the extensive use of cash in business transactions. But at the right time this serious situation for the monetary policy was relieved, as soon as the Korean boom gave the necessary stimulus from outside of the economy. Not again did for the monetary policy develop such a difficult situation as it did in 1949, because in the following years the economy was continuously booming and expanding.

The production required long-term credit which the central bank could not supply.

As the monetary policy was concentrated on short-term credit the central bank as well as the commercial bank could do very little in respect of long-term funds, which the industry urgently required during the first years. The open market operations were paralyzed as no capital market existed at this time. It aided only indirectly by keeping the value of the currency constant and encouraging savings. The central bank by its very nature was not per-

1.. H. Mendershausen, Price, Money and the Distribution of Goods in Post-War Germany, American Economic Review, June 1949, p. 661

mitted to engage, itself, in long-term credit business. In this respect of providing long-term funds the economic and fiscal policy were more efficient, by lifting price ceilings and higher profits and by reducing simultaneously the tax load the industry obtained funds it needed, for its investments. Besides this, many investments of long-term nature were financed by short term credit in those years and this involved many risks for the monetary and banking policy¹.

The co-ordination of the policies of the central bank and the federal government.

We stated before that the positive economic development was mainly due to the efficient co-operation of the central bank and the federal government. This is remarkable as this co-ordination was not legally guaranteed. Because both institutions declined to apply any inflationary measures and agreed to follow a liberal policy, in order to raise investments, employment and income, with its stress on free market and competition and reliance on monetary measures, a favorable co-ordination of the fiscal-economic policy and the monetary policy was guaranteed. The rapid revival was additionally furthered because the federal government and the central bank adhered dogmatically to any theoretical doctrine, although both partners followed the liberal line. In spite of heavy criticism from several circles, which was aroused by the growing inequality of income and increasing monopolization of the markets, this policy was accepted, as it effected

1. During the first period of reconstruction it appeared improbable to many economists that this policy could provide sufficient capital. * See H. Mendershausen, op. cit., Prices, p. 662

a general growth of income. Therefore Schmen is right¹ when he states at the end of this period, that "the monetary policy performed its task smoothly and effectively." We must bear in mind that the monetary policy alone would not likely have had positive results, without being integrated with the economic and fiscal policy of the government.

The currency Reform was a prerequisite for the successful monetary policy.

Before the central banking system was able to commence its monetary policy the devalued currency had to be reformed and the money re-valued. . . This reform was not performed under the responsibility of the German administration as it remained the task of the allied occupation government. German officials and experts acted merely as advisers. This reform was not only the prerequisite for a new and effective monetary policy but more generally also for the economic revival and growth. The first measures of the economic policy, slackening of control and lifting of price ceiling were only sensible measures after new money had come on the market. So was the tax reform, by which the load was lowered and incentives for savings and investments were given dependent on the currency reform. We therefore have to consider the currency reform not only as a sound base for the monetary policy, but as a decisive measure for the economic development during these years.

1. E. Schmen, op. cit., p.990

The Currency Reform in 1948

The measures of the reform

We demonstrated earlier the constant disruption of the economy until 1948, when the currency reform, after a delay of three years was finally carried out. The control system of prices and production had become ineffective and the rationed supplies were inadequate. The black market was expanding more and more and the money was practically valueless. The occupation administration had inherited a completely planned economy which was extensively disrupted and was rather ineffective in tackling the economic reform. "The Allies," Balogh says¹, "drifted by omissions rather than by positive mistakes into the position of being responsible for the appalling position existing before the currency reform." It might be true, that a currency reform and acceptable money at an earlier date would have avoided further destruction of the German economy. In the mean time the breakdown of the negotiations with Russia about the currency reform and the East-West split in general changed the attitude of the Western Allies toward Germany completely, the proper timing of the currency reform was therefore in 1948.

Money supply was reduced by more than 93 percent

Wallich lists the main features of the currency reform as follows²: 1. The reform had to contract the money supply and 2. it had to reorganize the private and public debt structure.

1. T. Balogh, op. cit., p.15

2. H. C. Wallich, op. cit., p.68

These two chief aims were achieved by the following measures in 1948:

The new currency was created by issuing a certain allotment of new money to each holder of old currency. The old currency was deposited and bank deposits including saving deposits were blocked. They were subsequently converted into new currency at the rate of 10:1. The government and other public authorities were given cash allotments. The banks, whose assets had partly disappeared as a result of cancellation of the national debt and a reduction of all private debt in the ratio of 10:1, were also given cash allotments and state bonds. The national debt was altogether wiped out and private debts reduced. But the private debtor had to pay interest on the full original debt of which 9/10 were to be paid to the state. Consequently the proprietors of real estate, houses, commodities, shares etc. were far better off after the currency reform than those who had kept their property in cash or state bonds.

By these measures, which were connected with many detailed regulations, the money supply of originally 135 billion Reichsmarks was contracted to about 12 billion Deutsche Mark.¹ These 12 billion of new currency included free bank deposits but excluded inter-bank deposits. 9 billion were created by the reform itself and 3 billion by credit creation of the banks. When we do not count these 3 billion due to credit creation, the money supply was reduced as a result of the currency reform by more than 93 percent.

1. H. Mendershausen, Prices, op. cit., p. 658

These monetary measures seemed to be in a sound relation to the available goods and were able to control the circulation of goods and services. The relatively rapid price increase shortly after the reform, however, indicates that the purchasing power was still too high.

The social effects of the reform were partly negative.

The social consequences of this revolutionary reform of the monetary structure were immense. For instance it was regarded as unjustified, that those who had hoarded commodities before the reform, during the years of privation, were later rewarded by the currency reform. The social inequality caused by the revaluation of real estate was a hardship mainly for refugees and the lower and middle class. This injustice was later relieved by a law called "Lastenausgleich". By this law the common burdens in consequence of the war were equalized. It would have been better for the social stability and confidence in the new democratic state, if this equalization could have been timed together with the currency reform, as it was done with other measures such as the decontrol of prices and the tax reform. But the occupation power who performed the currency reform did not regard the social equalization as their responsibility. Also the problem of recognition of foreign debts and claims remained untouched by the currency reform and had to be settled later by the German government. These factors of course were a great hindrance particularly during the first years.

The currency reform was a success

On the whole, as Wallich puts it¹, the currency reform was a tremendous success and it transformed the economic scene in Germany from one day to the next. It had a positive impact on the spirit of the people, who had waited for this measure for years. This is the more remarkable as it caused many hardships and many social injustices. It was regarded as a start for a new economic development towards a higher living standard. The new money filled the people with confidence and energy and thus by this psychological effect the reform became an impressive success, as it established a new economic order with a rapid economic growth.

But behind the scene and among the officials and experts it was still an experiment at the time when it was performed and there were many doubts in respect to the positive results of the currency reform, when a slight inflation followed the reform in 1949. But nevertheless, many combined factors contributed so that the new money became the stepping stone for a new positive economic development.

We so far have analyzed the political frame work, the economic, fiscal and monetary policy as determining factors for the economic development in 1948 -1953. Although we can consider these as major factors we must also deal briefly with the contribution of foreign aid and of the various pressure groups.

1. H.C. Wallich, op. cit., p.71

Chapter 7: Foreign Aid

A further impetus for the rapid revival of the German economy came from foreign aid and the Marshall Plan Aid in particular, furnished by the United States in the amount of altogether 3.5 billion Dollars. The Aid was channeled through different agencies, the GARIOA ¹, the Mutual Security Agency and the Foreign Operations Administration.

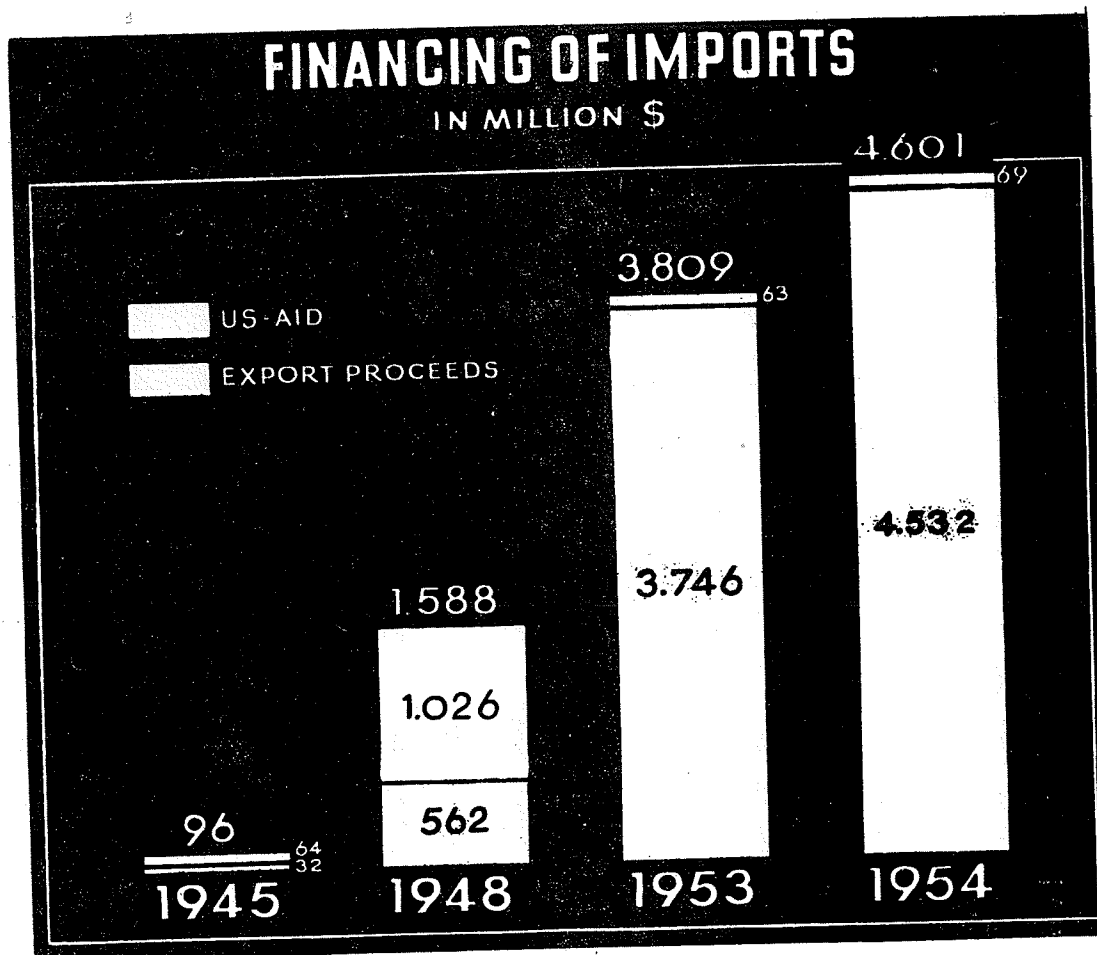
Foreign Aid covered import gap.

This aid which was given during the first post-war years helped to supply commodities which were urgently needed and which their own economy could not produce or import as yet. Germany received a relatively small share of the total aid given to European countries ², but it was gladly accepted not only as a great physical and economic assistance, but also as an indication of a new attitude and policy of the Allies towards the former enemy. One of the major aims and responsibilities of the occupation government had been to secure the establishment of a new democratic and peaceful Germany. They realized that for this political aim a sound economy was required as a prerequisite. As Erhard points out ³: "It was also a further impetus for establishing a market economy for which the American administration aimed with their aid to European countries."

Shortly after the currency reform and lifting of price controls the prices, chiefly for food, steeply increased. This demonstrated that there was still a lack of necessary supplies.

1. Government Aid and Relief in Occupied Areas
2. about 5% of the German National Income

As the former main agricultural areas were left behind the "Iron Curtain" and the food production in West Germany limited and insufficient for self-support of the economy, a large import demand resulted. But in this early stage of economic revival



Source: Stat. Bundesamt

and on account of the autarkie policy of the previous regime income from exports did not suffice to finance the necessary imports. It took some years before the negative trade balance turned into a positive one. For this reason the allied food supplies, which were financed by the Marshall Plan Aid were a most

3. L. Erhard, Deutschlands Rueckkehr zum Weltmarkt, Duesseldorf 1953, p.90

important contribution not only in its volume but also in its form and in the kind of commodities. In 1950 Wendershausen wrote¹: "As long as Western Germany is unable to earn her way in international trade she is likely to continue living on American subsidies. While the spectacular recovery of Western Germany's economy makes it unnecessary for a country to continue receiving outside relief, it may fail to produce self-support and Germany may become a new source of great international disturbance. Instead of being an element of economic strength and peace among the Western nations, the revived Germany will be a disruptive force unless her economy is fitted into a viable world economy." Germany has used this foreign aid wisely and the aim was to become independent from this foreign assistance. However during the first half year of 1949 Germany exported at a annual rate of 1 billion Dollars but imported twice that amount. As Germany had no stock of gold and exchangeable foreign currency available the gap could be financed by American Aid only. In 1948 almost two-thirds of imports were financed by US Aid, while the share of foreign aid dropped to about 2 percent in 1953.²

Change from food supplies to raw materials after the currency reform

Before the currency reform the Allies supplied mainly food and intended primarily to relieve the situation and to counteract privation. The composition of the aid shows that contributions contained only a little of industrial materials. After the currency

1. H. Wendershausen, Fitting Germany into a network of world trade, American Economic Review 1950, Papers & Proc., p.548

reform under the so called European Recovery Program, however, mainly industrial raw materials were delivered. This helped Germany to increase its export capacity and to earn the means of importing the necessary food. In line with the economic policy followed by the aid agencies, Germany reached, in 1952, an export trade that practically financed the imports.¹

Counterpart funds relieved the investment problem

Even more important than the imports financed by foreign aid were the counterpart funds. While still dismantling, the Allies did not only deliver commodities for a re-development of the economy but also investible funds, which were urgently needed.²

We have mentioned that through the currency reform, in many sections of the economy, not sufficient means for financing investments remained. The capital market did not exist at this time. Also the public administration had only limited funds for urgent projects.

As the German government was permitted to collect the money paid by German consumer and producer for commodities supplied through the foreign aid program, and did not need to transfer it, it received funds for investments. In this connection the Government acted

2. see chart on page 76

1. L. Erhard, Deutschland's Ruckkehr, op. cit., p.93

2. see H.C. Wallich, op. cit., p.356 -

In spite of the heavy burden for the German economy caused by the Allied reparation policy, which exceeded the value of the Aid, the commodities they supplied by their Aid program were a very valuable contribution by the quality and timing in which they were delivered.

as a bank, although it was not finally disposing but proposing how these counterpart funds should be invested. While by the fiscal-monetary policy, wide scope was given for self-investment in industry and commerce, public utilities and some less fortunate sections of the economy, where price ceilings still existed and profits were restricted, had no opportunity to finance urgent investments. These demands could partly be covered by the counterpart funds, whenever they were found being urgent and important for the general revival of the economy. Many bottlenecks in industry, due to insufficient means for necessary expansions of the productive capacities, were widened in the early years after the currency reform, in spite of the fact that a free capital market did not exist. The following sections of the economy benefited most by the counterpart funds: Energy, coal mining, other basic industries, railway, merchant navy, agriculture and housing. Industries for consumer goods and capital goods, however, where all price ceiling were abolished did not need such funds, as they had enough means from their business. In consequence of these investments, financed by the foreign aid funds, output and productivity in general, and with it export capacity, and finally, the living standard of the people could be raised. Although investments financed out of the counterpart funds averaged only 3.5 percent of the German gross investment during 1949-1953¹, their real value was more qualitatively than quantitatively.² As they were

1.. About 7 billion Deutsche Mark counterpart funds were invested in 1953 (3.9 billion Dollar).

2. see H.C. Wallich, op. cit., p.366; W.S. Schlamm, op.cit., p.144 is not right when he belittles the effect of the aid, although it is true that the effect in other countries was very much smaller.

disposed by a sort of "planned economy" and channeled by investment control to most decisive projects and bottlenecks, and so the funds became most effective for the general economic development. In fact, the effect of these investment funds could have been even greater if the administrative work had been more effective. The administration and planning with these funds demonstrated once again certain disadvantages of investment control. Hellerer observed difficulties in releasing these funds.¹ During the summer and fall 1949 for instance, more counterpart funds were withdrawn from the economy than were made available to it, and this at a time, when there was a great demand for public work programs. But on the other hand, it is obvious that the selection of the most important projects in an economy with such a large demand and without a capital market was a problem in itself. However, the planned economy as well as the free market economy were both components, of the German economic revival. Both systems contributed to this development.

Foreign Aid became a stepping stone towards the economic integration of European countries

The foreign aid became not only fruitful for the revival and development of the German economy. Furthermore, the aid as a part of the European Recovery Program became a stepping stone for the European political and economic unification which included the German economy. According to Erhard² "the aim of European inte-

1. W.W. Hellerer, op. cit., p. 539

2. Deutschland im Wiederaufbau, op. cit., 1948-58, p. 20

gration won more and more significance during the reconstruction period." An expanding part of the national economic policy is now planned with other European countries and partly delegated to supranational institutions. The Foreign Aid and the European Recovery Program led to the establishment of the so called OEEC¹, European Payment Union, European Community of Coal and Steel and finally to the Agreement of Messina and the European Common Market. While the original foreign aid helped to reconstruct the individual European economies, which all had suffered heavily under the impact of the war, it was aimed and conditioned for a united European economy. With this aid the German economy was not only decisively assisted in its economic recovery but became a member of the unified European countries.

1. "Organization of European Economic Co-operation"

Chapter 6: The Pressure Groups

Most business associations had a long history and survived the national-socialistic regime.

In connection with the change of the political and economic system and the society from a complete dictatorship and centrally planned economy to a democracy and liberal economy, the people individually and as members of groups had become most important in determining the economic development. The German people are known for their tendency to form all kinds of groups and associations with aims and activities ranging from mere social purposes to ideological and economic concept. In the economic field most of the associations had a long history, as for instance, the guilds of the craftsmen. And history has often demonstrated, that not only individual businessmen determined the economic development decisively, but more often, their groups and associations interfered with the economic policy and guided the economic activity. In the Weimarer Republic this had led to an extreme situation and to chaos. During these years a large number of different associations were formed and in the parliament there were nearly forty political parties, of which each was backed by a certain pressure group with its specific aims, convictions and interests. This situation was naturally detrimental to any positive economic development and led to complete disorder. It gave way to the revolutionary change of the other extreme, the dictatorship. Hitler, however, did not abolish the associations of the businessmen. After having changed the statutes, aims, organs and officials in accordance with the principles of the new national-socialistic

regime, he turned them into very effective and powerful instruments for his economic policy. The various organisations of industry, craftsmanship, agriculture etc., became in this economic system intermediate agencies between the central government organs and the individual plant and offices.

After the war the entrepreneur and his associations gained a powerful position.

With the end of the war this economic system formally ceased to exist. It was partly abolished by the allied cartel legislation. But in reality most of these associations survived. Gradually they became very effective and influential, partly due to the fact that the position of the entrepreneur became powerful too.¹ As the entrepreneur was again liberated in his productive aspirations and as the owner of the means of production it is obvious that in a production orientated economy, he is a determining figure. He was assisted by the policy of the government, which with its fiscal-monetary policy put savings and investment mainly into the hands of the entrepreneur.

The entrepreneur himself became active more as a member of a group than as an individual. Consequently, his associations exerted a tremendous pressure on public opinion and democratic organs. These associations were also very effective, as its obligatory membership during the previous regime had become voluntarily after the war, and the entrepreneur as a member, did not change his attitude very much and submitted willingly, in order to keep his association strong and efficient.

This inherent strong position of the trade associations was further

1. Th. Eschenburg, "Neu: auch Verbaende streben nach Herrschaft", Die Zeit, December 16, 1960

increased by scientific experts and research and public relation institutes, which were employed and financed by the associations. These experts elaborated the policy and arguments of the group and effected an intensive pressure on the government, legislation and general public.

The association of the manufacturing industry was dominant.

One of the most powerful association of the entrepreneurs was the Federal Association of German Industry.¹ and its scientific research institute, "Das Deutsche Industrie Institute". All branches of the German industry are represented in this organization and it had established a great number of committees for the different economic problems. It had set up, for instance, committees for tax legislation, monetary policy, statistics, energy policy, transport problems, etc. Although the occupation government hesitated to permit the re-establishment of this association, it was allowed to re-form late in 1949, in order to maintain and improve the common interests of the manufacturing industry.

During the following years this association had frequently in a vigorous and effective manner, expressed the interests and standpoints of the entrepreneurs. Its methods ranged from personal persuasion to publications and distribution of funds. So for instance, in the question of decartellization of the economy, which of course involved many interests of the industry, it declined the strict prohibition, which the government and Minister

1. Bundesverband der Deutschen Industrie

Erhard in particular tried to bring about; the final solution indicated clearly, that the pressure from industry had been very successful.

In general we cannot evaluate the activity of this association as absolutely negative for common interest. As a partner of the new society it had, of course, the legal right to express its opinion and to exert pressure. And in fact the intervention from this side has often been very positive for the economic development.¹ When we consider the contribution of the German entrepreneur of great significance for the German economic development, then one should also realize that this was partly achieved in solidarity by the industrialists and their associations.

Many other associations were active.

Other associations, as for instance, those of commerce and agriculture were in their field, very active too. Social problems and negotiations with the trade unions of the worker were delegated to the so called "Arbeitgeberverbände"² and its regional branches. Also more regionally active, were the Chambers of Industry and Commerce and the associations of the craftsmen.

Strength of Trade Unions.

In the general judgement of the activity and pressure of all associations one frequently finds that the employer's side is evaluated as very powerful and the worker's representation as extremely

1. for details see Yearbook of the association

2. "Associations of employers"

weak. At a first glance this impression might appear to be justified, particularly when one compares the statistics about strikes and wage increases with those in other countries. The statement of Balogh¹ for instance "Unfortunately the trade unions are weak and have grown weaker since the war", might be true when one compares it to the power held by the associations of the employer. But, in connection with full employment and lack of labor the position of the worker and his union had become stronger during these years. In the early years the trade unions had to reorganize their organs and membership completely, as they had been abolished during the previous regime. Large funds for strikes had not accumulated yet. The German worker himself had become unaccustomed to cooperation and solidarity and was generally not in a favorable spirit of being organized. Many of them were reluctant to fight for their interests and they did not readily accept Marxian dogma which was offered by some old doctrinaires. On the other hand everyone knew that one had to work hard in order to reconstruct the economy and it was accepted that no better wages could be paid by the employers. In addition to this conviction, the workers were accustomed to a very low living standard and were consequently easily satisfied with any small improvements of their living conditions after the war. They did not realize, what many feel, that they were underpaid and poorly treated. The worker had reason enough to assume that the entrepreneurs and government would look after the common interest. The demand of the unions for more participation and

1. T. Balogh, op. cit., p.52

influence in social and business matters starting at the level of the individual business and plant, was widely fulfilled by the laws for co-determination and for labor-management. The worker and his union obtained by this legislation more rights and also more responsibilities in the management in order to improve his security.¹

Another factor that determined a moderate policy of the trade unions was: the research institutes of the unions in which the economists advised the heads of the unions in ways that did not only protect the interests of the worker but also the common interests of the whole society. This was the more effective, because the German trade unions, which were split up during the Weimarer Republic, were unified after the war and followed, more or less, a common policy. As one of the leading officials of the trade union put it²: "The unions acted in full consciousness of the tremendous responsibility in rebuilding the German industry as the basis of material recovery. They were careful in demanding higher wages to allow the industry to accumulate capital and rebuild the destroyed factories." In other words, their restraint in wage demands was due to a farsighted policy and cannot be considered as a weakness.

Labor and trade unions became a basic force for the economic revival.

Whether this attitude and policy, which of course was not shared

2. Financial Times Survey, op.cit., p.16

1. E. Schmen, op. cit., p.991; Also the extensive Social Insurance System gave the German worker a relatively high security. This Insurance was introduced 1876.

by all workers and officials, was wise and effective or not cannot be easily determined. "Only very close prolonged detailed study could settle this dispute, if then," writes Wright¹. Nevertheless, it remains a fact according to Wallich², "Labor itself has probably gained more over a period of years from wage restriction than it could have from successive rounds of hard-fought wage increases. In the second place, the German labor movement is not as exclusively wage-orientated as the American." The German worker tried to obtain more political influence and responsibility and was not concerned, just with improvement of his income.³ His desire was also, a steady employment in an expanding and growing economy, shorter working hours, more security, additional training for advancement, etc.

Whatever the effect of the policy of the trade unions was, the steady effort of the workers to rebuild the country and its economy and their reasonable demands in respect to wages and benefits kept costs in industry relatively low and enabled the rapid expansion. Without this policy one does not know for certain, if the investment problem could have been mastered in such a short time. Not only the associations of the employer, but also those of the worker applied their power, influence and pressure wisely enough, so that the government could provide its effective framework. All factors including the foreign aid became the Foundation and were elements for the successful German economic development after the currency reform in 1948.

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1. D.M. Wright, German and UK. recovery, op.cit. p.6
 3. E. Schmen, op. cit., p.997 show that wage improvement in Germany in comparison with other countries were not bad.
 2. H.C. Wallich, op. cit., p.373

Part II: Development in the major sectors of the Economy

Chapter 1: Manufacturing Industry

The economic revival was primarily a production problem

When analyzing the post-war economic development in main sections we have to consider the conditions and development in the production field. During these years of re-development of the German economy, the main task was to rebuild productive capacities in order to supply enough goods for a relatively large and urgent demand and also to offer sufficient working places. The most important problem was the expansion of production. The statement of the so called "German miracle" is chiefly related to a rapid recovery in the production field of the German economy.

In the preceding chapters we have explained that the war and pre-war economy had led Germany to a remarkable industrial potential, but, on account of war damage and dismantling as well as the partition of the country these capacities had been diminished. Nevertheless, the loss of agricultural areas in East Germany and the historic economic structure of West Germany determined the Federal Republic as a highly industrialized economy. The preponderance of industry and its excellent potential for raising the national income and the living standard of the people made the industry a most important field in the post-war economic development of Germany. When we stated that it was primarily a production problem, which had to be mastered in the economic revival, then we have to consider the expansion of the industrial

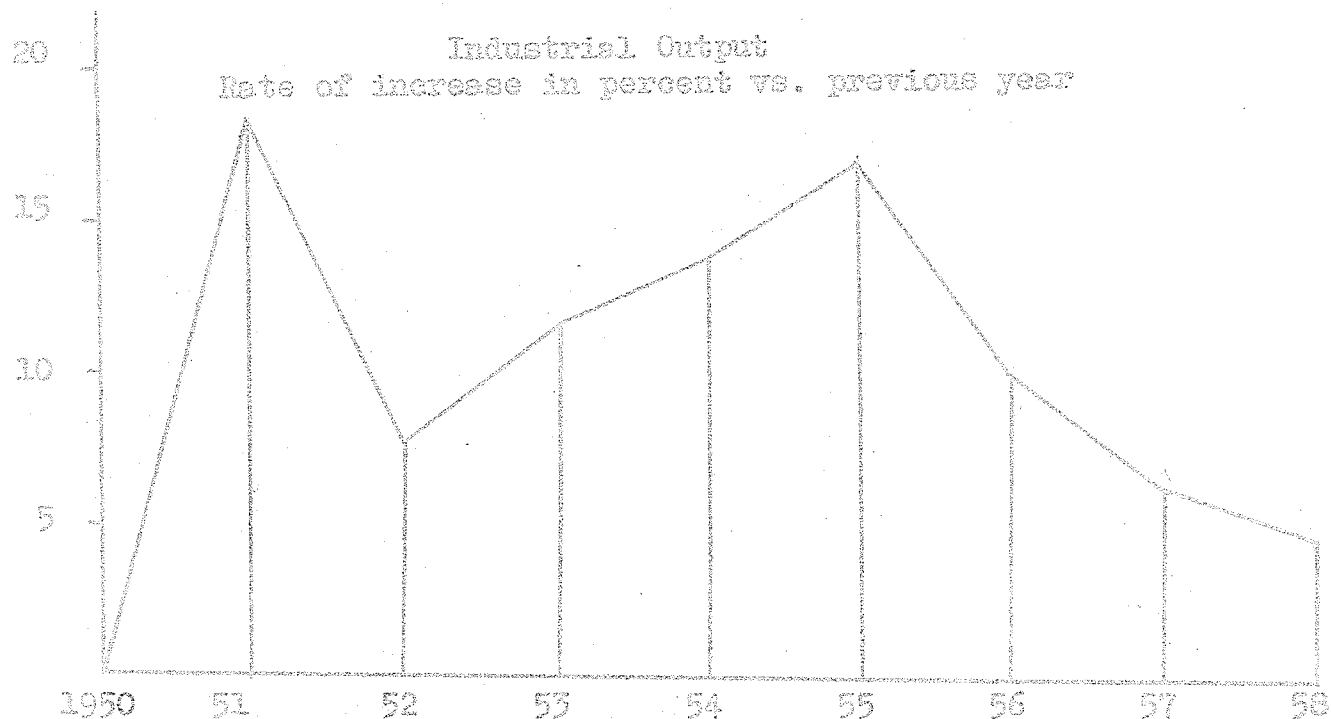
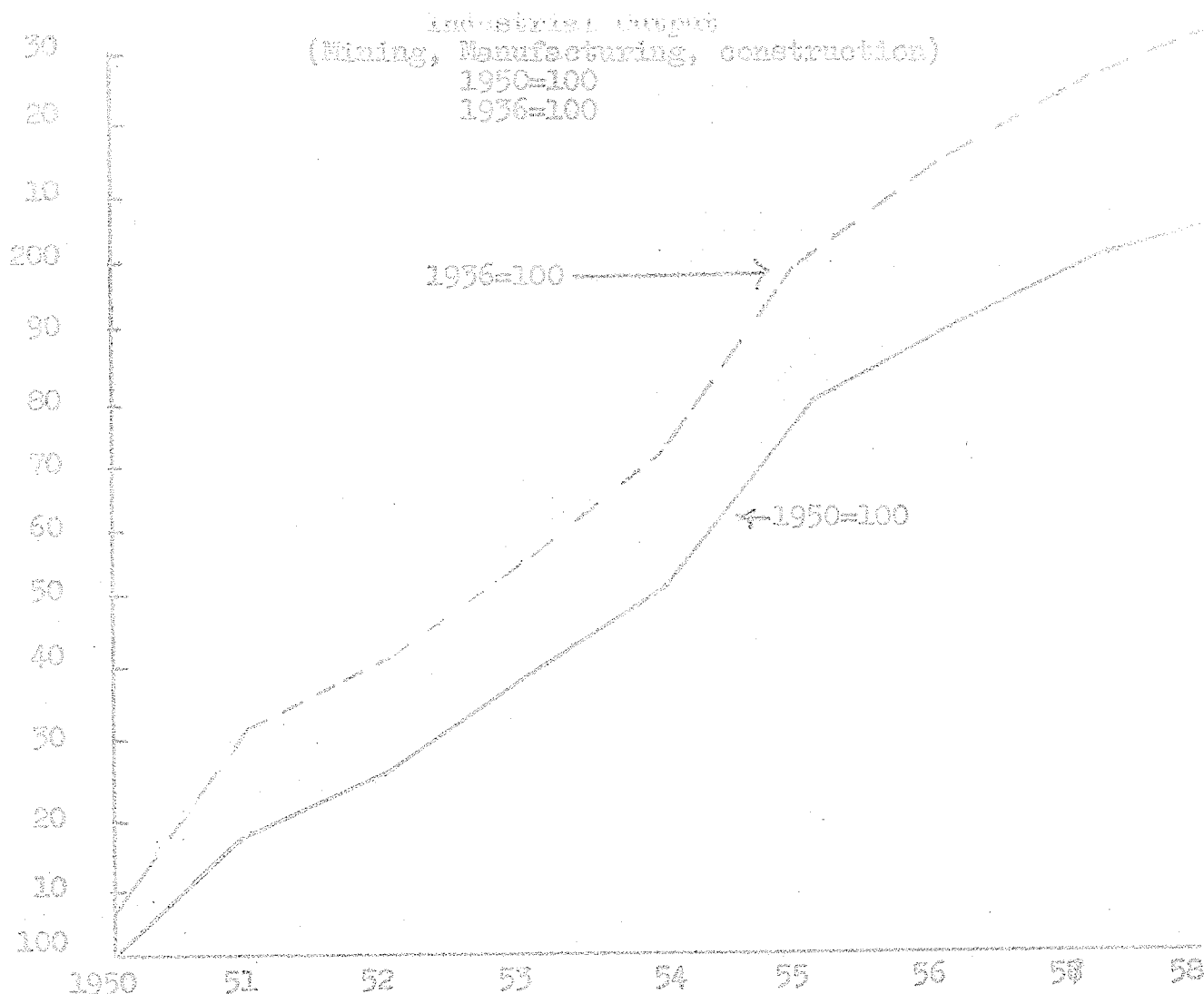
production as decisive in the postwar economic development. The manufacturing industry and its output were determining factors for the expansion in other fields, such as commerce and agriculture.

After a rapid rise in industrial output, the pre-war level was more than doubled in 1958

Before the war the West German territory was the home of 61 percent of the German industrial production.¹ Roughly 40 percent of it was basic material industry, such as mining, iron and steel foundries etc., and not quite a third was capital goods industries. The same structure in the manufacturing industry remained after the war, with a slight increase in the share of the capital goods industries.

During the war and early postwar the losses in productive capacities were not as heavy as originally assumed. Many installations and plants which were written off, were later, after the currency reform, found to be repairable. Many were obsolete anyhow, as they were suitable only for war production. A large number was neglected and had become outdated during the war, and after they were destroyed the opportunity was used, to rebuild more modern installations and plants. On the other hand, the relatively large number of unemployed people after the war contributed also to a rapid rebuilding of necessary industrial capacities. The successful revival in industry within a short time after

1. H.C. Wallich, op. cit., p.196



Source: Stat. Bundesamt

the currency reform is demonstrated by the fact that the index of industrial production based on the pre-war year 1936¹ was 111 in 1950. That means, after two years the pre-war industrial output was already exceeded by eleven points. During the following years this index rose by approximately 20 points each year and reached 232 in 1958. At the end of the period under consideration the industrial production was by more than 100 percent above the level of pre-war output.

When we take 1950 as the base for this index we find that the West German industrial production was doubled within the following eight years, with 209 in 1958.

A slight recession around 1949

The revival of the industrial production started relatively slowly in 1949/50. Shortly after the first post-currency reform boom was over, serious frictions appeared and unemployment again began to rise. From this development in the industry a bitter debate over the policy of the government and the central bank ensued. The latter followed a restrictive policy. Although the unemployment at this time was mainly due to the growing labor force and general lack of income, the industrial capacity was still too small to put everyone to work. But, also at this early stage, many manufacturing sections had serious bottlenecks in their required supplies, as the basic industries such as coal, steel and energy

1. 1936 base is adjusted and comparable with West Germany. However one should keep in mind that the economic systems and structures are not fully comparable. In 1936 the national-socialistic regime had already started its strategic war production and autark economic policy.

had no sufficient means for investments, due to price ceilings and official control. These adverse situations could be changed only gradually. In order to relieve the general unemployment, the government started public work programs.

In 1951 the Korea Boom changed the situation.

As the curve of the index indicates, the adverse situation changed in 1951, due to the outbreak of the Korea Crisis and its effect on the world economies. The subsequent rise in demand, mainly for capital goods, became a great stimulus for the German industry and export, as Germany could readily supply this kind of goods. In all parts of the world, stocks were increased and not all industrialized countries were able to deliver at such low prices and in such a short time as the Federal Republic.

As soon as this boom was over in 1952, the steep increase in the industrial production dropped slightly, although totally, the output continued to rise. One cause was the effect of the general overstocking during the boom. Bottlenecks also limited further expansion at this time.

For further expansion bottlenecks had to be broken.

The most difficult problem at this stage of the industrial development was to overcome the bottlenecks in the basic industries. As these bottlenecks were due to interventional measures, methods for solving the problem had to be of the same kind. Public investment funds, such as the counterpart funds of the foreign aid, were channeled into the sections, where the bottlenecks were. Also

the "Law of Investment Assistance" forced those industries, that had profited most from the boom,--the consumer goods and capital-goods industries primarily,--to limit their self-investments and to invest part of their funds in basic industries. This law of course was much criticized, but according to Erhard¹ "it will one day find a just appreciation."

In consequence of this interventional measure and due to a new export boom and growing internal demand, also the percent increase of the industrial production, climbed again in 1952 and the following years. As chart 9 shows, the turning point in this development came in late 1955, when many businessmen feared that an "over-heating" of the boom could arise, particularly in those sections such as the capital goods industries, which were most advanced.² With industrial production still expanding, the progress rate slowed down in connection with an internal consolidation, which had to take place after such an impressive industrial expansion.

The international economic development and the slight American recession and the fall in raw material prices restricted export and output. These factors, however, retarded only the rate of growth of industrial output. The absolute level of output continued to rise.³

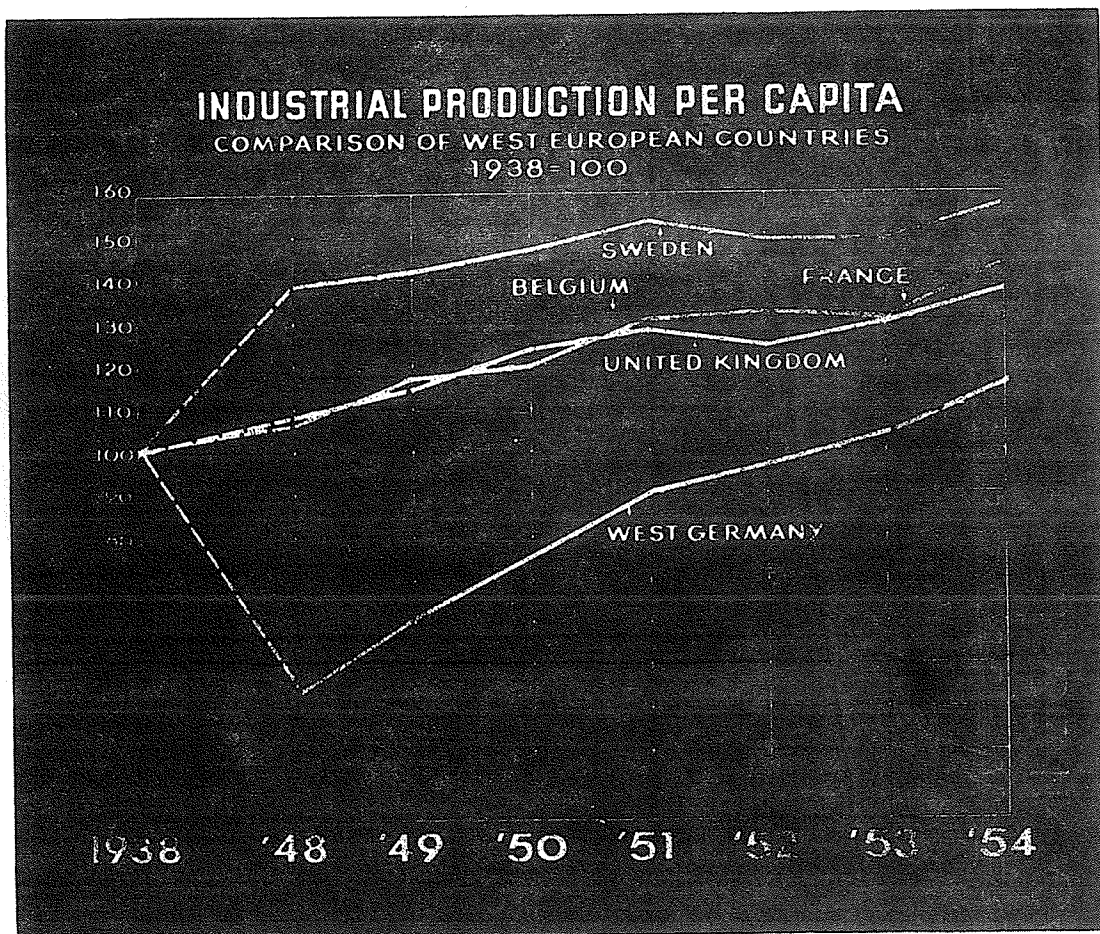
1. L. Erhard, Prosperity, op. cit., p.42

2. Facts about Germany, op. cit., p.93

3. When we compare this industrial reconstruction as demonstrated by the output index with that after the first World War we find that the greater set back at the end of the second war was made good in a shorter time. The over-all industrial production index for the year 1946 (before the currency reform) was 29 percent of 1938, that for 1919 42 percent of 1913. (see H. Mendershausen, Two wars, op. cit., p.5) During the first war the industrial production declined while during the second it rose. In spite of the delay of the reconstruction after the second war the production level was in 1948 already about 80 percent above the postwar low (1946), while three years after the first war it was 76 percent above the postwar low. This different development was partly due to the inflation and recess-

The German industrial production caught up with other countries in a relatively short time

When we compare the German industrial production index with those of other European countries, which are to a certain degree comparable with the German economy, we find two different pictures depending on the bases we take for the index.

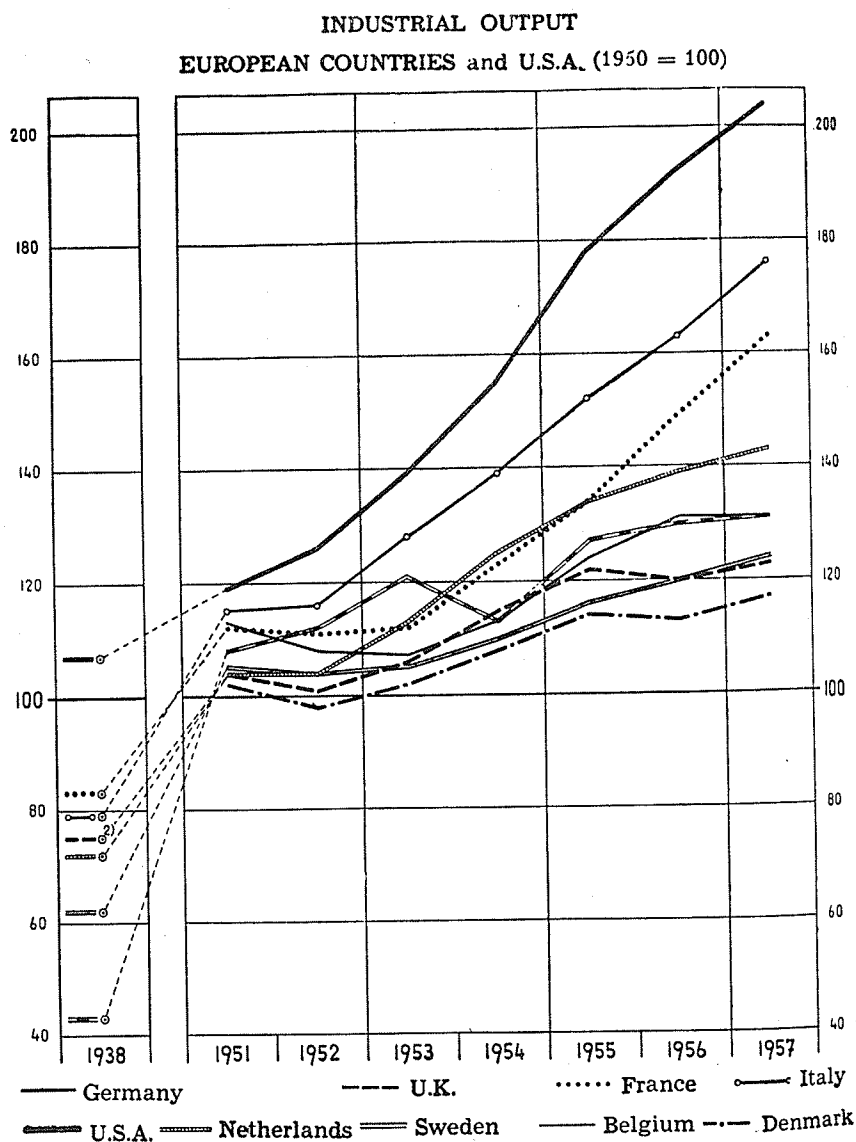


Source: Stat. Bundesamt

The above chart shows that the development of the industrial production per capita based on the pre-war year 1938 was in Germany

sion which occurred during the years 1923-1926, while after 1945 any serious setback, once the reconstruction started could be avoided.

far behind that in other European countries during the first years after the currency reform. In 1948, while all other countries had already exceeded their pre-war production, Germany was producing 45 percent of the pre-war level. This gap is of course partly



due to the influx of refugees into West Germany and the rapid growth of the population, as well as to the delay in the economic revival. When the reconstruction got under way after the currency reform in 1948, the West German output per capita climbed steadily and, as the increase in output in other countries levelled off, the

gap was closed gradually.

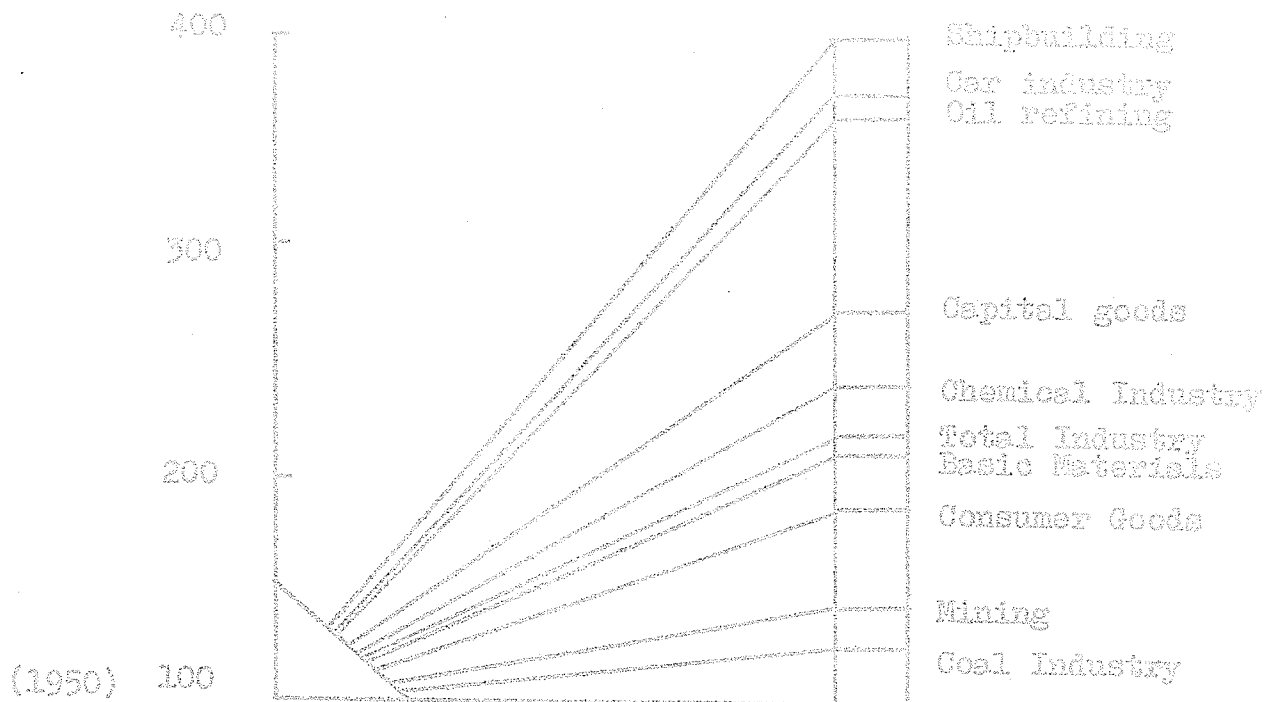
When we disregard in this comparison the pre-war conditions and the population development and use the year 1950 as a base , we see on the chart of the preceding page that Germany was ahead in its increase in industrial output.¹ This is not astonishing when one bears in mind that in 1950 the other European countries had more or less completed their industrial reconstruction while Germany was lagging three years behind. The German curve rose continuously in a steep angle, while the other trends are more levelled and show a decline in the production increase in 1952 after the Korea boom. Only Italy and France show a similar trend in comparison with Germany. Once the industrial reconstruction had started in Germany, a tremendous effort was made to catch up with other countries and naturally, the increase in output exceeded that in other countries. But many foreign observers, who called this industrial expansion a "miracle" did not realize that in its per capita production and in comparison with the pre-war level Germany remained far behind for a long time after 1950.

The growth was different in the individual industrial branches

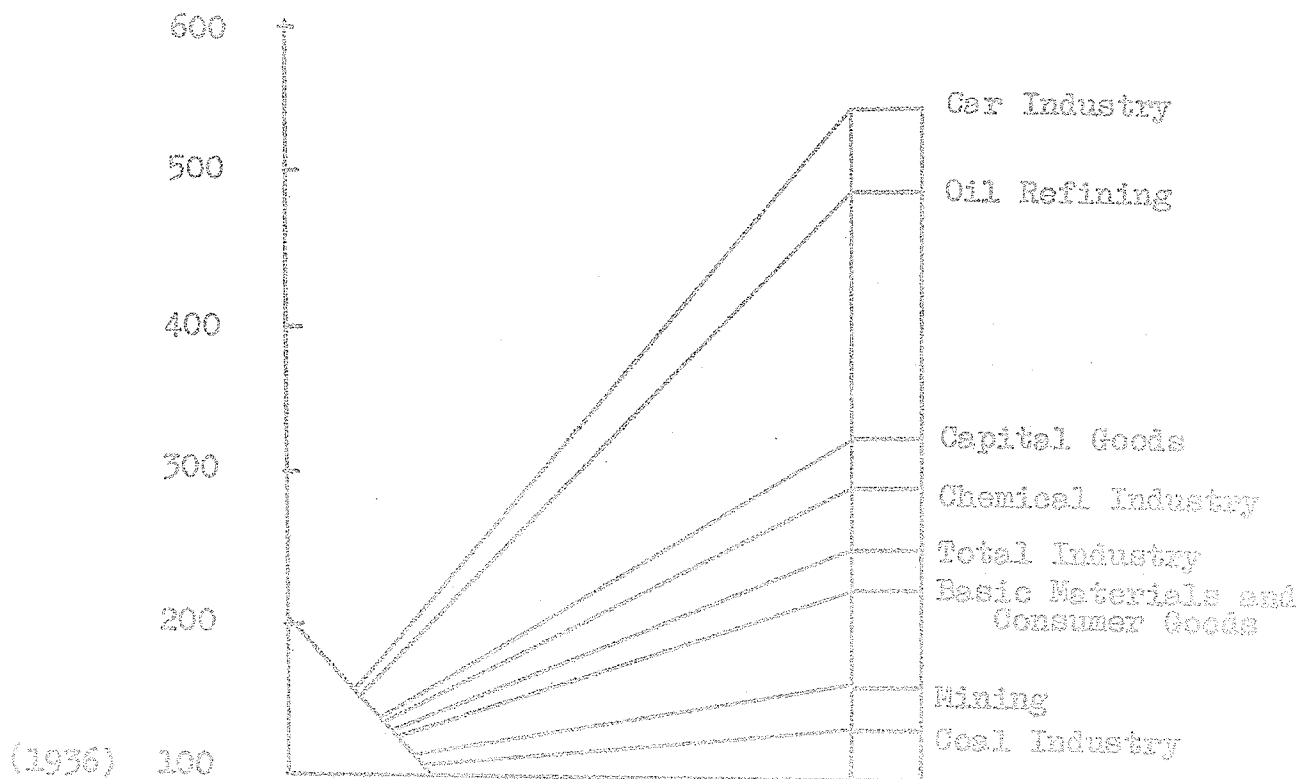
The two charts on the following page show that in 1958 the individual branches had achieved quite different expansions of their output when compared with 1950 and 1936. While the total industrial output had more than doubled, some branches were above and some below this average development. An outstanding production increase

1. source: Statistische Jahrbuch, op. cit., p46*

-51-
Increase in Output of main industries
1958 vs. 1950 (1950=100)



1958 vs. 1936 (1936=100)



Source: Stat. Bundesamt

was obtained in synthetic materials, ship building, oil refining and car industry. This large production expansion was partly due to the fact that sythetic materials were a more or less new branch. Ship building had to start "from scratch" in 1950 as for a long time any ship building was prohibited in Germany by the occupation powers. In the oil industry and particularly in the car industry a real boom and upsurge in demand expanded the production. Also above the average production increase since 1950 were the capital goods industry and the chemical industry which benefited more than other branches from the export boom.

Extremely below the average expansion since 1950 were the mining and particularly the coal industry, which recovered only slowly on account of remaining price ceilings and insufficient investment funds, as well as a new strong competition from other energy sources.¹ The consumption goods industry, which supplies mainly the domestic market, had its main expansion before 1950 and therefore its production rose after 1950 at a slower rate. In the basic materials which met almost the average trend, mainly lack of investment funds was the cause for a relatively low increase.

In comparison with the pre-war production level in 1936² we find a similar picture. The different expansion of the individual branches since 1936 indicate too, that certain structural changes in the industrial output had taken place. While the whole industry reached 232 points in 1958, the capital goods industry had more than

1. After 1958 this development has led to a serious crisis in the coal industry.
2. Statistisches Jahrbuch, op. cit., p. 180

tripled its pre-war production. Consumption industry and basic industries had more than doubled their production in 1958 when compared with pre-war output. In top-position were here again, the car industry and oil refining and close to the bottom were mining and coal industry. Mining with an index of approximately 150 were able to increase their pre-war production until 1958 only by half, and the coal industry not even by a quarter.

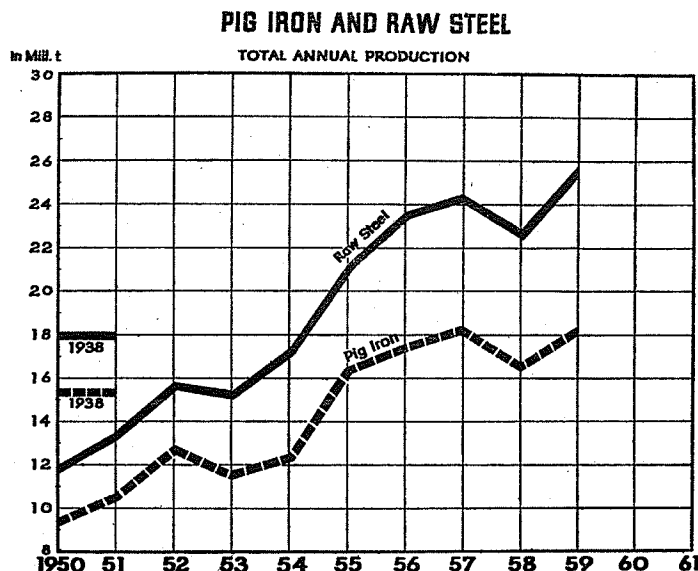
By 1950 most of the industrial branches had reached and surpassed their pre-war production level, with the only exception being that of certain basic industries. Coal mining reached its pre-war output in 1954 together with the steel industry. The iron production followed in 1955.

These structural changes which are implied in the different indices and which feature the German industrial reconstruction have many reasons. The consumption goods industry benefited greatly from various consumption "waves" that followed each other after the currency reform. The blocked demand during the war and the subsequent accumulated requirements of the consumer were an intensive stimulus. The consumption goods industry had been able to continue its production to a limited extent before the currency reform, and had hoarded merchandise. Once the money was revalued and price controls in this branch were lifted, the products were sold at an increasing price, and subsequently rose profits and self-financing of investment. This development allowed the consumer goods industry to expand its capacities and output at a time when other branches suffered a lack of funds for investments. The expansion in the output of the consumption goods industry was later slightly restricted by growing competition, income limits and increased savings of the consumer, bottlenecks on the supply side and the

Law of Investment Assistance which channeled funds away from this branch.

Export Boom in the capital goods industry

In the capital goods industry, the situation was similar. In addition to a relatively great internal demand for these goods, which were so important for any economic reconstruction, a large export demand enabled this branch to expand its capacities. Nearly



Source: Stat. Bundesamt

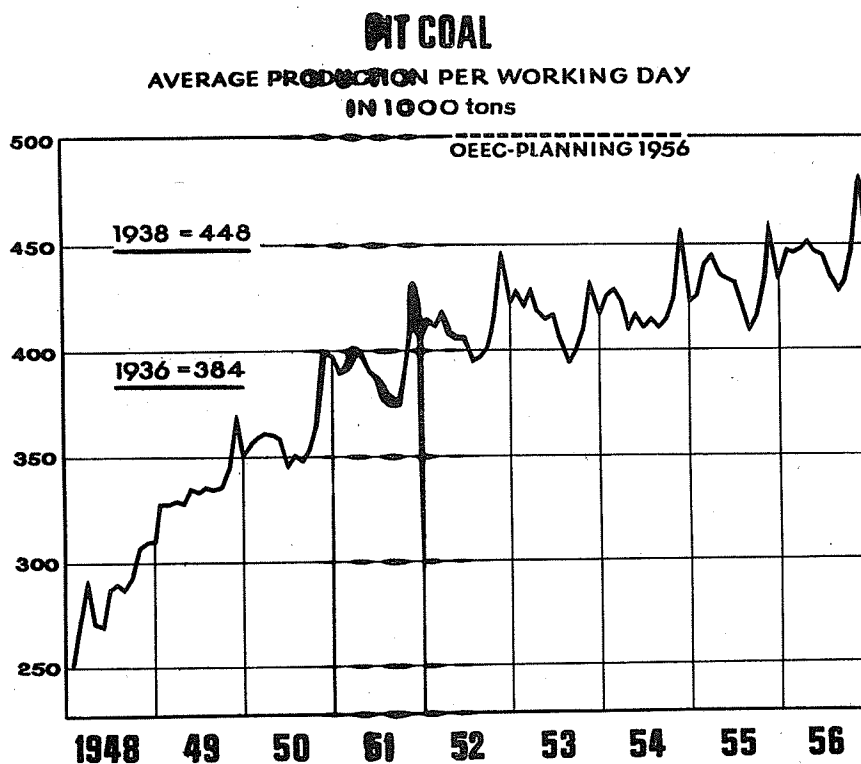
15 percent of the total turnover in industry was originated in exports in 1957, but in the capital goods industry exports were almost double, with 28 percent of total output. The importance of the capital goods industry in the German economy for the general economic development is demonstrated by the fact that it alone contributed roughly one-third of the total turnover of the German industry.

The other two thirds was shared equally by the other branches

was shared by basic materials, especially iron and steel, and the other third was shared by mining and the consumption goods industry.

Serious bottlenecks in basic industries were gradually removed.

While the total industrial output and with it that of many rapidly expanding branches, had surpassed the pre-war output in the early fifties, the iron and raw steel production and coal pro-



Source: Stat. Bundesamt

duction lagged far behind this development. The chart on the preceding page shows that the raw steel production reached its pre-war level early in 1954 and the iron output late in the same year. The main reason for this delay was production limits set by the occupier powers which were lifted in 1954. In the following years the increase was therefore relatively large.

For the coal industry however, no production ceilings were set. Here

the reason for the fact that the pre-war level was not reached before 1954 was mainly a lack of investment funds and a great number of marginal coal mines.

The lag in the expansion of these basic industries had caused serious bottlenecks. Around the year 1953 it became the major problem in the economic growth to enable the basic industries to expand their capacities in accordance with the growing demand from the processing industries. The lack of capital market funds and limited margins for self-investments led to problems which commanded state intervention¹. The main cause of this situation, according to the arguments of the entrepreneurs was state intervention in form of production and price controls. By allied instruction and in order to avoid a general price inflation, official control was maintained in these basic branches during the years under consideration. In addition to this, Germany became a major partner in the European Community for Coal and Steel industries and delegated to this supranational integration most of their rights for an independent and national price and production policy in these basic industries. Serious adverse consequences for the general economic revival and development could only be avoided by public investment aids and subsidies and also by large coal imports and substitution by other energy sources such as fuel oil. But in spite of extensive government aid, the crisis in the coal industry had not been overcome in 1956. One must therefore state that, at least in this basic field of the German economy the problems of reconstruction were not successfully

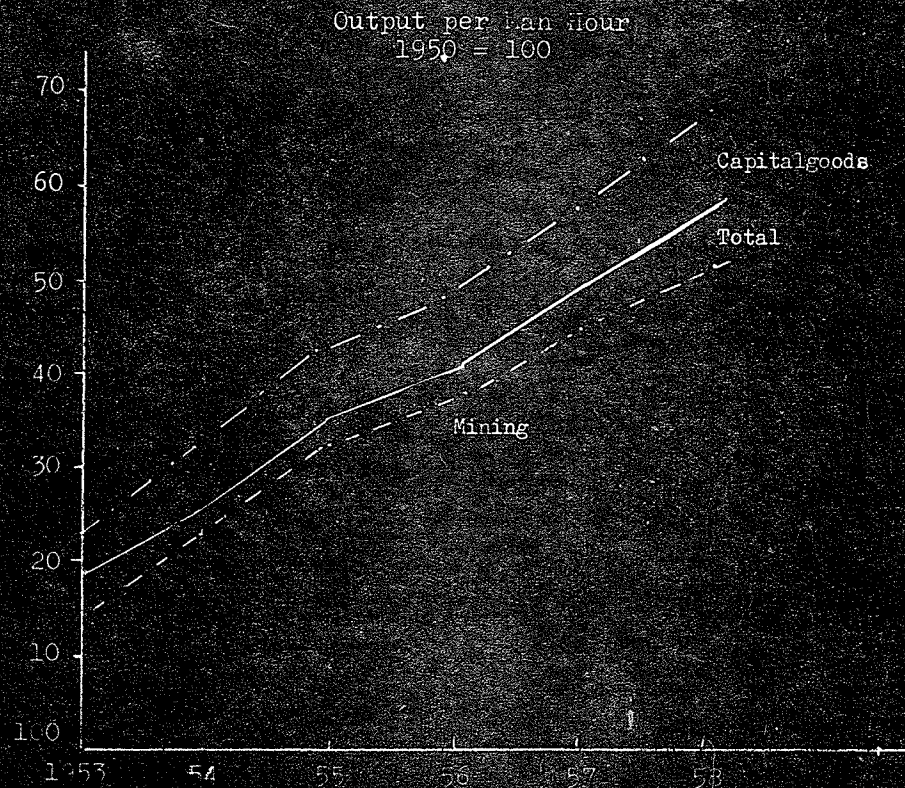
1. see Meier-Baldwin, op. cit., p.471

clear in 1938. But it seems that the character of this problem is more of structural nature and indicates a structural change in this sector.

The rise of industrial productivity was impressive

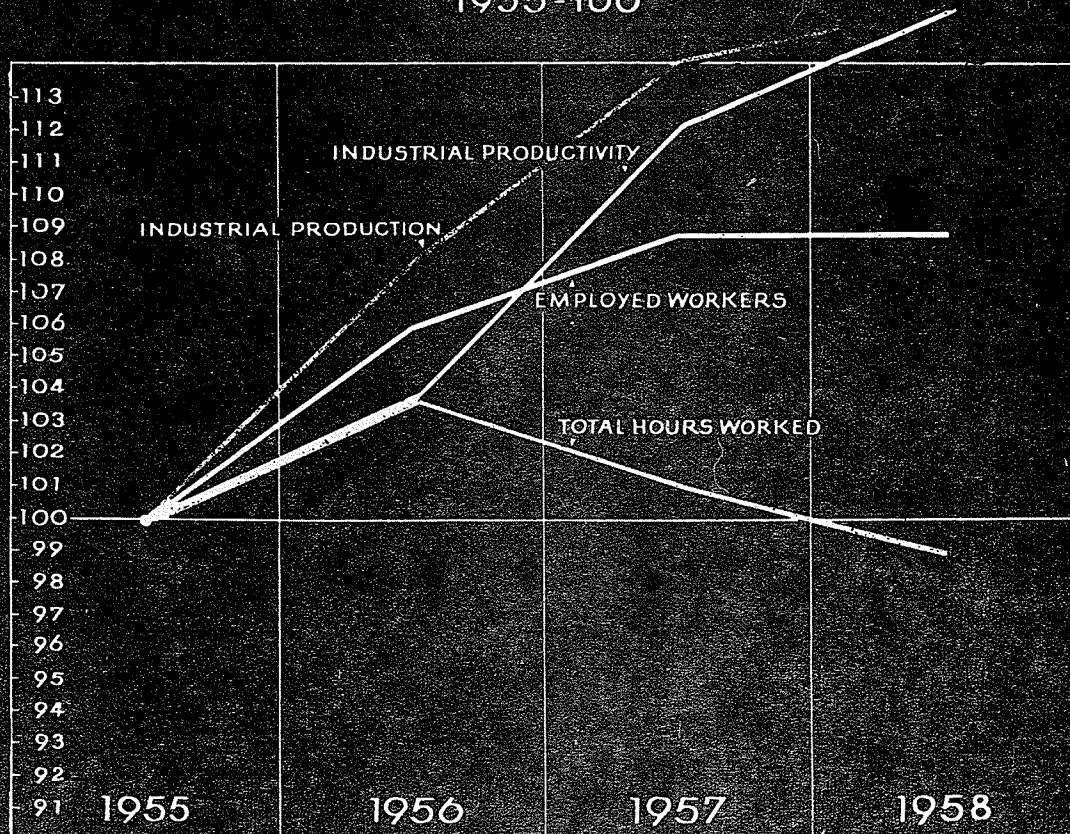
In the foregoing general and sectional analysis of the industrial revival and expansion, the investigation was concentrated on the increase in output as an indicator for the general development. The increase in production, however, was not only due to the expansion of the capacities but also to the simultaneous increase in productivity of capital and labor. We have mentioned that the large destruction and dismantling of industrial capacities partly cleared the way for rebuilding a modern, peace orientated industry. In connection with automation and rationalization, a relatively high increase in productivity was achieved mainly in the second half of the period under consideration. The free competition and the lack of man power stimulated many entrepreneurs to improve the productivity. When we measure the productivity by production per man hour we find as shown on the chart on the following page, that the index¹ for the whole industry had climbed to 158 in 1958 (1950=100). This means that the productivity had improved from 1950 and mainly during the last phase by more than half of the 1950 level. But, regarding the individual branches we again find, that in mining for instance the productivity rose only to 149, while processed material industries achieved around 164 points.

1. Statistisches Jahrbuch, op. cit., p.184



INDUSTRY : PRODUCTIVITY, EMPLOYMENT AND WORKING TIME

1955=100



When we use 1955 as a base, we see on the second chart that the number of employed workers and working hours had risen to 1955 level. But in spite of this fact, which was also due to measures which the output continued to climb, which means in regard to the productivity that it grew at a steep rate.

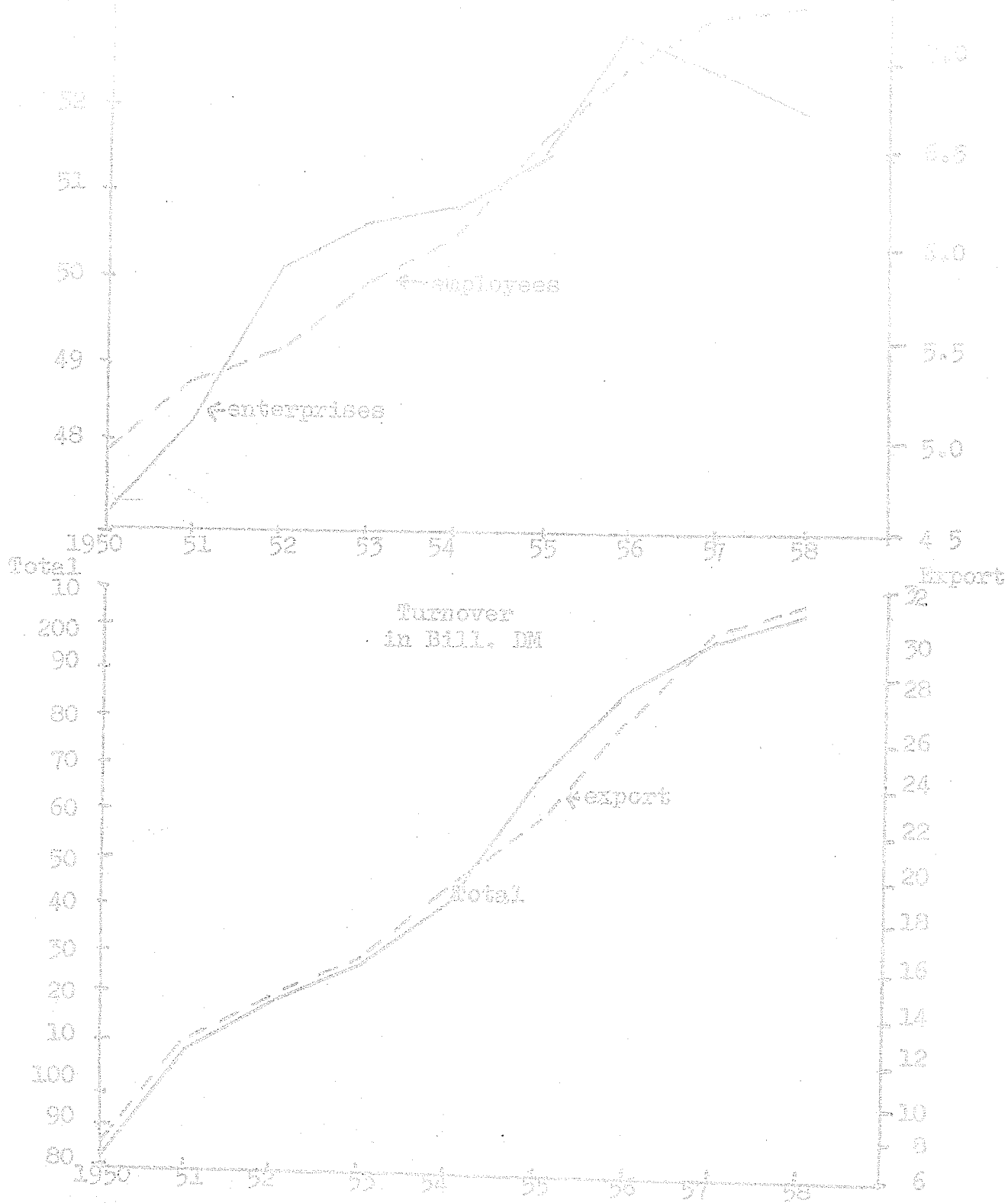
In comparison with the United Kingdom Wright and Inweatt¹ state that based on the year 1948 in Germany and 1946 in the UK the "worker productivity" in West Germany reached 114 percent as compared to 34 percent in the UK by 1956. Although, when one bears in mind that 1948 does not seem to be a good base for the German industry, as it was at this time far more disrupted than the British in 1946, it still remains that the increase in productivity in Germany was higher than in any other European country during these years. This has contributed to the improved strong position of the German exports in the world market. It was not exclusively due to wage restraints and its effects on the costs as it is often argued.

Also the number of industrial enterprises and the turnover increased rapidly

As shown on the first chart on the following page the number of enterprises in the German industry increased steadily until 1956. Many refugees have established during the first years their new plants in West Germany. The decline after 1956 however is remarkable. The cause is probably a larger number of bankruptcies under the impact of heavier competition and lack of man power as also the larger concentration and integration of industrial enterprises. It is note-

1. D.M. Wright, Post-war Germany, op. cit., p.9

Turnover in Bill. DM in Enterprises and Employees



* with more than 10 employees

Source: Stat. Bundesamt

monthly that at the same time in 1937/38 the number of regular employees declined slightly. Enterprises and employees followed more or less the same trend during these years.

The curve of the turnover on the second chart shows that not only the output increased at a high rate but also the turnover at least at the same rate. This means that the average price level was maintained during this period. The production increase was not accomplished by price cuts. The turnover which originated in exports only, followed the same trend as the total turnover. Towards the end of this period it even climbed above the total amount. This picture indicates that the general expansion in German industry was partly due to a steady increase in exports.

The re-integration of industrial enterprises contributed to the rapid industrial expansion.

Doubtless, one major factor for the fast and steep increase in industrial production was the wide integration and the large size of enterprises in the German industry. This feature was often, and is presently again, the cause for vigorous discussions inside and outside of Germany. One partly goes so far and argues that the German industrial revival and reconstruction was done by a few big combines.¹ This is of course an exaggeration but it is true that the large and complex industrial groups and individual entrepreneurs such as Krupp and Thyssen could expand relatively fast, because they had more investment funds and credit facilities² than others.

1. W.S. Schlamm, op. cit., p.43

2. Financial Times, op. cit., p.13

due to their integration they were not hindered very much by cartels. In spite of the decentralization of powers and the Federal Government the great trusts were more powerful at the end of the first ten years of the century than ever before. The attempt to raise productivity and the export drive were main stimulants in this development. Also the establishment of the European Common Market provided further impetus and created a desire for protection by internal concentration and joint production programs. Also technological progress and combined research has been a traditional reason in Germany for industrial integration. Finally, the tax legislation especially the turnover tax, which provided tax privileges for subsidiaries of parent companies led to mergers.

The government and the trade unions oppose this trend of industrial integration, as they decline any form of individual powerful position in the economy, as it disturbed free competition. Erhard wrote: "If we want to have a free economic and social order we must not allow anyone or any group to have the right to interpret freedom according to individual taste and then to limit it. In my view a free economy is synonymous with free economic enterprises. Entrepreneurs do not know what they are doing when they fight the system of a competitive economy. If in the past years I have defended the principles of the market economy with a toughness verging on obstinacy, there have been good reasons. Yet at the same time I am aware that the theory and model of pure competition is not entirely valid everywhere. I am not so dogmatic that I do not understand that there

L. L. Erhard, Prosperity, op. cit., p. 125

... which is ...
... to be modified.¹ This statement ...
... though Arhard declines any form of economic power ...
... exceptions might be necessary. This is probably ...
... of the industry, in which the big trusts defend their integration
... forcefully. But it remains a fact that the free market has not
... been achieved in industry during these years. The policy of the
... government, the decentralization policy of the occupational powers
... and the opposition of the trade unions against this development
... have so far been unsuccessful. It does not matter in this respect
... that only 1 percent out of the 92,200 industrial enterprises in Ger-
... many were large sized businesses with more than 1 000 employees.
... The share of the market of these nearly 1 000 big trusts is by far
... greater than 1 percent.² For the industrial expansion, however,
... as stated before, the wide integration and large sized enterprises
... were probably more an advantage than an disadvantage.

1. Facts about Germany, op. cit., p.85

2. A statistic which shows the market shares of large sized enterprises was not compiled. Obviously the shares vary in regard of individual branches. In the oil industry, for example, four enterprises had a market share of about 80 percent.

Chapter 2: Foreign Trade

Since 1951 a steadily growing export surplus

We have seen that the re-development of industry and the steady growth of output was secured and accelerated by favorable export and import conditions. The uninterrupted increase in foreign demand permitted industry to invest and expand its capacity and to raise the German national income and employment in general. It also put the country into a position of being able to finance its imports, export capital and satisfy claims against Germany. One of the most impressive features of the first ten years of economic development is the fact that exports exceeded imports as early as 1951 and that the gap has widened ever since.

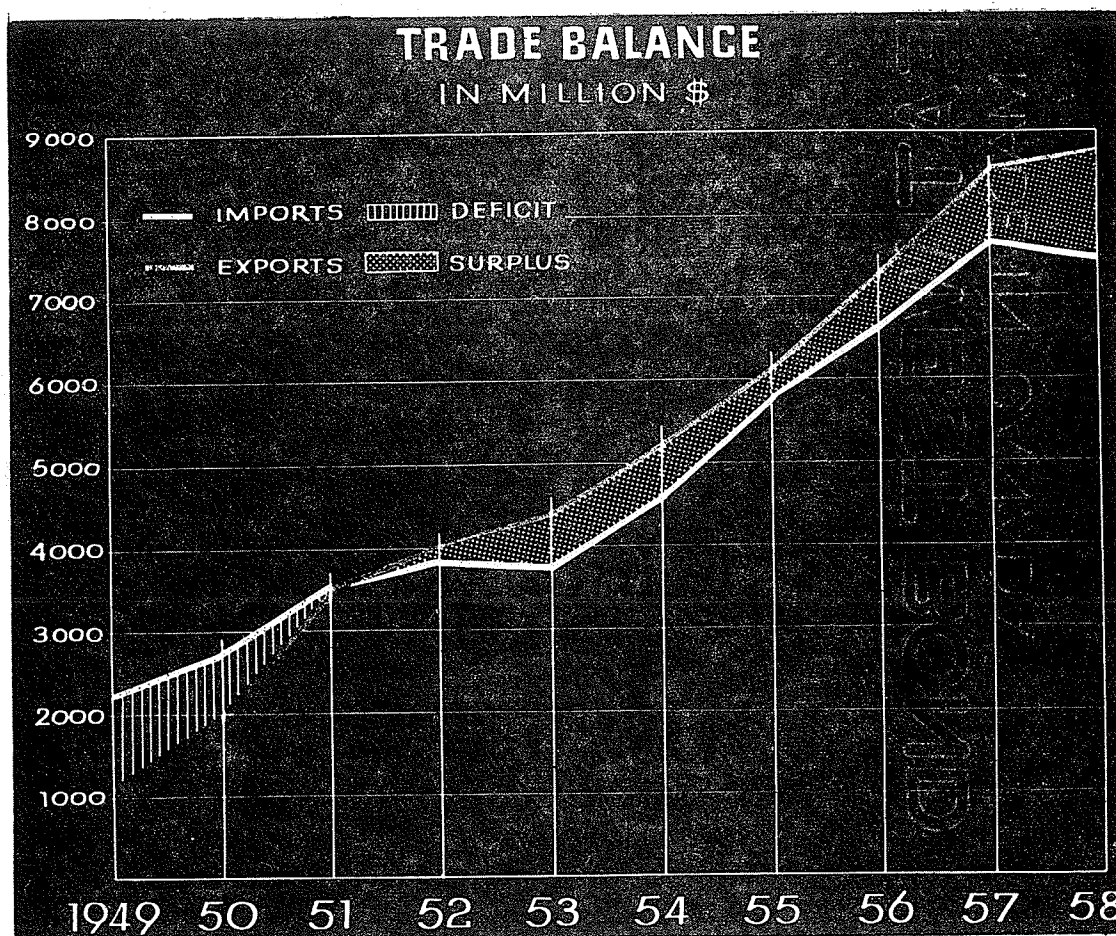
As the chart on the following page shows, the value of exports climbed to 443 (1950=100) during the years 1950-1958. The volume reached 338 in 1958. The imports grew to 274 and 283 in the same period. As indicated by the relatively higher growth of export values the terms of trade developed very favorably.

Like the phoenix from its ashes Germany had returned to the world market as one of the main partners. In 1958 it had regained its third place behind the USA and United Kingdom with 9 percent of all exports and 7 percent of world imports.

The rapid expansion and re-establishment of German foreign trade can be traced to several reasons. A complex of various positive factors contributed to this success.

1. Statistisches Jahrbuch, op. cit., p.245

After World War I the come back of German products was not moving as rapid. Inflation in the early twenties was the main cause of the fact that in 1925 imports had reached only 79 percent and exports 63 percent of the pre-war level. The exports of the Federal Republic, however, outdistanced the 1938 volume by 60 percent



Source: Stat. Bundesamt

in 1953 and this in spite of the three years delay in the revival.¹ Also the ratio of export volume to import volume rose significantly faster after the second World War. The main reason for this different development after the two wars is the fact that an inflation was

1. H. Mendershausen, *Two post-war recoveries*, op. cit., p.11

avoided after the second war, which was chiefly due to the successful currency reform in 1948.

Foreign trade and currency exchange remained controlled during first years.

The currency reform in 1948 which restricted the purchasing power to a large extent, brought new money into circulation. In connection with this reform a new foreign exchange rate for the Deutsche Mark was determined and internationally recognized.

Both the limited internal demand and the new currency enabled Germany to return to the world market. Here it had to start from scratch, as not only during the war but also under the autarchic economic policy before the war, most foreign trade relations were disrupted. During the first years the control system for foreign trade relations and currency exchange, which was set up by the previous regime, was maintained and was later gradually removed. This policy and also foreign aid and supplies meant that the import surplus which could not yet be financed by Germany's own exports, was limited to the most urgent supplies. Under this strictly interventional framework exports could gradually increase and catch up with the import side. As demonstrated on chart on page 76 in 1948 US-Aid financed German imports by about two thirds while in 1953 nearly all imports were covered by German exports and its proceeds.

A strong internal impetus on the general revival and that of the export industry in particular was effected by the free market policy of the government. It was also the declared aim of the government to restore completely liberalized foreign trade and currency exchange

But as on the domestic market the free price mechanism was only introduced where it seemed to be possible and advisable. In its foreign trade Germany followed a policy of gradual change to complete freedom.¹

A little more than one year after the currency reform 58.2 percent of private imports from other European countries were liberalized and a year later 63.7 percent. Finally in 1956 Germany was one of the first countries to remove all control and restriction of its European imports and demonstrated by this measure that it had separated itself from all forms of protection and autarchy. Also trade with other countries, with which Germany operated on bilateral and clearing agreements, was widely liberated during the mid-fifties and finally in 1958 even Dollar-imports were practically unrestricted. This means that within the ten years under consideration Germany succeeded in liberalizing its foreign trade with all its partners in accordance with its political aim which it declared in 1948. This liberalization of its trade and currency exchange was for Germany not only a matter of economic policy and wisdom, as it provided a sound base for a rapid recovery of the whole economy. It was furthermore a demonstration to the world that it was willing to co-operate on a liberal basis and that it was going to fulfil its commitments to international agreements such as GATT.² In connection with this liberal policy during the second half of this decade it did not only lift control measures and

1. L. Erhard, Prosperity, op. cit., p.232

2. L. Erhard, Deutschlands Rueckkehr zum Weltmarkt, Duesseldorf 1958, p.5

restriction, but it also lowered traditional tariffs and co-operated in the establishment of low tariff areas such as the European Common Market. In this regard the policy and development in foreign trade approached the aim of a united European economy during the years 1948-1958.

Several factors contributed to the early and extensive liberalization in the German foreign economy.

The free economic relation with other countries is one of the remarkable new features of the reconstructed German economy. It was made possible by the assistance of the Western powers and by the revival and expansion of German exports. For the rapid expansion and increase of the exports many reasons can be listed. Doubtless the main impetus was the fact that the German price level remained more or less stable, while in other export countries such as the United Kingdom domestic and export prices rose steadily. The standpoint of Germany was quite clear in this respect¹: "The best help for exports is to keep the German price level steady - at least steadier than that of other countries."

In addition to the avoidance of an internal inflation the re-adjustment of European currencies after the war left the Deutsche Mark undervalued as compared to the Dollar and also as compared to other currencies.² One obviously underestimated the extent and rapidity of Germany's economic revival at the

1. L. Erhard, prosperity, op. cit., p.236

2. At present the revaluation of the Deutsche Mark is again discussed but the government declines such a measure.

time when the new exchange rate was determined. It is also partly true that the cost level for German export goods was relatively lower than in other countries, due to wage restraint on the part of German workers. But in this respect one should realize that German workers enjoy one of the best social security and insurance systems of the world, which is partly financed by the employer. Also the tax burden, in spite of the fact that Germany had not to finance its own re-armament, was relatively high during these years. On the other hand the modernization of German industrial production facilities in connection with the reconstruction contributed to the low cost level. And not only the innovation and rationalization affected the costs advantageously but also the general investment structure itself favored important export industries such as the capital goods during these years. As there had been a large demand for capital goods all over the world export capacities in this industrial branch were most valuable for the expansion of German exports. As many other countries invested heavily in other branches such as the consumer goods industry, their export capacities for capital goods were limited when a large demand emerged during and after the Korea Crisis and German exports could readily fill the gap.¹ Therefore the suitable qualitative structure of German industry and export industry was another reason for the impressive upsurge of its exports after the currency reform. Germany could supply what was wanted and when it was wanted because it had to rebuild its capacities anyhow.

1. Financial Times Survey, op. cit., p.19

Germany therefore, assisted by its liberal trade policy, could follow demands more elastically than other export countries and was able to meet their competition effectively. The complete destruction during the war was in this respect a major advantage for the revival. Besides this the relatively good quality of German products had certainly contributed to the increase of exports. Naturally the government had to assist the export industries in the beginning. In connection with a law for improving exports it granted tax exemptions for exports, it shared risks involved with exports, it gave credit it established good diplomatic relations and so on. But most of these public aids that helped export industries had disappeared towards the end of this period which shows that export industries had been rebuilt more effectively than ever before by 1958. In its export trade Germany had become again very successful and it is remarkable that by 1958 export industries did not require any form of assistance which discriminates against other countries.

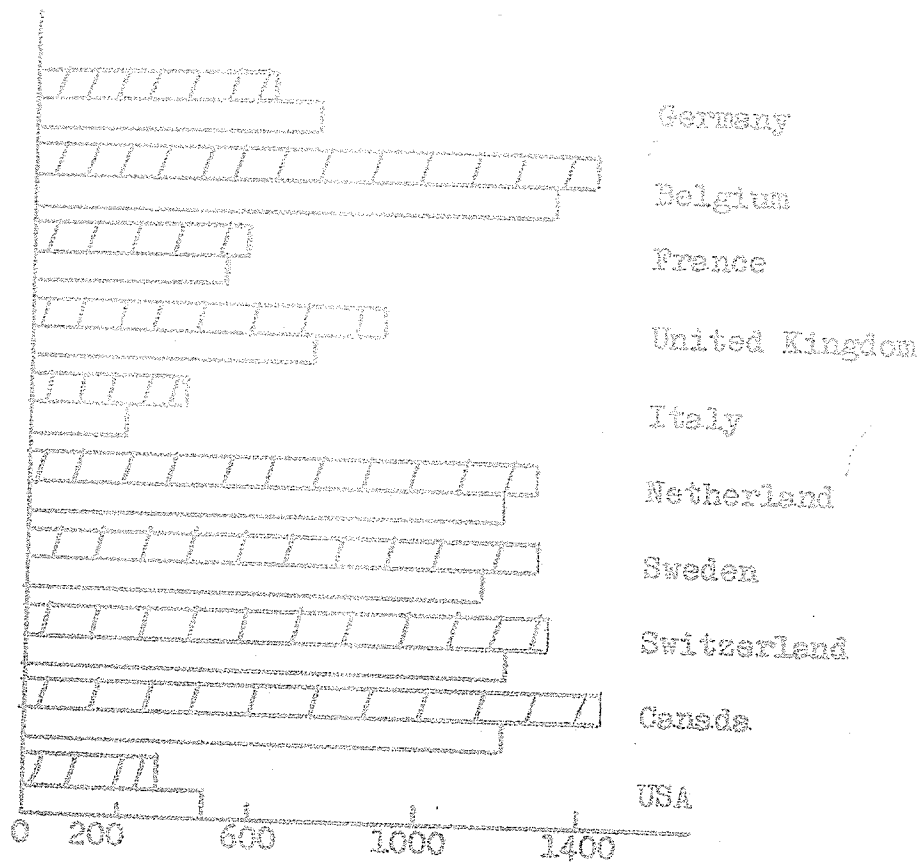
In 1958 USA and Germany were the only countries, as shown on the chart of the following page, where exports per capita exceeded the imports. Many other well known export countries were not able to balance their foreign trade positively.¹

Germany ready to aid underdeveloped countries.

At the end of 1958 German export industries and the German economy in general faced a problem in common with other industrialized countries: how to aid underdeveloped countries. Underdeveloped nations urgently needed credit mainly for purchases of necessary capital goods. Both through direct investment and through exports

1. Canada is the nation with highest imports per capita.

Import and Export per capita
1958, in DM



▨ = Import

▭ = Export

Source: Stat. Bundesamt

on extended credit terms Germany at the end of the period under consideration was making an important contribution to the industrialization of many underdeveloped countries. This policy will secure the maintenance of a high export level for many years to come.

1. Statistisches Jahrbuch, op. cit., p.57*

...which became the main export article. The shift towards a predominance of capital goods in the export structure is, as we have seen, closely related to the recovery of the German economy in general. Prior to the war the share of other industries in total exports had been larger. As the charts on the following page show, manufactured commodities share grew from 65 percent of the value of all exported goods in 1950 to 82 percent in 1958. During this period the ratio of food products remained almost constant. When we consider the individual branches we find a similar concentration in a few major groups.¹ Machinery, motor vehicles, chemicals and iron and steel make up over two thirds of total exports. For instance in 1952 only about 100 000 cars were exported, in 1959 it exceeded 800 000 which was about 60 percent of the total car production. With the shift in favor of manufactured and capital goods also the ratio of value and volume of export changed favorably.

Two thirds of exports go into other European countries.

In the geographical structure of export a shift took place during the post-war development in so far as the East-West trade dropped while now almost two thirds of the export are delivered into other Western European countries. The share of the US-market was increased from 1954-1958 from 5 to 7 percent, which helped to relieve the Dollar gap and which permitted the Dollar-liberalization.

1. Statistisches Jahrbuch, op. cit., p.245

Imports remained relatively small.

The successful re-development of the German economy and its foreign trade in particular was not only due to a rapid expansion of exports but also to a favorable and modest development of imports. On chart on page 111 it was shown that imports were larger than exports only for a relatively short period and that they had to be financed with foreign aid. Since 1952 the trade balance has been positive not only because exports were growing but also because imports did not rise rapidly. The lower increase in import value was partly due to a constant price level or even declining prices of imported raw materials and food products. A shift from food imports to raw materials dropped the price level also and improved the terms of trade remarkably. In addition to these factors the low diet of the German people, to which they were accustomed by war and pre-war conditions, the wide ranging import restrictions, which were only gradually removed in connection with the liberalization, the low level of production during the first years, the demand of agriculture for protection and some more minor factors held the import demand down. Last but not least it was simply good policy for the country not to import more goods than it could afford to pay for.

Imports helped to increase exports.

These various factors, affecting a relatively small import demand were not the only one contributing to a successful development of foreign trade. Import themselves were regarded as a means to

drive exports to a higher level.¹ Besides direct aid, the government followed a programme of increasing certain exports in order to enable other countries to buy German export products on a bilateral base. It also helped to stabilize raw material prices which put underdeveloped countries into a better position to buy from Germany. As already mentioned, since the German economy and its foreign trade had been completely re-established and was fast winning demands for German development aid have been made. Certainly one of the best forms of aid for these countries are higher imports from the underdeveloped areas.

Share of food products on total imports dropped.

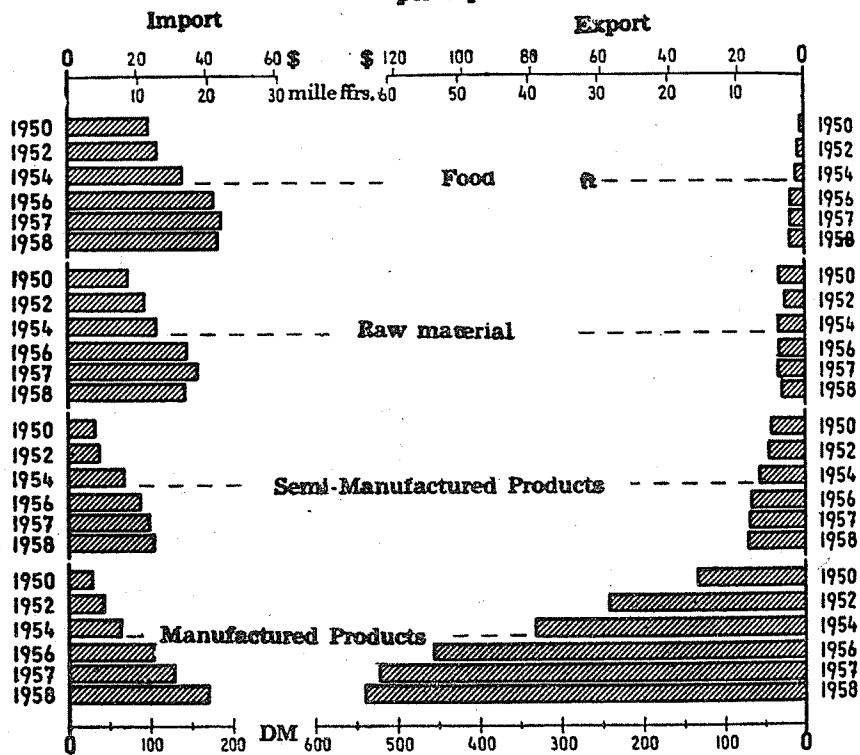
In the qualitative structure of post-war imports, the share of food products dropped from 44 percent in 1950 to 30 percent in 1958 and is now below the pre-war rate of one third. As shown on chart p.121 the share of the import value of raw materials decreased from 30 to 25 percent. This is mainly due to declining prices of these products. The remarkable increase in imports of manufactured goods from 13 to 27 percent, before the war only 9 percent, indicates that Germany after the war followed a policy of far-reaching integration with other industrialized countries. This fact demonstrates furthermore that part of the domestic demand could not be satisfied from Germany's own capacities and proves once again the liberal policy of the new German state.

Half of the imports came from other European countries.

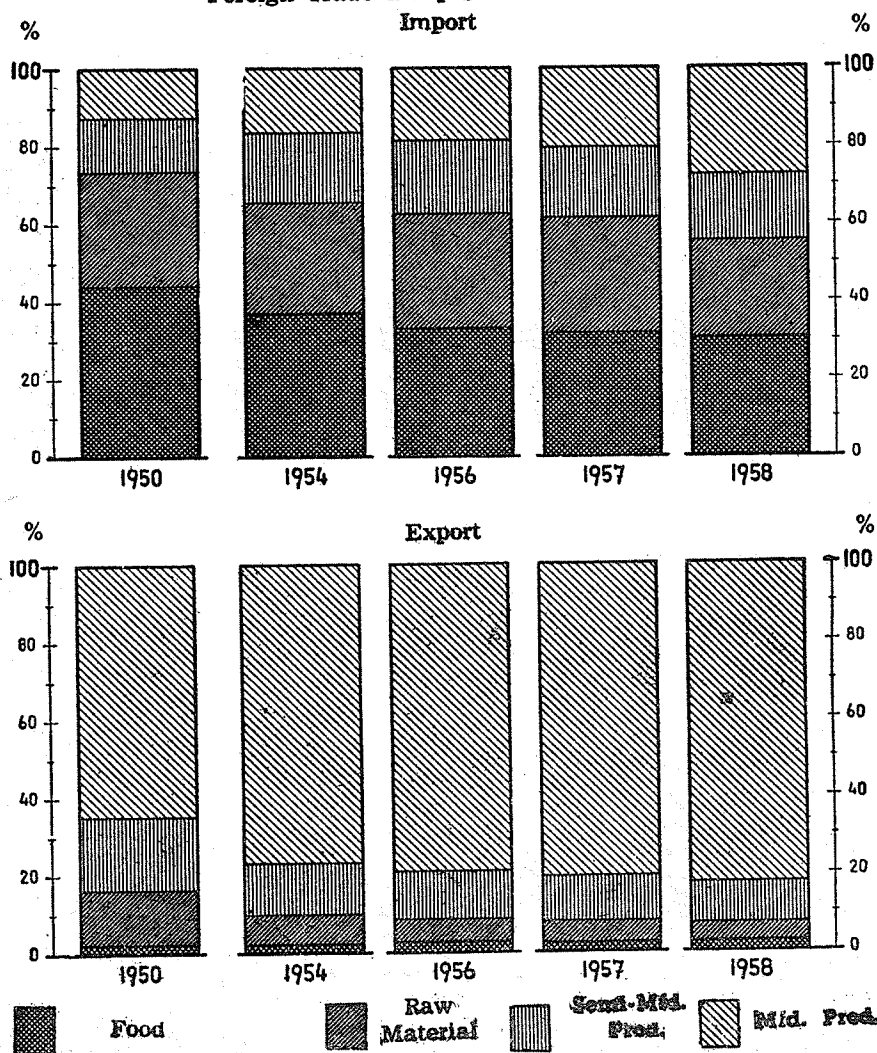
In regard to the geographical structure Germany bought about

1. L. Erhard, Rueckkehr, op. cit., p.243

Volume of import and export per capita

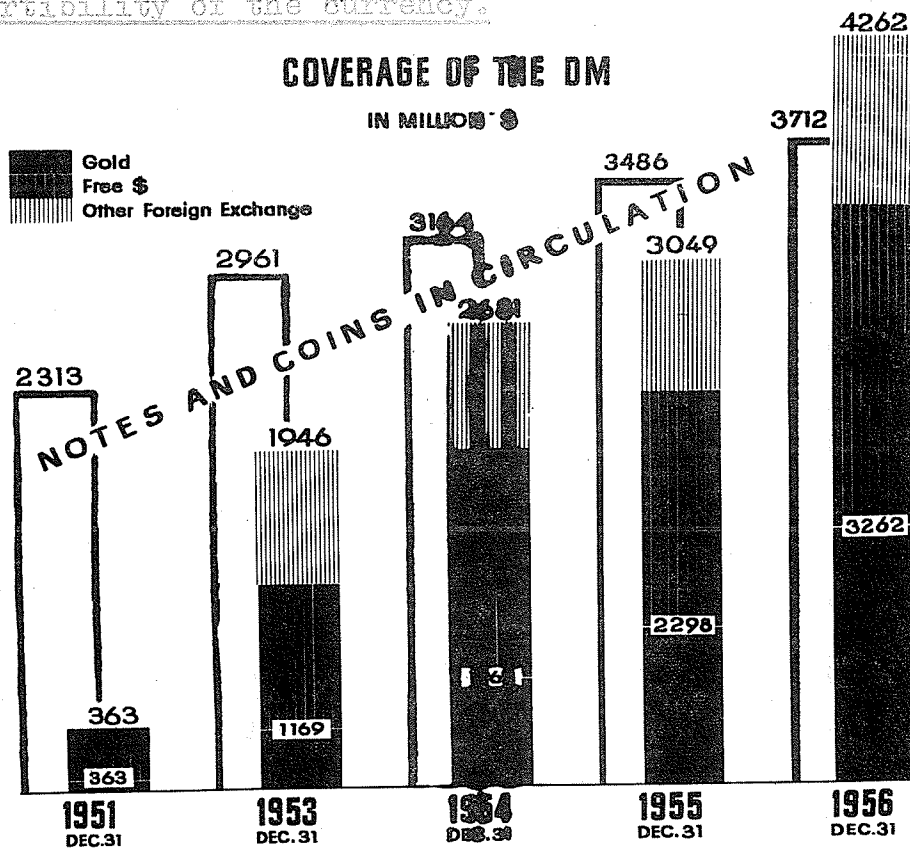


Foreign Trade-Groupes of Merchandise



half of its imports from other European countries, while two thirds of its exports were delivered into this area. Roughly a quarter of all imports originated from the USA and Canada, but only 16 percent of the exports were supplied to these relatively difficult markets.

The positive trade balance permitted the liberalization and free convertibility of the currency.



Source: Stat. Bundesamt

The fact that foreign trade was not balanced with all partner countries and that not all currencies were freely convertible caused many difficulties in payments. As Germany followed a policy of liberalizing foreign trade it consequently aimed in its foreign exchange policy for an early and complete convertibility of

positive trade balance and a constant internal money value. The chart on the preceding page shows that in a relatively short time the Deutsche Mark was well covered by gold and Dollar stocks, and that the new German currency became a "hard value". With this coverage the free convertibility of the Mark could be approached, as there were no serious risks involved for the general economic development.

But Germany also co-operated as one of the chief creditors in the European Payment Union, which was intended as a clearing institution and which became an important step towards free convertibility of European currencies.

Under these favorable circumstances the aim of free convertibility of the Deutsche Mark was introduced before 1958 and this can be regarded as another indicator of the successful re-development of the German economy. Not only that Germany became within the ten years under consideration the third main partner in world trade, furthermore its money constitutes one of the best exchange values in the free world. This might seem somehow miraculous when one realizes the extensive destruction of the economy at the beginning of this period in 1948¹. It is the more astonishing as this development was possible in spite of the fact that Germany settled all its foreign claims during these years. In 1953 the Federal Republic acknowledged all debts of the former German Reich, that means including the debt for East Germany. This measure helped to restore friendly relations with other countries and their enterprises. It

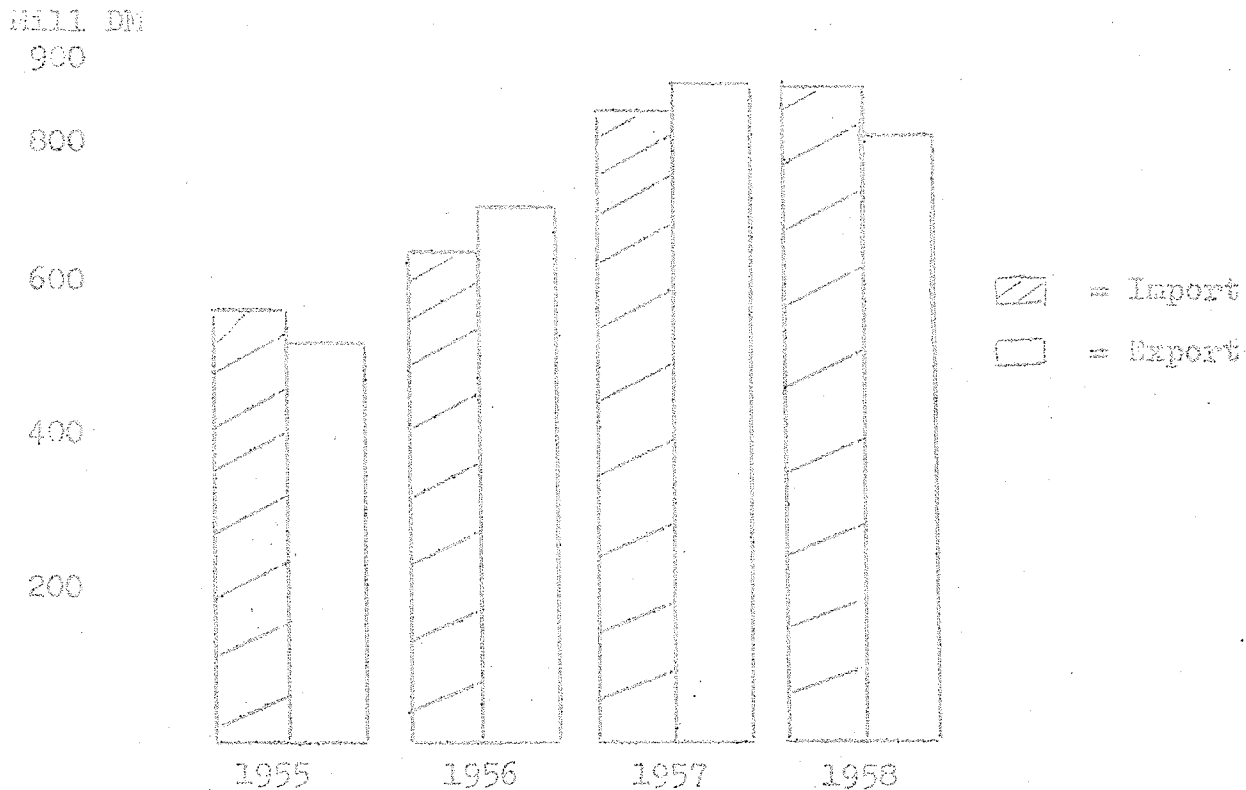
1. see: "The mighty Mark", Fortune, Oct. 1957, p.95

It is also remarkable that besides the initial foreign aid, funds and loans were needed for introducing the free convertibility of the Deutsche Mark. In fact Germany became after its recovery one of the main creditors in the Western world especially for under developed countries.

Trade between East and West Germany was very small.

It shows the full tragedy of post-war Germany when one considers under the ^{re/}spect of the impressive recovery of West Germany's exports the internal trade between the east and west part of the country. Before the war in the united German Reich the trade relations between the primarily agricultural east part and the industrialized west area were naturally very intensive. Not only the political partition but also the separate currency reforms and the introduction of different money divided the two areas and their economies. As the West German trade with East Block countries in general, which was rather large before the war, so the inter-zonal trade had to be limited in accordance with embargo agreements and for political reasons. The inter German trade is performed on a strictly bilateral basis and as the governments do not recognize each other, the trade is administered and supervised by independent agencies. Since 1950 lists of goods have been drawn up between the two sides. These lists were not in all parts utilized later. One main hindrance in this bilateral exchange of goods was the fact that East Germany could not fulfil all its obligations during the first years. The purchases of the Federal Republic and West Berlin amounted to 140 Million Dollars in 1955 and increased to about 200 Million in 1958. This was not quite 3 percent of the imports.

Trade with the Sowjet Zone



Source: Stat. Bundesamt

The sale, as shown on the above chart were about the same values. It is obvious that for the West German economic development this trade is more a regretful and demanding monument than a contribution.¹

Chapter 3: Domestic Trade

Progress in the domestic trade was not very great.

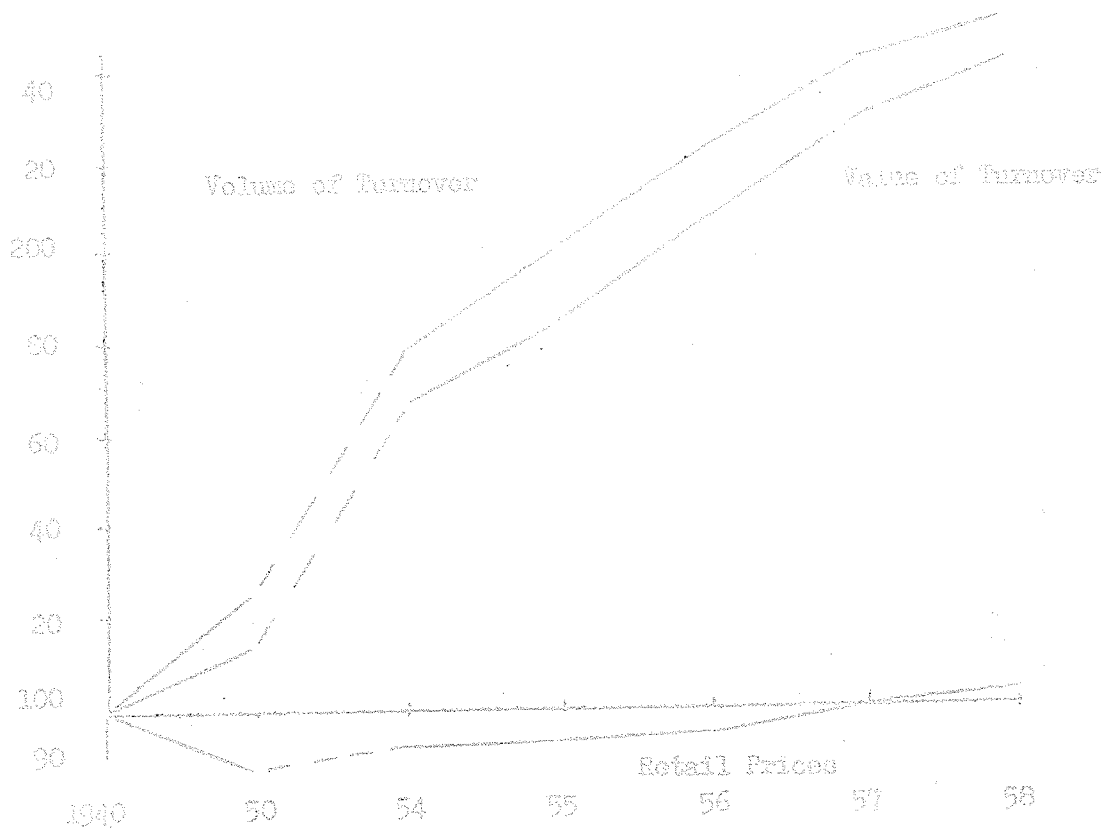
In the redevelopment of the internal German distribution of

1. At present after political reprisals of the East German government the Federal Republic has cancelled the current trade agreement for end of 1960.

merchandise that of wholesale and retail trade followed more or less in the footsteps of industry and foreign trade. Although this section of the economy gained large investment funds by means of hoarded goods and widely decontrolled prices soon after the currency reform and although most stores were rebuilt within a short time, progress was not so remarkable. Mainly through the influence of the seller's market, modern forms of trading and marketing were not introduced before the end of 1958. It was obvious that German traders found themselves in the role of mere distributors of goods which they had had in the planned economy during and before the war. Also the preponderance of small businesses in the retail field was a determining factor in this respect. In 1956 a little more than three-quarters of all retail enterprises had a turnover of less than 100 000 DM. The great number of small independent stores had retarded progress to a certain extent. Retailers and handicraft workers, who are relatively numerous in the German economy, were doubtless very industrious and energetic in rebuilding and re-establishing their enterprises but they are traditionally very conservative in their attitude and extremely reluctant to adopt new methods and installations. As shown on the chart of the following page the turnover in retail trade by constant prices expanded by 30 percent during the years 1954-1958¹. This expansion is not very large considering the development in other sections, the large consumer demand and the growth of population. As retail prices dropped after the first price boom in 1948/49 and increased slightly during the following years, the value of the turnover did not increase at the same rate as the volume.

1. Statistisches Jahrbuch, op. cit., p.237

Retail Merchandising
Turnover, Retail Prices
1949 = 100



Source: Stat. Bundesamt

Gradually the conservative character of German domestic trade was changing. New forms of trade are constantly appearing and the impact and proportion of modern retail chainstores, department stores, mail order houses, cooperatives, and supermarkets are gaining more and more influence. With them modern marketing methods are taking over. The increasing competition in this field, where prices are free, and the change from seller's market to consumer's market has enforced progress. Towards the end of the reconstruction period, for example, the number of self-service stores had almost doubled within a year and more than 50 000 proprietors of small grocery stores had joined forces with their wholesale suppliers.

chain stores. Under the influence of modern marketing forms instalment buying became more common and gained significance during these years. At the end of 1958 every sixth Mark of the turnover in retail trade was expended under payment by the instalment system. Workers made main use of this new form of first buying and then saving¹. Another new feature is the growing research and advertising awareness in certain branches, where sales are promoted. Modern marketing techniques have become of increasing importance in some advanced branches such as the car and chemical industry. Often it was the industry itself, which introduced new sales methods and effected a general progress in this field. It is remarkable that by this, industry engaged itself widely and more than before the war in retailing during the post-war development. Imported goods, Japanese products in particular, have provided strong competition even in traditional German markets and have exerted heavy pressure on certain branches. Finally new material and methods for packing and its positive effects on retail buying should be mentioned.

Growing competition.

More advanced branches, enterprises and the general change of the market structure determined the development in domestic trade. But furthermore the free market system and the growing competition became a decisive force. The policy of the government, and of Erhard in particular, aimed to make the German consumer more self-conscious. The German consumer was not accustomed anymore to be the guiding power for production. Erhard, however, set-out as one

1. Facts about Germany, op. cit., p.106

major aim of his economic policy, to strengthen the position of the consumer as a central figure in the economy and its distribution sector. Erhard stated frequently the following standpoint¹: "only if consumption exercises a constant pressure on production and distribution will that force for greater efficiency and innovation remain active." And with the same policy with which the encouragement and re-education of the consumer is attempted he also tries to keep competition within the trade alive. As under the impact of growing competition, retailers demanded a trade law, which would provide protection by limiting competition, the official policy was clearly put down in the following statement of Erhard²: "The battle for a trade law has gone on for some considerable time. It is fair to say that in these discussions there has been much coming and going and some believe that my ministry has not steered a clear course. Such an attitude overlooks the fact that there are two sides to this problem: one of principle and one of tactics. From the point of view of tactics I welcome every month that went by without the passing of the freedom limiting trade law. Up to the time of writing (1957) in spite of pressure from other quarters, a trade law of this kind has not gone through". One can expect that with some delay domestic trade in Germany will soon show those features that are characteristic of the American domestic market. But in this respect the reconstruction and modernization was not yet completed in 1958.

1. L. Erhard, *Prosperity*, op. cit., p.169
2. *ibid.*, op. cit., p.109

Chapter IV Banking

Limited loanable funds during the first years.

The reconstruction and expansion of industrial productive capacities and foreign trade were accompanied and assisted by the simultaneous re-establishment of commercial banks. In co-operation with the central bank, the banking institutions were very effective in collecting and creating funds and in channeling these to the proper investments.

Since the world wide economic crisis in the early thirties, the German banking system is regulated and supervised by the public administration. Credits, for example, are kept closely related to the deposits and therefore the range for credit and money creation is limited and the bank liquidity secured. After German banks had lost most of their stocks following the currency reform, the restricted deposits permitted only a small credit scope. The banks had to be very selective in their credit policy. Furthermore, the banks could grant primarily short term credit while most investment projects during the first stage of reconstruction were more of a long term character in regard to financing. Consequently many of these investments had to be financed by short term credit and consolidated later which fact involved additional risks for the banks. Another risk for the banks during the first years was, that a large part of the credits was based on money creation. But the low liquidity of the banks was an advantage in so far as they depended more on the central bank. This dependence led to more influential and effective policy and measures of the central bank.

With the gradual revival and expansion of the economy and the great incentives for saving particularly by the tax policy, more funds were accumulated in the banks and therefore bank credit became again a major source of investible funds which were urgently required in sections where self-financing of investments was not yet possible. The deposits in all commercial banks grew by almost 100 percent from 1954 to 1958¹. During this period the proportion of saving deposits increased constantly as shown on the chart of the following page. In 1958 they had reached a level of more than half of all deposits. The favorable development of bank deposits and the improved liquidity enabled the banks to attract funds by issuing own securities.

The short term credit, according to the combined statistics of the bank balances, was raised by about 50 percent during the years 1954-1958. The long term credit was doubled after the liquidity of banks had improved.

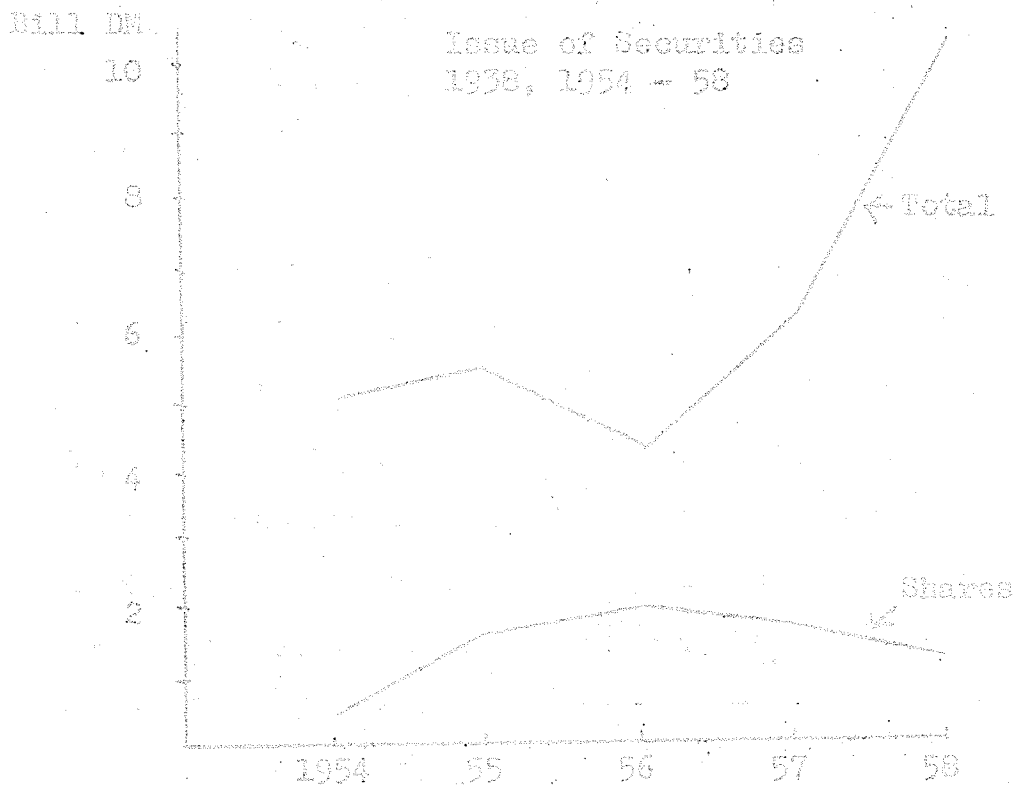
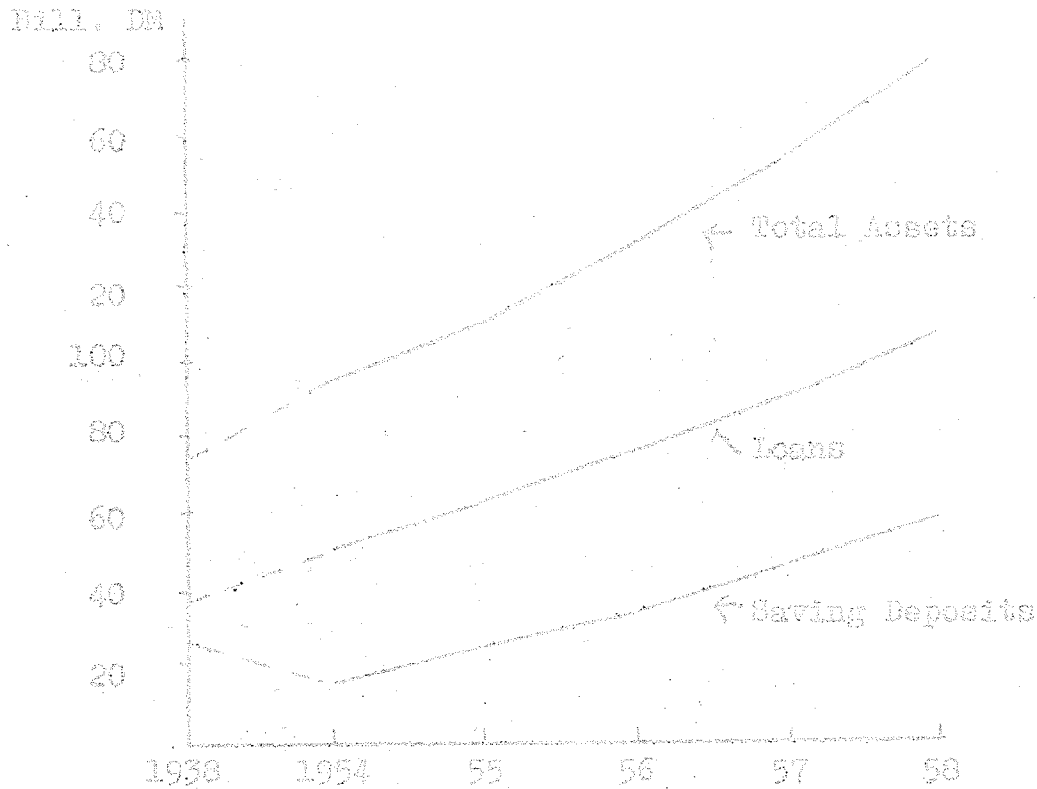
In addition to their own funds, banks were used as intermediaries in providing government and counterpart funds.

The large integration and specialization of the banks determined the credit policy.

With expanding credit volume the investment policy of the banks became more important for the general economic development. The German banks are traditionally more engaged in credit service than banks in other industrialized countries. In its structure the

1. Statistisches Jahrbuch, op. cit., p.349

Commercial Banks
Assets, Loans, Savings Deposits
1938, 1954 - 58



* incl. Credit Unions, Saving Banks etc.

Source: Stat. Bundesamt

German banking system is divided and widely specialized. It consists of three large integrated banks and a great number of smaller institutions which are integrated in own very effective organizations. The three major chartered banks, Deutsche Bank, Dresdner Bank, and Commerz Bank, serve industry primarily and in the manufacturing industry more the large than the small enterprises. These banks had about one quarter of all deposits and the same share of the credit volume.. Although the Allied decartelization legislation had split up these regionally integrated banks, they re-integrated as other large trusts in industry did by 1958. The influence of these banks had always been very great , as they not only gave service and aid in financing investments but became owners and were represented in most of the large companies as well. Their position was further strengthened by the law which permits banks to act and vote in companies on behalf of those investors and shareholders, whose authorization the banks obtained. By these means the policy and dispositions of the large banks became very decisive for the industrial and general economic expansion.

The close ties between industry and banks go back to the early industrialization, which was performed by banks and influenced by their credit operations¹. However the banks guided and aided the industrial development not only with their own credits. Banks assisted enterprises, which wanted to raise funds on the open capital market, by giving recommendations and backing and acting as intermediaries. German investors are accustomed to provide their funds through banks as other investment agencies not exist. This

1. see Meier and Baldwin, op. cit., p.96

caused a preference and concentration of investments in certain branches and favored the well known large industrial groups. This meant that not only that bank credit but also capital market funds, as they gradually accumulated, were primarily invested in projects, branches, and enterprises, where profit margins were relatively high and where the "family bank" gave assistance. It is therefore not surprising that almost 60 percent of the total credit given by the three major banks was granted to firms which had relatively large funds for self-investment¹. In addition to this the banks placed new issues on the security market for investments, where the risks were rather small. They preferred also these securities in their stock market operations. It is obvious that this policy did not only determine the investment structure and economic development. It also caused some other effects, such as the wide re-integration of German industrial enterprises. But it remains a fact that the influence and entrepreneurial activity of the banks was doubtless a major factor in the rapid expansion of industry and the early recovery of the capital market.

Medium and small sized enterprises which are still very numerous in Germany were assisted and served primarily by so-called savings banks. In order to meet the strong competition from the major banks the savings banks are widely unified by a central organization through which they co-operate by pooling funds and assisting each other in their operations. Their depositors are mainly small businesses and these are also their customers in the credit business.

1. Financial Times Survey, op. cit., p145

Both commercial banks and savings banks were chiefly engaged in short term credit business. In their field they were competing with small privately owned banks, co-operatives banks, and banks of provincial governments. Long term credit, however, if not financed over the capital market, was largely provided by the government and its agencies. An increasing part of these funds was raised by special mortgage banks on the capital market. The long term credit revived of course at a slower speed than short term credit, but by 1958, together with a re-established capital market, specialized banks took over from public administration in this field too. Again private and public investors channeled their funds through banks for long term credit.

The Revival of the Securities Market.

Their position as intermediaries between capital demand and supply regained the German stock exchanges as soon as the capital market was re-established and sufficient capital funds had accumulated. This development enabled debtors of short term credits to refinance their investment. In this consolidation of debts banks assisted in issuing and introducing all kinds of securities. In 1958 approximately one third of investments in the German economy as a whole, self-investments not included, were once again financed by the issue of securities. The comparable rate in 1956 was only 16 percent.¹ As shown on the chart on page 132, the total issue of securities increased greatly during the two last years. Not only have the fixed interest bearing securities risen, but also the share market had once again become a major source. The desire of many investors to become co-owners and share risks indicates the confidence in

1. Financial Times Survey, op. cit., p.47

future economic growth. This has enabled enterprises to enlarge their own capital base and helped to keep fixed interest costs low. During the first years of reconstruction the capital base for many companies in industry had become very small, due to expansion of the business itself and to the lack of funds on the capital market.

The total turnover on the stock market, including new issues in fixed interest bearing securities, had risen nine times, while shares in terms of prices had risen 30 times since 1953.

The most important stock exchanges are now in West German cities and not any more in Berlin. The exchanges have again become institutions which are supervised by the government. The prices and interest rates on these stock exchanges had steadily risen until 1958. The pressure on the prices, however, increased as more funds were offered and demands dropped slightly. Since the convertibility of the Deutsche Mark was accomplished, the activities of stock exchanges have expanded internationally, and capital movements are not longer limited to German investments. The German stock exchanges attracted also foreign capital again in connection with the economic revival and European integration and the Common Market in particular in 1958.

Chapter 5: Transport and Traffic

Structural change in favor of road haulage

For the reconstruction and growth of an economy an efficient transport system is most essential. The high productivity of the German economy has always been to a large degree due to its well planned and organized transport facilities of all kinds. On account of its general importance the public intervention in this field has been relatively extensive in Germany before and after the war. The main carrier, the railway, is publicly owned. Under the national-socialistic government road transport was also publicly controlled, as were air transport facilities. Private enterprises operated only inland water transport and in the merchant navy. After the war road transport was denationalized and rebuilt by numerous private enterprises. Railway and air-line, remained in public ownership.

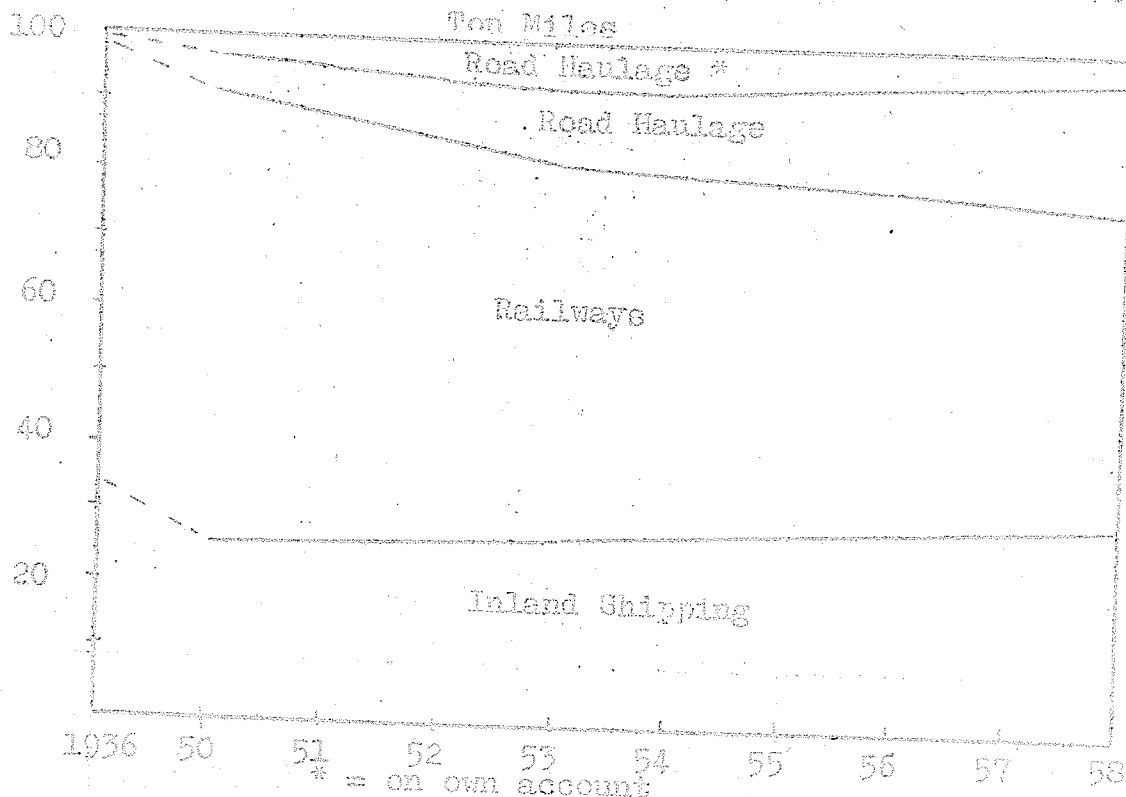
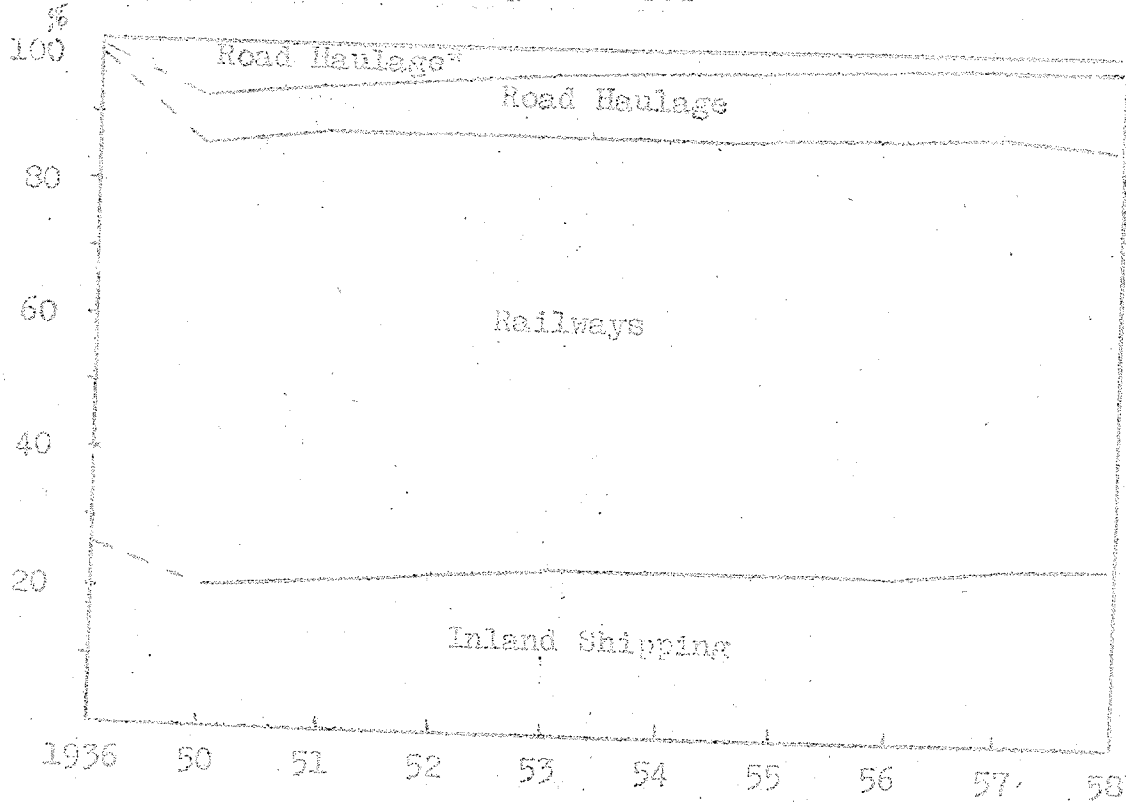
At the end of the war German transport facilities and communications had completely collapsed. The first reconstruction work was concentrated on repairs of the available inland transport system. During these first years private entrepreneurs took their chance in road haulage, where most of them started with one truck. Consequently road transport progressed and expanded relatively fast compared with the railways that lagged behind. Although tariffs for road and railways were determined by public authorities and did not differ, private road transport enterprises enjoyed a high profit margin, as it had not to carry the same burden and high costs as the railway. Road haulage, for example, had no obligation

to serve all transport demands and consequently could select the most profitable passenger and freight transport. From this situation a structural change in favor of the motorvehicle, and a stiff competition between railroad and road transport developed which became an important factor in the reconstruction of inland transport. The inherited traffic system, as far as the inland transport facilities were concerned, which had developed under complete state control and in the larger economy and territory of the former German Reich, was thus given a rather different look, as soon as the monopoly of the railway was practically abolished. The structural change in favor of the road transport was caused by the liberal policy of the government and also the technological progress. It became obvious to everyone that the inland transport system could not be rebuilt as it was before the war. The pressure of private entrepreneurs in road transport, the demand of industry and the political aim of free enterprise and markets on one side and the high costs and social burdens of the large Federal Railway Company on the other side not only caused a strong competition unknown in this field before the war, but led to some serious difficulties for railway transport.

Problems for railway transport.

The two charts on the following page show that railroad transport still remained by far the most important carrier, when measured by the tonnage carried and by ton-miles. But the share of the railway had decreased and consequently increased both inland shipping and road transport. These trends, which became obvious during post war years, are caused not only by structural changes

Goods Traffic
Tonnage carried

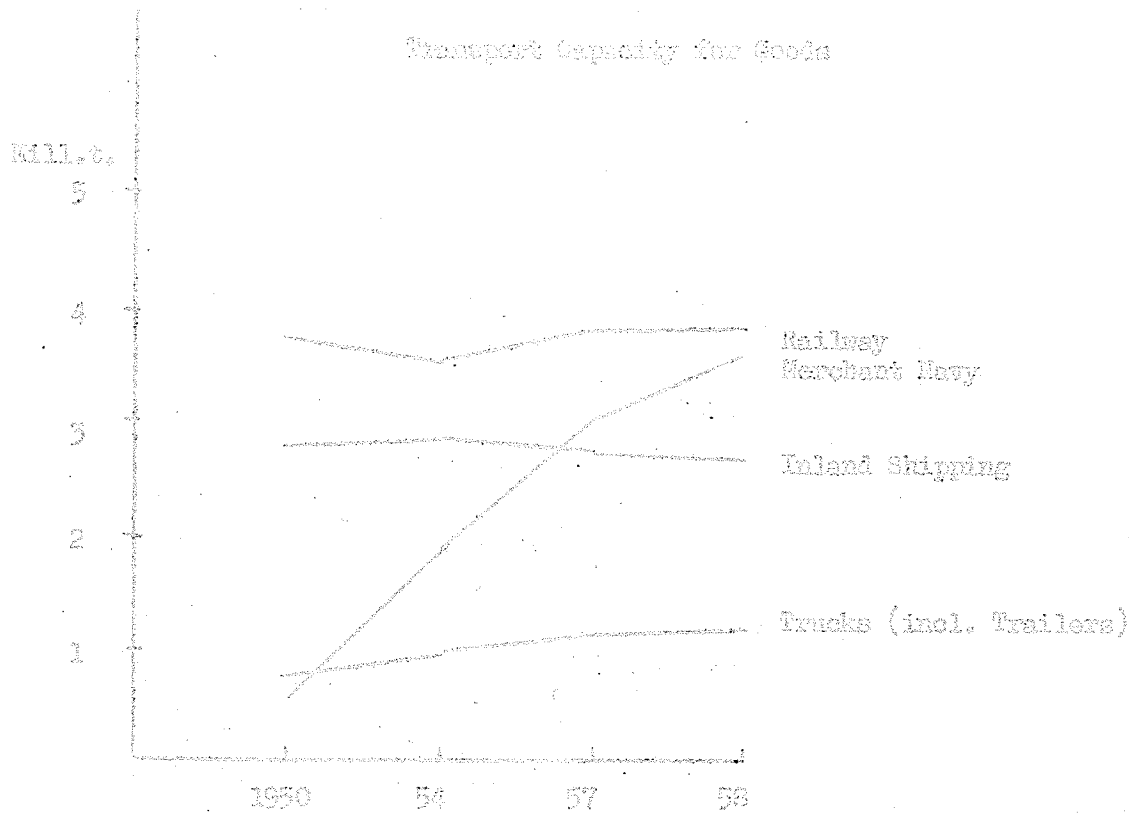


* = on own account

Source: Stat. Bundesamt

and technological progress. Railway officials argue that the conditions under which the individual means of transport operated, and the conditions under which they meet the competition, were not equal. Not only was the railway hardest hit by the war, but its funds for financing the reconstruction and modernization were also limited. Chief reasons were that it had lost the monopoly, that the tariffs remained publicly controlled at a low level and that the social obligations for unprofitable transport demands were not removed. In spite of the loss of their former virtual monopoly, the railway remained legally obliged to conduct its business on the basis of a planned and so called social economy, that is to say, a system that takes account of the interests of the economy as a whole and does not follow the principle of private enterprises. Another factor that caused serious problems for the railroad during this period was the establishment of vehicle transportation facilities for their own purpose by industrial enterprises. The railway could not meet all transport requirements; however, the good financial position of many enterprises in manufacturing industries did permit such investments. The two charts on page 139, however show, that this road haulage on own account of industry decreased later, as more independent and effective transport enterprises were established.

Not only road haulage became a strong competitor for the railway after the war. Transport on inland waterways, where private enterprises expanded its business, was another competitor, chiefly in freight transport. Forty percent of inland shipping is performed by small single vessel undertakings. Many of the shipping companies are directly linked with large industrial com-



Source: Stat. Bundesamt

bines, particularly in coal and steel industry. And in this section of inland waterways transport too, existed better conditions after the war than for the railways.

Towards the end of the period under consideration, a new modern transport means, the pipelines, emerged in Germany. The major oil companies decided in 1957 to transport crude oil and products through pipelines and this was another loss for the railways, which had carried the crude oil before. Of course this addition to the German transport system and capacity had to be evaluated as a modernization, that further indicates the structural change away from the railways.

Forty five billion Marks were invested in transport

Under the impact of different conditions and circumstances in the individual inland transport sections and the new competition and structural changes in this field, the transport system was reconstructed and modernized at the same time. Although this new feature was not so much dependent on the currency reform, only minor investments could be carried out before this date. During the years 1949-1958, about 45 billion DM (10 billion Dollars) were invested in all transport sections.¹ Of this amount 12 billion were spent for rebuilding and improvements of roads and 6 billion by road transport enterprises. The investments of the railway amounted to approximately 14 billion DM and inland shipping needed 2 billion. The remainder was invested by the merchant navy and air line.

After the war damage of the railroad had been widely repaired, the installations were modernized by means of electrification of some major lines and by the introduction of Diesel engines. The highway net was not only repaired, but a large amount of public funds was invested in new roads. The first modern highways, called Autobahn, were built before the war mainly for strategic purposes. After the war, for example, the lagging north-south connections had to be completed. In 1958 this reconstruction and extension was not yet completed, but new highways at a rate of 100 kilometers yearly were opened.

The extensive net of inland waterways was not as severely damaged as roads and railways. During the ten years after the currency reform, 1000 kilometers of new and improved waterways came into
1. Deutschland im Wiederaufbau, op. cit., p.70

operation.

More obvious to foreign observers was the reconstruction of the German merchant navy, harbour facilities and the German air line "Lufthansa". The merchant navy, which was traditionally a field of private enterprise, had to be rebuilt completely. At the end of the war no unit of the former large fleet was left. A new fleet and the capacities of dockyards was initially limited by the Allies. Not before 1951 were these restrictions finally removed. From this date, when the reconstruction of the German merchant fleet began, until the end of 1958, almost 3 750 ships were brought into operation with 4.5 billion tons net weight.¹ With this the German fleet was rebuilt within a short time to the extent of being larger and more modern than before the war. Of course this development was deeply influenced by the rapid expansion of German exports to oversea countries. Furthermore, requirements of a tanker fleet, which did not exist to any considerable extent before the war, increased the whole fleet and changed its structure. Investments in this field were only possible with public financial assistance as companies did not have sufficient funds themselves. Also industry provided funds and became owners of ships. Industrial enterprises integrated and expanded into oversea transport, mainly in order to deliver export goods in shorter time.

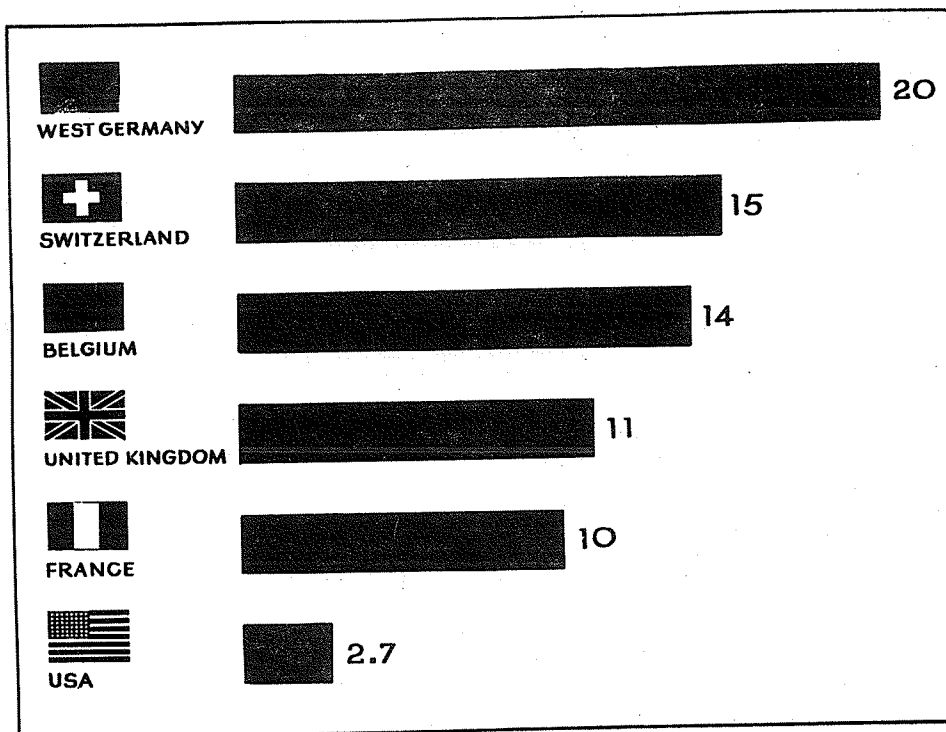
Last but not least, the "Lufthansa", the public owned airline, was established in 1955. A prerequisite was that allied restrictions were abolished and sufficient funds provided. During the following years it became one of the major airlines, which operated nationally

1. see chart on page 141

and internationally. The realization, however, that national airlines on the European continent cannot operate properly individually, led the German airline to join a European syndicate, called the "Air Union".

Motorization still had to catch up with other countries.

RATIO OF MOTORIZATION 1956 INHABITANTS PER MOTOR VEHICLE *



* Trucks · Buses · Passenger Cars

Source: Stat. Bundesamt

While with large investments, which were financed from private and public funds and sources, transport capacities for passenger and freight traffic were rebuilt, the traffic itself revived strongly during these years. More and more goods were transported over roads and the passenger traffic favored even more the roads and shifted away from the railway. The increasing motorization of the people became a new feature in inland transport. As the above chart

trucks, 20 inhabitants shared one motorvehicle in 1958. Automobiles and motorcycles, which were registered, increased from 2 billion to 6.5 billion during 1950-1958.¹ In this period the number of motorcycles dropped as many people with low income were able to change to small automobiles. The number of trucks had grown from 52 million to 60 million. Trucks provided by German and Allied armies right after the war were relatively numerous. Although the number did not increase very much after 1950, the trucks themselves were exchanged for new models. In comparison with the motorization in other countries, the development in Germany lagged far behind, as shown on the chart of the preceding page. This indicates that the full possible motorization in Germany had not been completed by 1958.

Tourist traffic revived largely.

In connection with inland traffic, the German tourist traffic in and outside of Germany revived to an extent larger than ever before. Promoted by agencies, which were established in many foreign countries, many tourists from other areas were attracted by Germany. From 1949-1958 the tourist traffic expanded by about 300 percent and exceeded the pre-war level. Most valuable for the general economic development was the income in foreign currencies through tourists from other countries, which increased from 100 million to 2 billion DM.²

In 1958 the German economy was served by all modern means of transport. This new transport system was widely integrated into super-

1. Statistisches Jahrbuch, op. cit., p.307

2. Ibid., p.321

national transport net and administration. Structural changes have modernized the transport system. In connection with this development the German traffic has rapidly increased too.

Chapter 6: Agriculture

Pre-war output already surpassed in 1951

In an industrialized country such as West Germany economic revival and redevelopment has primarily meant reorganization and reconstruction of industrial capacities. Closely related to manufacturing industries are foreign trade, commerce and transport. Agriculture as a supplier of food and work has still an important function in the West German economy and contributed to the general economic development too. Naturally the damage caused by the war to agriculture was not very extensive. And it is not surprising that the pre-war level in output of about 33 million wheat units¹ was already surpassed in 1951 with 37 million units. However, there were still numerous problems than just raising output, which demanded a solution during the post-war years.

During the first stage of general economic revival, before the currency reform, the main economic problem was to raise food production in order to feed an increased population and to bridge the gap caused by the loss of traditional agricultural areas in the east. For obvious reasons farmers did not supply all their products to market as long as money had no real value. Moreover food prices were controlled as were the profit margins. For a long time supplies remained far below the demand and food

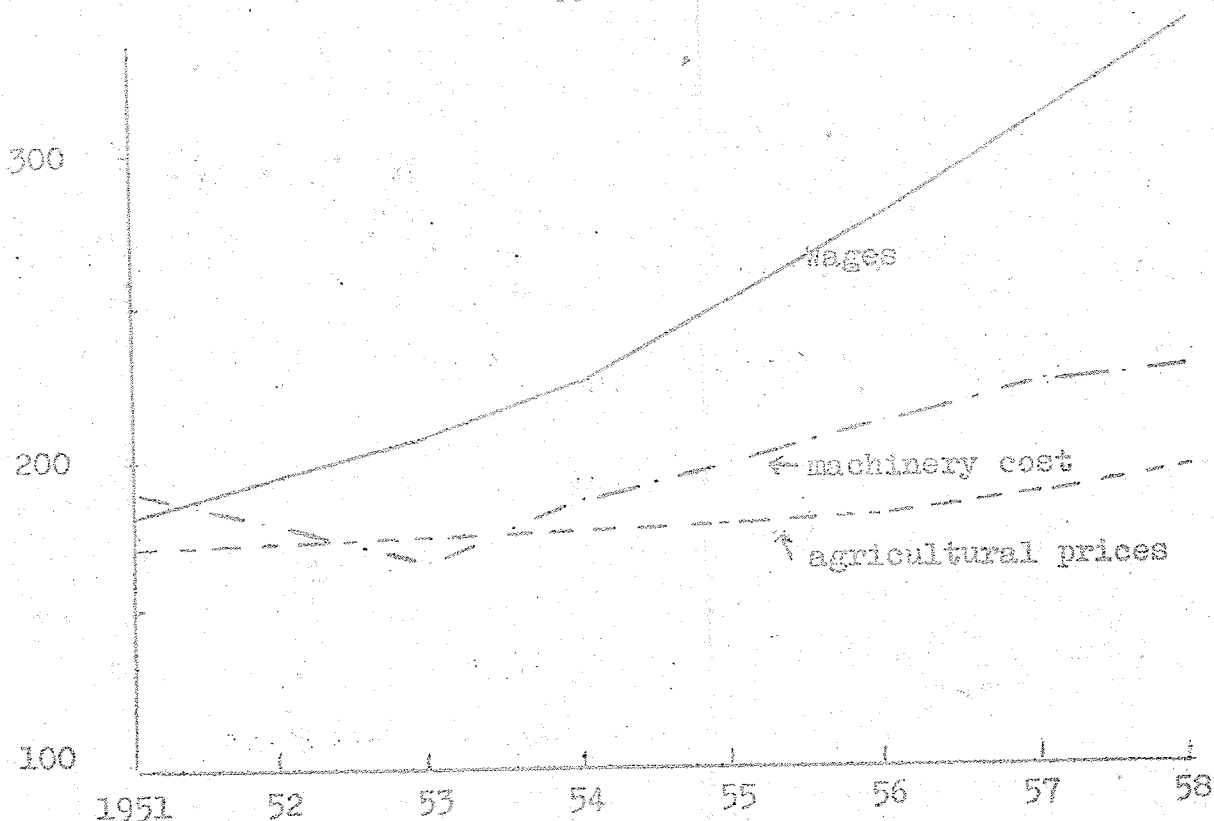
1. Financial Times Survey, op. cit., p.23

imports on a larger scale could not yet be financed. Besides price controls supplies had to be rationed. After the war the allotment of calories was approximately 300 per capita daily 2 000 being regarded as a minimum. This indicated that the agricultural problem was a demanding task and its solution a prerequisite for any further economic reconstruction. Of course an industrialized country like West Germany will not easily become self-sufficient in its food supplies. Even under the previous autarchic policy Germany did not become independent of food imports. Therefore after the war starvation could only be avoided by relatively large food imports, which during the first years were financed by foreign aid. As soon as exports revived and rose above the value of imports the problem of sufficient food supplies was solved but not all problems of agriculture. Food imports were still restricted and prices were adjusted by tariffs in order to protect the markets for the German farmer. This fact demonstrates that inherent in the German agriculture structural problems existed. The post-war economic development was not only a reconstruction but simultaneously a reform in industry and other economic sections including agriculture. Although West Germany did not proclaim a "land reform" as done in socialistic countries and in Germany after the first war, the problem of improving productivity and living standards in agriculture had to be tackled also in West Germany.

The problem of increasing productivity in agriculture

The productivity of Germany's typical "peasant" agriculture was

Agriculture
Prices, Wage- and Machinery cost
1938 = 100



Source: Stat. Bundesamt

relatively low. The 32.6 million acres of agricultural area were divided into 1.7 million individual farms.¹ The number of small farms was extremely high. Still 18 percent of the population worked in agriculture and many of the refugees wanted new farms and land. Mechanization after the war had to be started too. The pattern of output was not as the West German market demanded it, but as it traditionally had been. The farmers were very reluctant in adopting new methods and scientific advice and were therefore not ready to meet the challenge. However, the farmers were an efficient pressure group in society and particularly in a democracy, due to their large number and proportion of the population as well as to their good organizations. They demanded protection of their

1. Statistisches Jahrbuch, op. cit., p.129

markets and prices and an improvement of their living standards, at least to the same degree as obtained in the manufacturing section. But as the government could not tolerate an unlimited rise in food prices, since this would have meant general inflation, these demands could not be solved from this angle alone. As the chart on the preceding page shows the costs for wages and equipment increased during these years and consequently as prices did not climb profit margins and income farmers became smaller.

Measure for a agricultural reform

This structural problem had become more serious as result of the war. Urgent necessary reforms were therefor delayed for decades. After the war all interested and responsible experts and officials worked on a plan for this reform. Scientists proved that agriculture in Germany was suffering neither from too low prices for its produces nor from too high prices for its implements. Their proposition to change agriculture in its fundaments was accepted in the Bundestag in 1955. A law had already submitted the markets for agricultural products to a certain order in 1950, which more or less legalized market protection in agriculture. In 1955 a new "Agricultural Law" was concluded in the parliament which as a result of scientific investigations aimed for a basic reform. While scientists and officials were convinced that this law would help to solve structural problems, the farmers themselves were reluctant in cooperating.

In the new program for agricultural reform farmers were again assured that they would share the general development of income

by means of market protections and subventions. But simultaneously the new law forced farmers to accept certain measures and plans for a structural reform. Every year a report, called the "Green Report" had to be submitted to the parliament. In this report results of investigations and measures for solving individual problems, such as mechanization, production control, productivity, and so on were laid down. Based on this report the ministry and parliament decided on measures, investments and subventions for the next year. These details were outlined in the so called "Green Plan". By typical measures and methods of a planned economy, it was hoped to gradually raise productivity and to assure that public funds of the tax payer were invested wisely. In detail the measures which had all the common aim for raising productivity and income, were very different. For example some investments expanded and improved rural roads and transport facilities, other investments were spent for water and soil conditions, mechanization and so on. At the completion of the European economic integration it was expected that the reform of German agriculture would allow it to meet competition from other countries without needing protection and subventions.

Reform was not completed in 1958

In 1958 the reform of German agriculture was not yet completed and a free market internally and externally not accomplished. Nevertheless, great progress and improvement had been made in this field. Output in wheat units had increased by 10 million to 48 million since 1951¹. In 1951 185 000 tractors were in

1. Statistisches Jahrbuch, op. cit., p.249

operation; until 1959 their number rose to approximately 800 000. During the same period the number of draught animals declined. Harvesters increased from 149 to 31 000 and milking machines from 5 600 to 180 000 in this period. Net investment, which was DM 1951 had risen to 1 140 million in 1958. 6 100 million DM were spent for new buildings and machinery, excluding replacements, during the whole period. *Productivity of Labor had* improved by 92 percent, which was partly due to a decline in the number of labourers. The number of family labourer dropped from 2.9 million to 2.0 million and that of wage labour from 0.9 to 0.6 million.

Owing to the increase of mechanization in agriculture the links between this section and manufacturing industry had become closer than ever before. During the post-war years and agricultural reform farmers had become one of the important buyers of industrial products. This contributed to the growth and reconstruction of industry.

In view of the fact that the index for food products and prices had not climbed very much since 1950 and that the living standard in agriculture had greatly improved, one can state that the economic development in this field and the reform in particular was successful so far. Once more we must point out that this result was obtained mainly by measures and methods of a planned economy and with investment of large public funds. The political aim in this field was too, to establish free markets and competition, which until 1958 had not yet been achieved.

Chapter 7: Housing

House building was a prerequisite for industrial reconstruction

Reconstruction of the economy means, primarily, constructing and building extensively in a more physical sense. The typical building activity during the years under consideration was not limited to the field of industry and the productive capacity but involved beyond this the supplying of sufficient housing. Many industries, before they could start with the reconstruction of plants and offices, had to solve the problem of providing enough living space and dwellings for the workers. This was also true for other branches of business. In general the reconstruction of houses and whole cities was one of the main tasks and was the basis for any economic development after the war.

During the war 20 percent of all dwellings were destroyed.¹

Under the impact of the war and bombing more than 2½ million dwellings or 20 percent of all dwellings in the area of the Federal Republic were completely destroyed. Approximately the same number had to be repaired before they could be used. After the war almost half of all dwellings were lost, while the population had increased by 30 percent, chiefly by refugees. The destruction in housing was worse than in other European countries, and it was obvious that no economic revival could take place without having the problem of building houses and urban areas solved. Therefore,

1. Deutschland Heute, op. cit., p.414

the very first act, the German people did, as soon as the war was ended, was that they cleared the debris and ruins in order to start the rebuilding of utilities and houses. The economy itself, however, was not reorganized until the currency reform; and therefore, construction work could be only done on a limited level before 1948 and mainly in the country areas, where the farmers had sufficient means. In 1950, the shortage of dwellings was estimated at almost 5 million; although a relatively large number of units had been repaired at this date. Under these circumstances, naturally, the public administration had to intervene in the housing section; as otherwise chaotic conditions in this market would have developed, and general economic reconstruction would have become impossible. A public price control had been introduced in this section already before the war, as a shortage of dwellings developed when barracks and other military constructions were given preference over civil requirements. This price control had to be maintained after the war and was not removed even in 1958. Only by this measure a general inflation was avoided.

Besides this price ceiling for dwellings the government had to give incentives in various forms to the building of new dwelling units. Mainly on account of controlled rents private business and investors were not sufficiently interested in these projects; and most consumers who required accommodation were not in a financial position to save and build for their own purpose. Their demands for food and clothing were more urgent than that for accommodation during the first years and their incomes were generally still very small.

The public intervention

The government, which established a ministry for housing based its policy on several laws for housing.¹ In 1950 one of the first laws the new Bundestag concluded dealt with this demanding matter. In the first law, a building program was set up for the period 1951-1956 which declared the erecting of dwellings as a urgent and primary task for federal, provincial and municipal administration. The building program was divided into three section: 1. the housing program in which public funds were directly invested and which was called "Oeffentlich gefoerdeter Wohnungsbau". 2. Building of houses based on tax exemptions, the so called "steuerbeguenstigter Wohnungsbau" and 3. the independently financed project, the "frei finanzierter Wohnungsbau".

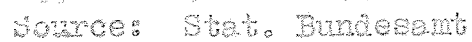
Each section had its individual regulations, and the distinction was the degree to which the public administration interfered. Under this program, in its first stage public funds were spent for those persons who could prove that their small income did not permit savings and investments for their own housing. For these persons credit was given out of public means at low interest rates for cooperatives and building projects, which provided dwellings of small size and low rents. Public authorities decided, to whom these apartments were rented. It was planned that under this whole program approximately 2 million or nearly half of the required dwellings were to be financed and built. This aim was reached at due date. A large amount of public funds was spent during these years in the

1. "Erstes Wohnungsbaugesetz 1950"

housing section. This was possible as demands connected with rearmament did not yet exist.

Under the second housing law which passed the parliament in 1956 the public financed program was proportionately lower. Most persons were now able to contribute more for their own accommodation and it was the declared aim of the government, to follow a policy by which the people were encouraged not to rent but to build their own small houses. But still under the second program another 1.8 million dwelling units were publicly financed so that during the whole period 1951-1958 out of the required 5 million, 2.75 million could be provided for people who otherwise would still have been left without proper accommodation. The quality and particularly the size of the dwellings was improved under the second program. In course of the development in housing, thereby, a constant improvement was simultaneously achieved.

For persons who were in a better financial position, tax exemptions were the main public assistance. Private business mainly financed this building program and public regulations and interventions were very small in this field. Everyone who provided funds for housing purposes and fulfilled certain conditions was permitted to subtract this amount from pre-taxed income. Consequently, many businesses and persons, where relatively high profits accrued during the first stages of the post-war economic development and where these funds could not be re-invested, used the opportunity for tax exemptions, by investing in these housing programs. Besides the tax exemption a special high depreciation rate was granted. Under this housing policy, which was part of the fiscal policy, large private funds were



channeled by this legislation into the housing section.

Finally the so called free housing program was neither publicly financed nor regulated and was completely left to private investors. Contructions under this program were proportionately low during the first years.

Four millions dwellings were built.

Under this public housing policy, the yearly construction of dwellings was increased from 215 000 in 1949 to 360 000 in the following year. From 1953 it remained above the half million mark, as shown on the chart of the preceding page. The maximum was reached with 560 000 dwellings in 1956. More than 15 million inhabitants returned to their own homes from sublet rooms and other kinds of emergency dwellings. Still these new homes were relatively modest. But with this new living space a sound base for the new economic growth and society was laid. The more the living standard rose, the more the trend to better accomodations and the small sized family home was observed. As already mentioned, the policy of the government changed, insofar, as from 1956 public funds which were invested directly in housing were restricted and the stress was then laid on incentives for saving and financing small family homes. Consequently, the number of these types of dwelling units for which public money was spent increased from 52 000 in 1957 to 70 000 in the following year.¹ In 1958 of all one-family homes 60 percent were privately financed and public financial aid given only in the form of tax exemptions.

1. Statistisches Jahrbuch, op. cit., p.226

This positive development in housing and the large return of private enterprise and initiative in this section was made possible through the readiness of the people to save and their strong desire for own accommodation and houses. Their rising living standard is also expressed in the changing structure of housing, the financing, and the quality of dwelling units. The successful economic development during these years is not better demonstrated than by the tremendously improved housing of the people. But we have to bear in mind that this was possible mainly by public aid, intervention and planned economy, that since 1953 every minute day and night one dwelling unit was completed. It was the result of a close cooperation between public administration and private enterprise. Before long even in this section, private entrepreneurs will have taken over and free market will be re-installed.¹

1. Presently a law which will complete this development is in preparation.

Part III: Growth

Chapter 1: National Income and Employment

Reconstruction and new expansion determined the economic growth

After having analyzed the German post-war economic development as far as basic factors and individual sectors are concerned, we still have to study the development and growth of the aggregates.

As already outlined we consider the reconstruction of an economy as a special kind or stage of a general growth process. The growth of an economy is commonly measured by the increase of national income or gross national product. It is also related to the population increase by determining the growth of national income and product per capita. Whether the rise in national income is caused by mere restoring a standard and income level which had already been obtained before the destruction, or whether this rise is due to a real new expansion and improvement of productivity is difficult to determine.¹ During the whole reconstruction period not only the structure of the pre-war economy changed, as was the case with the industrial production pattern, but also the general political and social framework. Many factors altered the conditions for economic growth. It is obvious therefore that the new productive capacities and output gave evidence of economic growth and cannot only be regarded as mere reconstruction and revival.

Although the aim of the economic policy was not primarily to secure economic growth and full employment, but to restore order and markets and to give incentives and aids for capital accumulation during

1. H. C. Wallich, *op. cit.*, p.23

the early stage, the economic policy provided a sound basis for reconstruction and general growth simultaneously.¹ The problem of reconstruction forced the government more than in any other country, where general growth has to be maintained and secured, to plan and design more specific political measures of more temporary character. This is demonstrated by the German fiscal policy during these years. Nevertheless, Boulding writes:

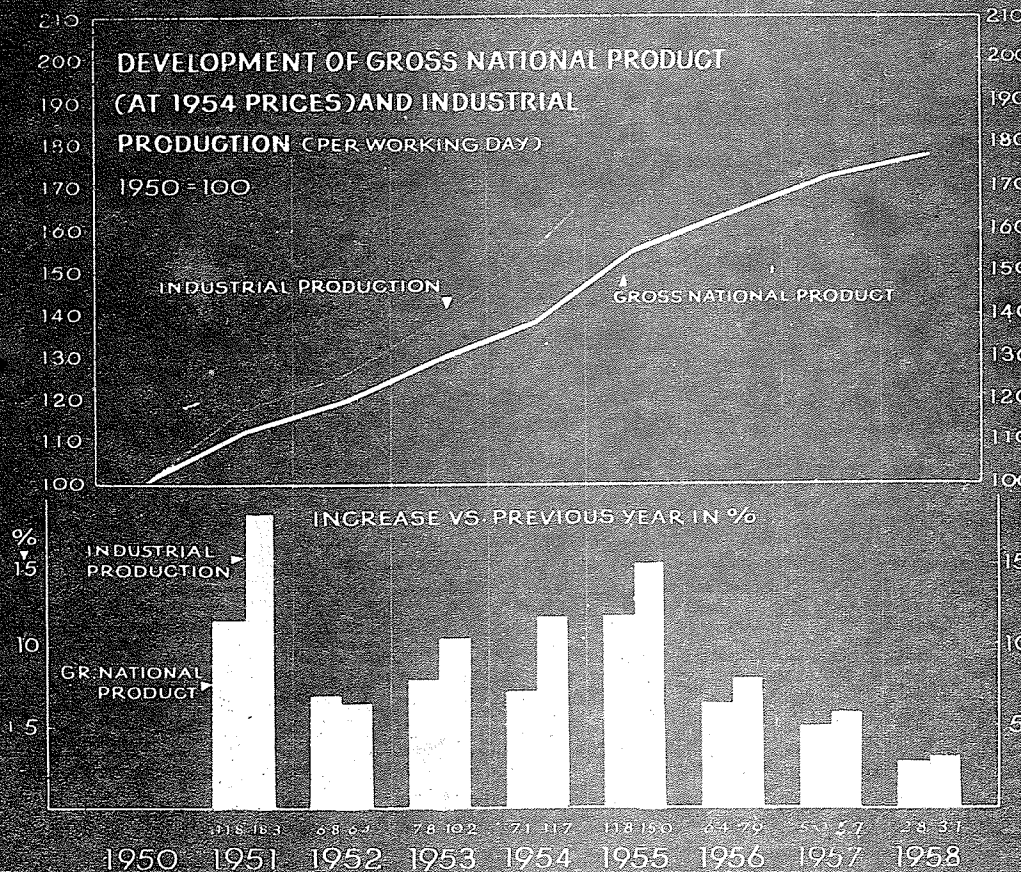
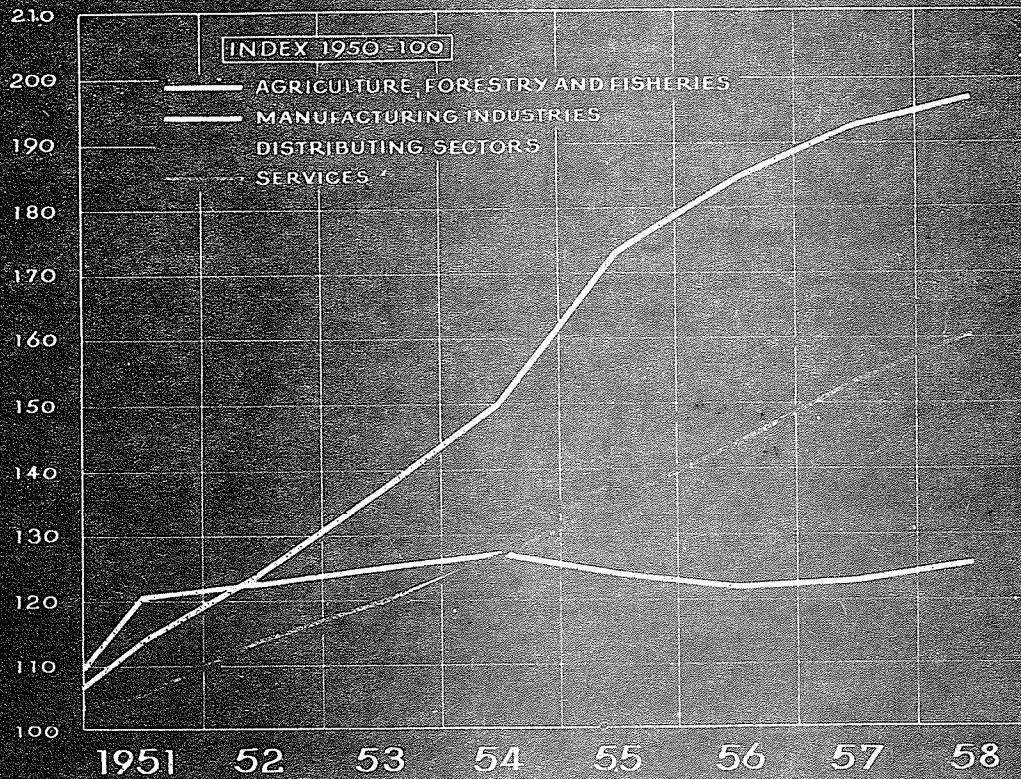
"From an economic point of view the national state itself is an aggregate of individuals and must therefore be treated in macro-economic terms.....unless it is an arbitrary and tyrannical government... it must deal with individuals not as individuals but as members of some group or aggregate of individuals... the main responsibilities of government lie in the regulation of the aggregates of the system."² This statement seems to be true also in the respect that the German government and society as a whole had not to concentrate its efforts on reconstruction in certain fields only but also at the same time to concentrate in the growth problem in general.

When we want to evaluate the achievement of the German reconstruction efforts we have to consider it in a wider sense than just the restoration of previous conditions and standards. We have to measure reconstruction not only in individual fields of the economy but also have to examine to what degree the aggregates such as national income, investment and consumption expanded, bearing in mind that these do not only indicate whether or not a successful reconstruction

1. Meier and Baldwin, op. cit., p.472

2. K. E. Boulding, Economic Analysis, Rev. Ed., Harper & Br., 1948 p.259

DEVELOPMENT OF THE ORIGIN OF GNP BY GROUPS OF ECONOMIC SECTORS AT 1954 PRICES



was achieved but also if the basis for a sound continuous growth was laid. The problem in this study is, as Wallich puts it: "The question whether the German experience was mainly one of recovery or whether it also contained a strong element of growth is important not only for the analysis of the past but also for an appraisal of the future."¹ This means we must accept the German reconstruction as a successful one, if the development of above mentioned aggregates indicates that after the first stage of a relatively large expansion a steady increase at a lower rate was maintained.

Gross National Product almost doubled

The chart on the preceding page shows the development of gross national product at steady post-war prices and is based on the first normal post-war year 1950. Within the following eight years the German national income expanded also by 80 points in a more or less steady increase. The curve of the gross national product shows that after a slight decline in the middle of this period, that means after the Korea boom, the export boom caused a further expansion. This expansion after the Korea boom indicates that the reconstruction process was consolidated into a growth process in the years 1955-58. From 1950 to 1954 the gross national product, depreciations included, rose at constant 1954-prices from 112 billion DM to 155 billion DM and during the following four years by almost the same amount to 198 billion DM. One could conclude therefore that the gross national product grew yearly by approximately 11 billion DM over the whole period. But the detailed picture shows that after an increase of

1. H. C. Wallich, op. cit., p.23

14 billion DM in 1951, mainly due to the Korea boom, it dropped to 8.5 billion DM in the following year and remained constantly at 10 billion DM until 1954. The second half of the period under review started with an impressive 18 billion DM increase but in the consecutive years it declined constantly. This fact indicates that the German economy obviously entered into a period of consolidation and steady growth towards the end of these ten years. This also shows the fact that the expansion of industrial output, which surpassed by far the general economic development and the increase in gross national product during the early years, gradually declined to the lower level of the expansion rate of the gross national product during the second half of the period. In 1958 industrial output and gross national product expanded at almost the same rate. This development of gradual consolidation and constant growth at a lower rate on an advanced level we also find when we compile the increase as percentage or per capita of population.

Even more pronounced is the picture of the net national product or national income. By steadily decreasing depreciations, which are in line with the expanded value of capacities and their new and modern features, the national income grew by 78.5 billion DM¹ to 178 billion DM during the whole period since 1950. During the first half it rose by 40.5 billion DM and during the second by 38 billion DM. While in 1951 an expansion of 13 billion was obtained it was only 4 billion at the end of the period.² One can therefore state that obviously after reconstruction was completed towards the end of this period a more normal growth of the economy developed.

1. Statistisches Jahrbuch, op. cit., p.482

2. Facts about Germany, op. cit., p22

If we want to evaluate the result of the economic development and determine whether or not it succeeded in achieving the base for a constant growth process we can state that the German economic reconstruction was successful.

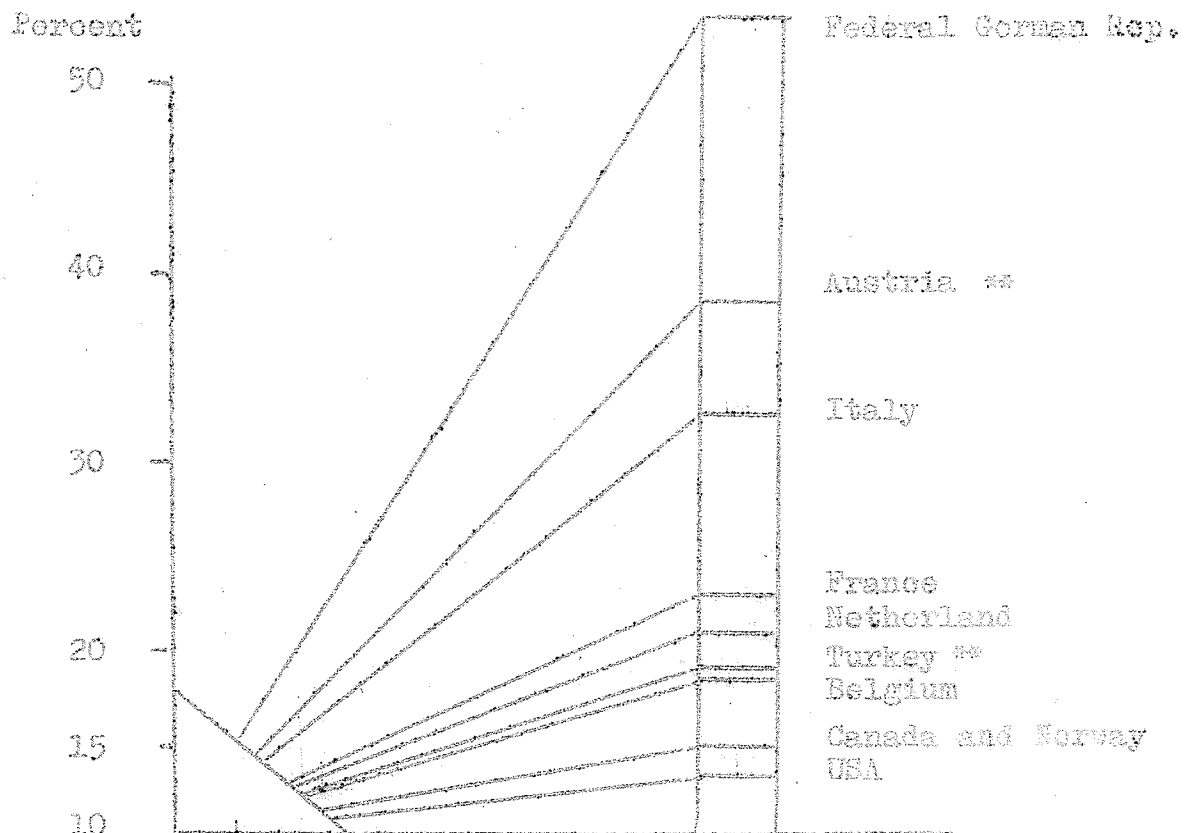
Higher share of dependent labor.

The restored favorable conditions for a future growth of the economy are also expressed in the fact that the share of dependent labour on the national income increased during these years. It rose from 57.7 percent to 64 percent. This means that a higher participation of the mass of people in new national wealth and income demonstrates the above mentioned consolidation. The wider spread of income was achieved in spite of wage restraint of German labour, which was criticized by many foreign observers. Figures prove that worker and the people as a whole benefitted from the general economic development without frequent strikes. This development was also due to full- and over-employment conditions in the second half of the period. The increased share in national income on the part of the worker was doubtless one of the greatest achievements in the post-war economic development. It secured social stability, which is so important for a positive economic growth and a reconstruction in particular.

Prices increases were modest.

If we base our investigation on the national income at present prices we find a certain price increase during these years. Price inflation included, national income rose from 87 billion DM in 1950

Increase in Gross National Product*
per capita
1956 vs. 1950 (1950 = 100)



* 1954 prices
** 1950-55

Source: Stat. Bundesamt
to 200 billion DM in 1958.¹ The price increases do not exceed that of other countries comparable with Germany. In general the policy of the government for constant and controlled prices was relatively successful.

High increase in per capita income.

Comparing the development of the German per capita income with other

1. Statistisches Jahrbuch, op. cit., p.482

countries we find that Germany with 160 in 1957 (1950=100) was highest among European nations, USA and Canada. This is shown on the chart of the preceding page. However the yearly expansion rate of the German gross national product is lower than that of many other countries towards the end of the period under consideration. This fact too indicates that after the rapid economic reconstruction the growth of the economy seemed to be normalized, as the expansion exceeds not anymore that of other countries.¹

When we analyze the growth of per capita income of the two reconstruction periods in Germany, that means that after the first and that after the second World War, we find that the national income compared to pre-war levels recovered more rapidly after the first war.² This is due to the higher population increase after the second war.

1. Statistisches Jahrbuch, op. cit., p.125*

2. H. Mendershausen, Post-war recoveries, op. cit., p.9

Chapter 2: Origin of Income

Structural changes in favor of industrialization

After having considered the national income as a whole and after having derived certain statements regarding the reconstruction from it, we now shall trace the origin in order to base our results. We have to clarify more exactly to what extent each individual section, we dealt with in detail in Part I¹ actually contributed to the general economic development and reconstruction. We have still to prove for example that industrialization progressed in Germany after the war, as we asserted. Also the role of the state in regard to its direct economic activity and production and its contribution to the national income has to be analyzed. "Of particular interest from the viewpoint of growth are shifts in the relative importance of the various sources of income": states Wallich.¹ As we consider the German reconstruction as only being successful when a sound base for further growth was achieved, we have to find out whether the shifts in the structure of income sources will also prove the correctness of our statement: A further steady economic growth seemed to have been secured by the end of the period in 1958.

According to Meier and Baldwin,² "we should be cautious about identifying an expansion in total output or per capita output with enrichment because the composition of the total output is also important." The two authors regard countries as rich when more than 80 percent

1. H. C. Wallich, op. cit., p.41

2. Meier a. Baldwin, op. cit., p.7

of the income was originated from non-agricultural industries. Wallich writes¹: "According to a widely accepted theory a rise in per capita income tends to be accompanied by shifts following a clearly defined pattern. The share of agriculture (and raw materials generally) tends to shrink that of services to expand, the share of industry expands as long as the country is still comparatively underdeveloped, while in a more advanced country, such as Germany, it tends once more to decline." This development is due to a shift in consumption patterns, as gradually the share of foods products declines in such an advanced country.

Agricultural section reached its limits in 1951

At the beginning of the German economic reconstruction the country had many characteristics of a poor one. Still in 1951 as the chart on page 162 shows, the agricultural sector expanded proportionately more than other sections of the economy, such as industry, distribution and services. But already at this early stage of reconstruction the first "food wave" which was cause for the increase in agricultural production must have come to an end and the agricultural section reached the limit of its capacity, as in the following years until 1954 the expansion of this sector slowed down, that means showed the "normal" decline in a "rich" country. Considering the index (1950=100) of the manufacturing industries, we find that it almost doubled its contribution to the Gross National Product, with a steeper trend during the first half than during the second. This too indicates that the German economy in the course of these years became again

1. H. C. Wallich, op. cit., p.41

that of a typical advanced country. Not only that the expansion of its industrial sector was by far larger than in the others, but also as from a certain stage the expansion once more tended to decline. The distribution sector shows more or less the same trend as that of manufacturing industries, although not as steep. The fact that the contribution of services lagged behind industry and distribution is regarded by Wallich as being not in line with normal pattern of economic development. As we have outlined, banking and transport services did not benefit as much from the rise in consumer demand and free prices as manufacturing and distribution did. Not only because their prices remained controlled, but also because the impact of war and the lack of sufficient investment funds caused relatively great difficulties in expansion of services. Also as Wallich points out, this section was not engaged as much as others in export trade, which became an important source of income during these years. This deviation from normal pattern of economic development seems to indicate a typical feature of not only the German but any reconstruction of an economy. However the fact that the services towards the end of the period were still rising while the expansion of other sections slowed down demonstrates clearly that the German economy finally returned to normal pattern of growth, after reconstruction was completed. This apparently proves that the reconstruction was successfully turned into a normal growth process and confirms respective statements in the preceding chapter.

1. Price increases in services were proportionately higher after 1954. Therefore 1954 is not a good base for the comparison in this respect. Also one must bear in mind that the extensive road haulage on own account in industry is not contained in the service income.

By its income structure Germany never ceased being a "rich" country

We can further supplement this statement by considering the absolute shares of the various sections instead of index and trend. When Heiler and Baldwin are of the opinion as mentioned before that a country with a high income level draws its income only by less than 20 percent out of agriculture, we find that Germany in spite of the destruction during the war had never ceased to be a "rich" country. The share of agriculture was at no time greater than 10 percent. In 1950 9.3 percent of the Gross National Product was contributed by agriculture and in 1958 only 6.7 percent.¹ Also the share of mining and energy dropped from 6.9 percent to 6.0 percent, which was mainly due to large increase in industry. Furthermore the fact that contributions of the state, measured by the income of civil servants, dropped from 9.0 percent to 6.8 percent. This shows that public administration did not expand more than other section, ^{in/} in spite of the relatively great public intervention in economic affairs during these years.

The German economy shows the typical features of an advanced economy by the fact that already in 1950 36 percent of Gross National Product originated in its industrial sector. During the following years this share rose to 43 percent. When construction is included in this figure almost half of the whole National Product was supplied by these two sections at the end of the period. This is about the same structure as in the United Kingdom, the industrialized country, that is best comparable with Germany.

1. Deutschland Heute, op. cit., p. 379

Price development had no great impact on the structural change.

When we include the price development by analyzing the origin of Gross National Product at current prices, we find more or less the structure as before. The share of agriculture is over the whole period slightly higher. Also the share of industry is higher in 1950, because industry had come under pressure already in 1954, the year which we took as a base for the index at constant prices. Consequently the share at current prices increased not as rapidly as that of the volume and it reached only 40.5 percent (43.4 percent at constant prices) in 1958. This fact also shows that after the first price boom shortly after the currency reform and during the Korea boom, a certain consolidation took place during later years. It is noteworthy that the share of construction and distribution sector remained almost the same in this comparison.

Increase in national income per capita of worker

In this connection it is also interesting to examine the productivity in the individual sector. As already stated before, simultaneously with the expansion of capacities and output an intensification, mainly under the pressure of full employment and stiffer competition, was achieved in the production sphere. We can measure the rise in productivity by relating the National Product at constant prices to the number of workers¹. The national Income per capita of all workers (1950=100)

1. Statistisches Jahrbuch, op. cit., p.480 - The problematic of this measure is recognized, yet it can serve as a rough mean of orientation for our purposes.

rose to 1.44 in 1958. The increase per year which was 8.5 percent in 1951 dropped to 1.8 percent in 1958. It is obvious that as soon as the economy was reconstructed under full employment conditions, that the increase had to slow down to a more normal growth-rate. In subdividing this productivity rate into main sections, it is surprising to find that the agricultural sector obtained an increase of 155 (1950 = 100) in 1958. This is due to the loss of labor but indicates also a real increase in the productive power, as was outlined before in this study.

Chapter 3: Investment and Consumption

High Investment Rate

In our analysis of the national income and its origin we concluded that expansion and structure indicate a successful reconstruction and further growth. We can enlighten this study by examining the two main components of income in respect to its utilization, that means to investment and consumption. We call a country poor, if the consumption level is low, quantitatively and qualitatively. To develop the economy of a country means to raise consumption and what is called "living standard" to a higher level. For this purpose certain obstacles have to be overcome, as development theories have shown. A productive capacity and capital stock have to be established, extended and intensified. This means that investments must be financed by savings before the final aim of a higher consumption level can be achieved. The main source for capital accumulation is, or better to say, should be domestic savings, which is non-consumption of income.

Germany, although it was classified as an advanced economy, was after the war a partly "poor" country. It had primarily not to tackle problems of unemployment and maintaining growth, as it is typical for mature and advanced economies. Germany during its stage of reconstruction had to secure first of all sufficient funds for investments and capital accumulation. In order to solve its main problem of rebuilding and expanding productive capacities and to finance investments it had to increase savings and restrict consumption. Only with a relatively high savings rate revival and reconstruction of the German economy could take place.

Wallich points out¹: "The utilization of (German red.) income presents a striking feature: the low share of private consumption and the high share of investment. These two facts contain a good part of the explanation of Germany's rapid recovery." During the whole reconstruction period investments utilized 23 percent of the Gross Social Product.² Its absolute value at constant prices more than doubled during this period. This means that during these years the investment rate did not rise, but, what might be striking, was maintained. A rate of almost one quarter of the gross national product is indeed very high. Even in the previous planned economy and its pressure for a high investment rate and restriction of consumption achieved "only" 18 percent in 1936 while the comparable rate for 1953-54 in the Federal Republic was 21 percent (at 1936 prices). Other European countries, which also suffered by the war, had a far lower rate. Belgium, for example, as a highly industrialized country had an investment rate of 17 percent, France of 18.5 percent, and United Kingdom of 15 percent.³ Also when we compare the German investment rate after the second World War with that after the first war, we find that it was higher during the reconstruction period under review.⁴

The relatively high investment rate explains the fact that production after the currency reform in 1948 rose so rapidly. Consequently production expanded and full-employment was achieved within a short period.

1. H. C. Wallich, op. cit., p.42

2. Statistische Jahrbuch, op. cit., p.481, see definition of "investment"

3. Statistische Jahrbuch, op. cit., p.128*

4. H. Mendershausen, op. cit., p.48

Measures for achieving a high Investment Rate.

A general favorable atmosphere for investments was created by the economic policy, which liberated important markets and restored freedom for entrepreneurs. Private investors and entrepreneurs were confident and optimistic in their expectations. They did not hesitate to raise funds on the capital market and to re-invest their own funds. With the aid of widely liberated prices and markets and under the conditions of a seller's market they obtained relatively high profit margins. What was frequently regarded as social injustice, which under a social and sociological aspect would be true, helped to restrict consumption and simultaneously to increase investment. Although Erhard strove for a higher consumption level and living standard of the people he followed a policy of the right order, namely "first the shirt and then the jacket", realizing that investment was a prerequisite for higher consumption. In co-ordination with this economic policy the fiscal policy designed a suitable tax system and helped to increase savings and investments by tax exemptions. In addition to this the government invested large funds directly primarily in utilities and housing, where private business abstained for several reasons. These considerable public investments were supplemented by distribution of counterpart funds from foreign aid. Besides this investment policy the Investment Assistance Law interfered with the structure of investments and removed bottlenecks by transferring financial means from those sections with large funds to those with small. This public intervention was necessary as no capital market existed during most years. But towards the end of the period government and business succeeded in their intention to establish a new and effective capital market, which also contributed to the high investment rate. That means that during the second stage

of reconstruction the government lowered its direct investment and partly removed its investment control, while the capital market took over its function of collecting savings and supplying means for investments.

Finally investments became important income regenerators.

At the end of this period and after completion of reconstruction the importance and function of investments gradually changed in the economy. As soon as productive capacities were sufficiently expanded and bottlenecks were smoothed out, investments were chiefly aimed of raising productivity by rationalization and automation. Under the conditions of full- and even "over"-employment and a rising capital-output ratio, which featured the advanced and reconstructed economy after 1956, the importance of investments turned more to that of an income regenerating instrument. Although the investment rate remained at a relatively high level, domestic and foreign consumption demand gained in importance. This, however, does not mean that Germany had reached a point, where it had to struggle against an investment stagnation. The growing share of "foreign contribution" in the utilization of the gross national product, which rose from 0.3 percent in 1950 to 3.2 percent in 1958¹ indicates that Germany's investment abroad and particularly in underdeveloped areas, commenced as soon as the economy was sufficiently reconstructed.

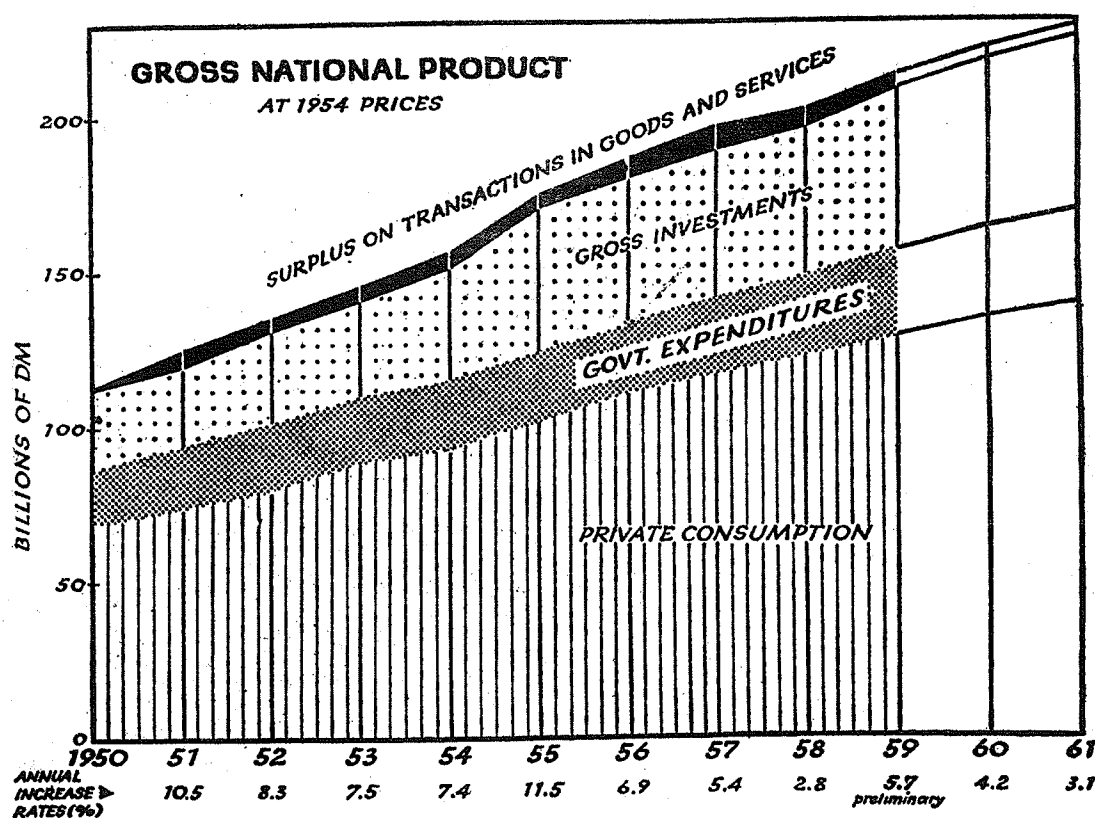
Low consumption rate contributed to reconstruction

The high investment and with it the reconstruction was not only accomplished by efforts in the production sphere and by the policy of

1. Statistisches Jahrbuch, op. cit., p.480; see chart on page 179.

the government. The low consumption rate which remained around 60 percent during these years, was not forced upon the people. Of course conditions were not in favor of consumers during the first stage of reconstruction, as already outlined. But the consumer himself realized, that he could not fulfil all his desires at once. In general he was intelligent and educated enough in his estimates and appreciations of the conditions and real requirements of the economy. Under the leadership of government and trade union the worker did not demand unreasonable wage increases, which seems so unorthodox to many foreign observers. His relatively low income therefore was compensated by proportionately high incomes among entrepreneurs, who enjoyed free prices and a sellers market and re-invested a great part of their income. In addition to this, many incentives for saving, partly given by the fiscal policy, kept the propensity to consume of high and low incomes small. The people in their majority were not only accustomed to discipline and low diet, but they acted conservatively, insofar as they performed and preferred saving before purchasing. As soon as most urgent needs such as food and clothing were covered, people started to save for durable goods, such as cars and houses. This means that temporarily more income than usual was saved at a time when it was to be regarded as an economic virtue. As the chart on the following page shows private consumption at constant prices rose continuously since 1950. This is also true if the gross national product is compiled at current prices. Consumption per capita at constant prices almost doubled during the eight years. This does not mean yet that the situation of individuals improved accordingly. But we have outlined

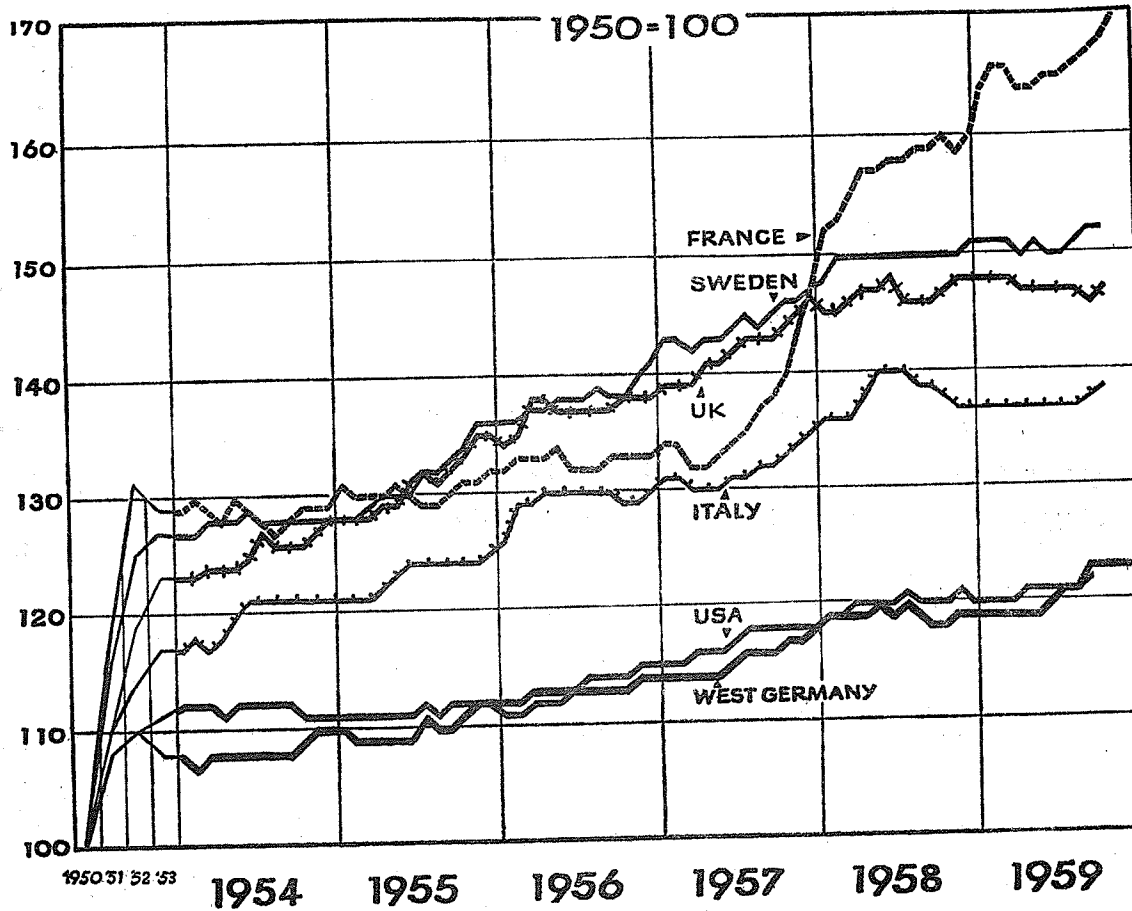
before that the share of workers has steadily increased, partly due to full-employment conditions and lack of labour. Furthermore has the real value of his growing income maintained by a relatively steady price level. The two charts on the following page show, that wages of industrial workers, for example, have increased far more



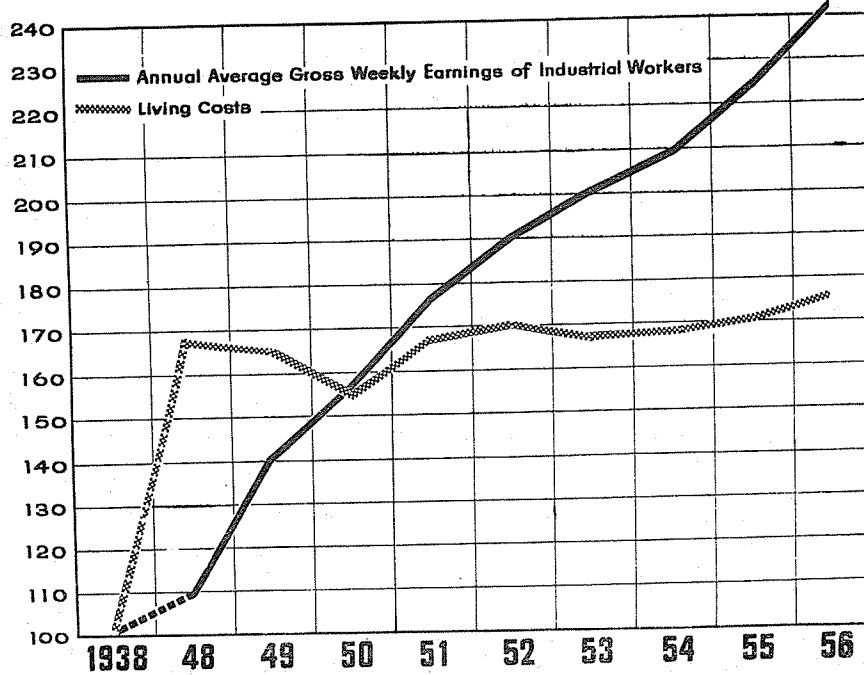
Source: Stat. Bundesamt

than living costs. Also when we compare the respective index with other European countries and the USA we find that Germany has had the smallest inflation of its living costs after 1950. This means that in Germany in spite of a relatively high investment rate the living standard of the people had considerably improved. When we regard as an aim of German economic development not only the securing of further economic growth at an advanced level but also the achievement of

COST OF LIVING INDEX



WAGES AND LIVING COSTS



higher living standard for the people, then we can state, that according to these figures this aim was reached. The policy of the people, and its government, which followed the slogan "Wealth for everybody" became doubtless a success. That this was obtained by a maximum of freedom is indicated by the fact, that the share of the public administration in utilizing the Gross National Product declined from 16 to 13 percent during these years. Besides this the government was for a long time saving large sums, which contributed to a small consumption rate.

All these facts permit confidence that Germany will maintain its economic growth and will become a major partner and creditor in the economic integration of nations in the Western world.

Conclusion and Summary

The rapid reconstruction of the German economy was doubtless a surprise for many observers in and outside of Germany. A prediction of an early recovery of the German economy at the end of the war and the prognosis of a higher production level and living standard than before the war within a period of ten years would have been considered extremely optimistic. The surprise, however, of the rapid comeback of the German economy seems to be rooted in some misconceptions. These appear to be the following:

One of the proclaimed war aims of the Allied countries, once they had been forced into the war, was to shatter the German economic potential for re-armament and therefore to destroy the heavy industry widely. The propaganda and conditions of the early post-war years in Germany apparently convinced many people that this aim was completely achieved and that Germany would not be permitted to re-establish a new heavy industry. Somehow the idea of the "Morgenthau Plan", by which Germany was to become an agricultural economy, was reflected in such expectations. In deed the policy of the occupation forces with its production prohibitions and dismantling programme followed the pattern of these ideas. Many competitors of German export trade wished that this country should not return to the world market at least for some time. And if the East-West split had not developed one does not know, if the allied policy would have executed its programme.

Secondly, many liberals throughout the world quoted the German economic development as an example for the wisdom of freeing markets and enter-

prices. During the post-war years the trend to economic planning and full-employment in particular by socialistic policies and a planned economy prevailed and liberals welcomed such a departure from a successful liberal economy. This, however, is not quite justified, for, as we have seen, the free market was more an aim than a reality in Germany during these years. For many observers, however, a free market mechanism is still slightly miraculous.

While these two factors were more of a political nature, lack of theoretical work on economic reconstruction and of modern historic examples apparently hindered a clear analysis of post-war economic development in Germany. The paradox that the economic destruction was a mainspring for the rapid revival is not easy to understand. In spite of war damage Germany had never ceased to be a country with an advanced economy. The destruction was only partial and merely physical.

Another factor which may have created the slogan of a German economic miracle was the surprise to the German people themselves. They had been told by their war-time leaders, that if ever the war was lost, no recovery would ever be possible and tolerated. This certainly many people believed. But when they realized what their free work and effort was bringing about, many were startled by this "miracle". Most of course were not sufficiently educated in economics to understand and judge the development rightly. This is also true for the judgement of former economic systems and policies. After having studied the phenomenon of the German post-war economic development, we find that although German recovery within ten

might have been a surprise it does not seem to justify being termed a "miracle". The German economy did not rise like the phoenix from its ashes simply because it was never destroyed completely. German officials have strictly contradicted this term, not only because it was not justified, but also because they foresaw negative international consequences and wished to avoid other countries and partners imposing extra burdens on the German people.² Probably the term of the "German miracle" if not originated was welcomed and used by Western governments to obtain larger contributions from Germany. Erhard states in this respect:¹ "...I do not believe that the idea of a 'German Miracle' should be allowed to establish itself. What has taken place in Germany during the past nine years is anything but a miracle. It is the result of the honest efforts of a whole people, who, in keeping with the principles of liberty were given the opportunity for using personal initiative and human energy." But still this statement of the responsible German official seems to be more an explanation of a liberal politician than that of an economist. Certainly the policy which gave the people the feeling that they work for their own welfare, was one of the strongest incentives and this spirit and effort of all circles was a mainspring for the economic revival. Furthermore, in the economic field itself, the problem was one of production. Productive capacities and markets had to be re-established. And therefore the economic problem which confronted Germany after the money was re-valued and a favorable political and social framework secured, was to master the investment problem. That this was brought about without a capital market will stand as an extraordinary achievement. Germany

1. L. Erhard, Prosperity, op. cit., p.116 (although he denies the term "miracle" the subtitle reads: "The economics of the German Miracle").

2. The refusal of the German government to share American costs for troops stationed in Germany is noteworthy in this connection.

was fortunate enough to find during these decisive years circumstances which kept the economy booming. It was the Korea boom and later the export boom, caused by the international demand for those products, which Germany was able to supply. But we also should not disregard the strong public intervention in various forms, which gave the German economy most the character of "guided capitalism". However, in spite of this wide state intervention and planning the spirit of the people was that of liberty, and individual initiative was doubtless a mainspring.

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Since the end of what we regarded the reconstruction period in 1958 many people within Germany have realized that there is still much left to improve. A publication, for example, which is to introduce American visitors to Germany after the war contained in 1956 an article with the heading "What are the reasons for the German economic Miracle?". Some years later we find in a new edition the heading "Germany without Miracles" and another year later "Prosperity on unsteady Grounds".

It goes beyond our study to prove that the completed reconstruction of the German economy within these ten years does not mean the restoration of a sound society and high national wealth. We have frequently indicated, that not all problems, due to the impact of the war, were solved in 1958. But still, the German economy seems to be a growing one and this at an advanced level. This very fact and the higher living standard of the German people after ten years of economic development permits an optimistic prognosis for future years. We attempted to show that this economic development and prospects were caused by certain economic conditions and policies. Only by misconception can such a process be called a "miracle". But the historical case of the

German economic reconstruction within ten years might give incentive to further theoretical work in the field of economic reconstruction and development. The German post-war economic recovery seems to prove that emphasis on economic freedom and appropriate state intervention and planning results in growth and general welfare.

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