

The Economic Development of Germany, 1948-1958

by

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A thesis, submitted in partial fulfillment of the requirements for the degree of a "Master of Arts".

University of Manitoba
December 28, 1960

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After the previous political and economic system had been abolished, destruction and extreme dislocation prevailed. The reparations policy of the occupational powers increased the economic difficulties.

Part I

Fundamental Factors for the Revival

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Potential re-development of post-war Germany. Does the economic theory cover the case of a partly destroyed economy? Fundamental requirements. Fundamental factors to be analyzed in the following chapters.

Chapter 2: Natural Resources, Population and Capital Stock 20

Natural resources. Population density and growth. Every fifth citizen was a refugee. Preponderance of old and female persons. Full-employment and high efficiency of labour. High proportion of entrepreneurs. The nature of the country and its history reflected an industrial people. Capital stock and national wealth. The extent of war damage was over-estimated. The partition of the German Reich favored the industrial potential of the Federal Republic. The national wealth was still considerable. Non-material assets and wealth remained.

Chapter 3: The Impact of the War-Time and Pre-War Economy.

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The positive impact.
 German people experienced a "free economy" and a "centrally planned economy".
 Worker and consumer did not demand full freedom after the war.
 The war experience of the people was an advantage for the re-development.
 Minor impacts of the previous economic system and development.
 Negative impacts of the war-time and pre-war economy.

Chapter 4: The Internal and External Political Framework.

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A strong federal government and political stability were favorable for the economic development.
 The same political party and government had remained in office since 1949.
 In the external political framework the East-West split was favorable for the economic development.
 The German re-armament has had many positive effects on the economic development.

Chapter 5: The Policy of the Federal Government.

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The economic policy.
 The policy cannot be classified as a prototype of liberalism.
 The so called "Social Market Economy" aimed for a maximum wealth for everyone.
 The extensive de-control of the economy immediately following the currency reform was a main-spring for the economic revival.
 The German school of "Neo-Liberalism" was the theoretical foundation of the economic policy.
 No deep differences in the economic policy of the two political opponents.

The fiscal policy.
 The fiscal policy was used as a powerful instrument in the economic revival.
 The tax legislation aided capital accumulation and investment.
 The income tax legislation was used for increasing saving and for directing investment.
 The turnover tax improved capital accumulation.
 Public expenditures and enterprises contributed.

The monetary system was reformed in 1948. The monetary system was reformed in 1948.

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The currency reform in 1948. The measures of the reform. Money supply was reduced by more than 95 percent. Social effects of the reform were partly negative. The currency reform was a success.

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Foreign aid covered import bill. Change from food supplies to raw materials after the currency reform. Counterpart funds relieved the investment problem. Foreign aid became a stepping stone towards the economic integration of European countries.

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Most business associations had a long history and survived the national-socialistic regime. After the war the entrepreneur and his associations gained a powerful position. The association of the manufacturing industry was dominant. Many other associations were active. Strength of trade unions. Labour and trade unions became a basic force for the economic revival.

Development in the major Sectors of the Economy

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The economic revival was primarily a production problem.

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

A slight recession around 1949.

In 1951 the "Korea Boom" changed the situation. For further expansion bottlenecks had to be broken.

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

The growth was different in the individual industrial branches.

Export boom in the capital goods industries. Serious bottlenecks in basic industries were gradually removed.

The rise in industrial productivity was impressive.

Also the number of industrial enterprises and turnover increased rapidly.

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

Chapter 2: Foreign Trade 110

Since 1951 a steadily growing export surplus. A constant low internal price level aided the export drive.

Foreign trade and currency exchange remained controlled during the first years.

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

Germany ready to aid underdeveloped countries.

Capital goods became the main export goods.

Two Thirds of exports go into other European countries.

Imports remained relatively small.

Imports helped to increase exports.

Share of food products on total imports dropped.

Half of the imports came from other European countries.

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

Trade between East and West Germany was small.

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Progress in the domestic trade was not very great.
Growing competition.

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Limited loanable funds during the first years.
The large integration and specialization of the banks determined the credit policy.
The revival of the securities market.

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Problems for railway transport.
Forty five billion marks were invested in transport.
Motorization still had to catch up with other countries.
Tourist traffic revived largely.

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Pre-war output was surpassed already in 1951.
The problem to increase productivity in agriculture.
Measures for an agricultural reform.
Reform was not completed in 1958.

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House building was a prerequisite for industrial reconstruction.
During the war 20 percent of all dwellings were destroyed.
The public intervention.
Four million dwellings were built.

Part III

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Reconstruction and new Expansion determined the economic growth.
 Gross national product almost doubled.
 High share of dependent labour.
 Price increases were modest.
 High increase in per capita income.

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Structural changes in favor of industrialization.
 Agricultural section reached its limits in 1951.
 By its income structure Germany never ceased being a "rich" country.
 Price development had no great impact on the structural change.
 Increase in national income per capita of worker.

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High investment rate.
 Measures for achieving a high investment rate.
 Finally investments became important income regenerators.
 Low consumption rate contributed to reconstruction.

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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 precludes during and before the war. As a student of economics at the Hamburg University and as an economist with

non-essentials and good organization to bring the material
to historical methods, of course, relating themselves to
distances, the years ought not be sufficient for exact compar-
isons. Another handling was the necessity 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 "German-to-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.

Winnipeg, Manitoba
December 23, 1960

Hilfer Wilborn

Germany, 1945-1949

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 1959 and 58 percent of