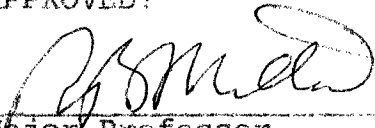


LUDWIG EHRLARD'S GERMAN NEO-LIBERALISM

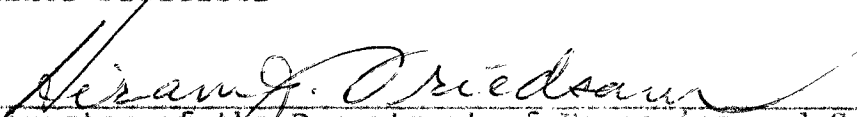
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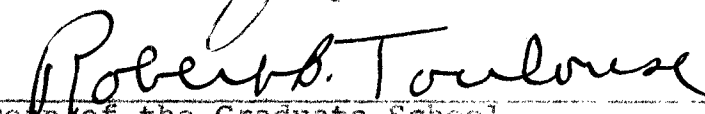
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LUDWIG ERHARD'S GERMAN NEO-LIBERALISM

THESIS

Presented to the Graduate Council of the
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CHAPTER I

INTRODUCTION

Statement of the Problem

This study involved an analysis of Ludwig Erhard's neo-liberal theories as applied to the reconstruction and revival of Germany since 1945. It has been the object of this study to determine what neo-liberalism is and how it was applied to Germany. Also, in cases where it was not applied, there is an attempt to show what causes prevented its acceptance. This is done by explaining the mechanics of what happened in Germany, what the neo-liberals proposed, and why or why not Erhard's neo-liberalism was accepted or rejected.

Purpose of the Study

The purpose of this study was to determine the major causes of German revival as well as reasons for their radical changes from Postwar Socialism to the acceptance of a basically free market economy, and also to determine the effects of neo-liberalism on the rapid recovery.

Delimitations

This study attempted to analyze the neo-liberal thinking and its application to Western Germany only.

France, Italy, and Japan are other areas which have been in part affected by the influence of neo-liberalism. Western Germany is the country in which the influence of neo-liberalism has been the most complete and, hence, has been the only country selected for detailed analysis.

Assumptions

In order to make this study, several pertinent assumptions were made: (1) Germany's recovery after the war was an extra-ordinary one; (2) There were certain forces behind this recovery; (3) Ludwig Erhard was Economic Minister and applied the new economic theory to Germany, new in a sense to Germany; (4) This new theory could have been responsible, at least in part, for the amazing German recovery; (5) Since Ludwig Erhard considers himself a German neo-liberal, the available writings of German neo-liberals such as Ropke and Eucken express the views of Erhard as well as the writings of Erhard express the views of the German neo-liberals.

Source of Data

Data for this study were obtained from the American Embassy of the Federal Republic of Germany as well as from various agencies of the Federal Republic within Germany. Various amounts of data were also obtained from the German Foreign Office as well as the European Coal and Steel Community Information Service in Luxemburg,

Luxemburg, and Washington, D. C. Other information was obtained from Pierre-Anare Kunz in Vevey Vot, Switzerland as well as readings of available books and articles relevant to the topic. Special appreciation to Otto Hieroyomi is acknowledged for personal advice in locating data.

Procedure

After having selected the topic, a thorough search of all available data was made. Also, all possible documents pertinent to the topic were acquired. It was necessary to locate the translated and available works of well-known German neo-liberals and analyze these ideas in light of German recovery. In areas which the theory was not accepted, research was done to find the reason for its rejection.

Definition of Terms

Germany — Is used in the sense as the Federal Republic of Germany. Germany and West Germany are used in synonymous terms.

East Germany — That part of Germany under the Socialist Democratic Republic which has been severed from the free world. East Germany is always referred to explicitly as East Germany within the text of this work.

B D L. — The Bank Deutscher Lander which was the title of the first central bank in Germany's free social market economy.

Bundesbank. -- This was the name of the Bank deutscher Lander after 1957.

European Economic Community. -- An association of six European countries: Belgium, France, West Germany, Italy, Luxemburg, and the Netherlands, for the purpose of eventually abolishing tariff barriers within their borders and establishing common import duties for products originating elsewhere.¹

European Free Trade Association. -- A trade association to strengthen the economies of its members by providing expansion of economic activity. It was established December 29, 1959, between Austria, Britain, Denmark, Norway, Portugal, Sweden, and Switzerland.²

European Payments Union. -- This organization was composed of the United States and seventeen European nations which participated in the European Recovery Program. Its purpose was to provide a clearing agency for trade balance of the European members and to discourage bilateral trade agreements.³

European Recovery Program. -- This was a plan by General George C. Marshall for the economic rehabilitation of Europe. This plan called for American aid as a loan or

¹Harold S. Sloan and Arnold J. Zurcher, Dictionary of Economics (New York, 1961), p. 118.

²Ibid., p. 118.

³Ibid., p. 119.

gift. This aid terminated in 1951.⁴

I M F. — The International Monetary Fund. This is a fund subscribed to by seventy-six countries seeking to stabilize international exchange and promote balanced and orderly trade. Under this program, a country can obtain foreign currencies to correct temporary maladjustments in their balance of payments.⁵

N A T O — North Atlantic Treaty Organization. An extension of the wartime alliance refashioned to meet the Soviet military threat and provide North Atlantic economic cooperation.⁶

Neo-Liberal — A particular group of economists herein described who have founded a new economic theory based upon the old classical school of thought. As used within this text, it refers basically to the German neo-liberals Ludwig Erhard, Walter Eucken, and Wilhelm Ropke.

Market Economy — An economy where the prices are determined by the free interaction of supply and demand.

O E E C — Organization for Economic Cooperation and Development. Originally consisting of seventeen nations, including West Germany, it was an instrument to help European nations plan their economic recovery jointly.

⁴Ibid., p. 119.

⁵Ibid., p. 179.

⁶Ibid., p. 236.

In 1960, this organization expanded to twenty countries and became known as the Organization for Economic Co-operation and Development (O E C D). Its purposes were then aimed at European integration.⁷

J E I A — Joint Export Import Agency. This institution was the first means by which the Allied forces controlled German exports and imports.⁸

Cartel — A contractual association of independent business organizations located in one or more countries for the purpose of regulating the purchasing, production, or marketing of goods by the members.⁹

D M — Deutschmark. This is the present-day German monetary unit. In terms of a dollar, one DM = \$.25.

R M — Reichsmark. The monetary unit of Hitler's old Reich.

Franc — The monetary unit and a current coin of France.

Pound — The monetary unit of Great Britain, equal to one sovereign, twenty shillings, or 240 pence. One pound is equal to two dollars and forty cents.¹⁰

⁷Ibid., p. 245.

⁸Henry C. Wallich, Mainsprings of the German Revival (New Haven, 1955), p. 231.

⁹Sloan and Zurcher, p. 51.

¹⁰Ibid., p. 369.

G A T T -- General Agreement on Tariffs and Trade.

A multilateral trade agreement signed in 1947 by twenty-three nations. This ended many bilateral agreements, reduced differential duties, import quotas, and other trade restrictions.¹¹

E C S C -- European Coal and Steel Community. This is an association of the same countries within the EEC designed to create a single market for coal and steel for the six countries comprising the association.¹²

Significance of Study

Germany's revival was deterred in the years 1945 to 1948 due to Allied occupational policies. Meanwhile, the rest of Europe was busy rebuilding. After regaining a certain element of freedom in 1948, the German economy swiftly exceeded other European nations and has maintained that position to this date.

After considerable research it was concluded that this thesis is the first extensive American effort to analyze the neo-liberal economic theory of Ludwig Erhard and his attempt to apply it to the German economy. This is done by explaining the mechanics of what happened in Germany, what Erhard proposed, and why or why not Erhard's neo-liberalism was accepted or rejected. When Erhard's views

¹¹Ibid., p. 146.

¹²Ibid., p. 118.

were rejected an attempt is made to show what forces prevented acceptance.

CHAPTER II

THE NEO-LIBERAL ECONOMIC THEORY

Origins of the Theory

Neo-liberal thought had its birth within the period of the 1930's. By 1945, the theory had been expounded by such men as Walter Eucken, Wilhelm Ropke, and Ludwig Erhard. It could be said that Eucken was the conditioner, Ropke the proponent, and Erhard the experimenter of neo-liberal thinking.

In August, 1938, the Walter Lippman Conference took place in Paris. The purpose of this conference was to unite the scattered forces of liberal doctrine that existed in the twentieth century. The central idea of the conference was to free man from the bonds of collectivism. It was this conference which also adopted the term neo-liberals. This was to cause displeasure to some of the members of the conference.¹

It was in Germany that the neo-liberals were to gain their chance to apply their theory. This chance came with the appointment of Ludwig Erhard as Minister of Economics in 1949, under the Adenauer regime. Once in office, Erhard

¹Pierre-Andre Kunz, The Experience of the Neo-Liberals in Germany, translated by Richard Earnhard (Denton, 1965), p. 32.

relied heavily upon the advice of his contemporaries, especially Eucken and Ropke. This group never failed to point out that prewar socialism and postwar socialism were akin and that only the neo-liberal policy was directly opposed to the dangers of collectivism.² The fact that Ludwig Erhard was appointed Economics Minister of the Federal Republic of Germany does not mean his theory was accepted in its entirety. Some situations existed, as this thesis will bear out, that demanded deviations from the theory.

In the fall of 1947, a group of eminent men met at Mont Perelin in Switzerland to discuss the conditions under which a society of free men could exist. The outcome of this meeting was the formation of an international society uniting all liberal thinking economists, historians, philosophers, and sociologists. The Mont Perelin Society was the name chosen by this group in which Erhard holds membership.³

Included in this group were Wilhelm Ropke, Willard Rappard, and Hans Barth from Switzerland; Jacques Rueff and Bertrand de Jouvenel from France; Luigi Einaudi and Carlo Antoni from Italy; Walter Eucken from Germany;

²Statement by Otto Hieronymi, Professor of Economics, University of Dallas, Dallas, Texas, November 21, 1964. Otto Hieronymi was a student of Wilhelm Ropke at Geneva International Institute of Higher Studies.

³Ibid.

Fredrick Hayek, Lionel Robbins, John Jewkes, E. Eyck, Michael Polanyi, and S. R. Denison from England; Karl Brandt, Henry Hazlett, Ludwig von Mises, and George Stigler from the United States.⁴

Another organization of which Erhard is a member is the Action Group for the Social Market Economy in Bad-Godesburg. This organization is quite similar to the Mont Perelin Society and, in addition, publishes Ordo, which is an annual neo-liberal yearbook.⁵

The American philosophy in the immediate postwar days was directly contrary to what most Germans, and Erhard, desired. The American attitude was that Germany could not have an economy without direct control because of the many resource shortages that existed. The Allies showed a distinct desire for dismantling German industry and instituting collective policies. This was at a time that the whole of Europe was showing a bias toward socialism.⁶

A strong argument that Erhard and his contemporaries had was that they were as anti-Nazi as any American or Ally. During the war they had continually opposed Hitler and his policies. This fact caused other Germans who were

⁴Wilhelm Ropke, "Liberalism and Christianity," Modern Age, I (Fall, 1957), 133.

⁵Hieronymi.

⁶Ibid., December 12, 1964.

anti-Nazi to rally behind Erhard. Erhard thought that to restore order in Germany, all remnants of postwar socialism had to be destroyed. Furthermore, Erhard felt that the Germans would have to be taught how to live in a free society.⁷

Erhard carried the brunt of the load in winning public support for the neo-liberal thinking. His theory played an important part in the Christian Democratic Union's political victory over the Socialist Democratic Party in 1949.⁸

Under Erhard's leadership, West Germany has followed a general pattern of neo-liberalism since 1948; the theory is now considered one of the major causes of Germany's rapid recovery. Opposition to Erhard's ideas was deeply rooted and widespread. The Allies were fearful of his proposals to abolish all economic controls when supplies, even of basic foodstuffs, were critically short. The socialists saw him as the leading threat to the planned economy which they hoped to impose on West Germany. The monopolists quickly realized that Erhard was their deadly enemy and proceeded to sabotage his work where possible.

Despite this opposition, many of Erhard's policies were enacted, and Germany experienced the highest rate of Gross National Product per capita of any other country in the Organization for Economic Cooperation and Development.

⁷Ibid.

⁸Charles Wighton, Adenauer (New York, 1964), p. 108.

TABLE I
 GNP PER CAPITA OF VARIOUS OECD MEMBERS
 (1950 = 100)

Comparative Figures						
	1950	1951	1952	1953	1954	1955
Federal Republic	100	109	113	125	133	147
Austria	100	111	111	114	126	140
France	100	105	107	110	114	120
Italy	100	107	109	117	122	130
Norway	100	102	105	108	112	114
Sweden	100	99	101	104	110	113
United States	100	106	108	110	107	114
Netherlands	100	101	102	110	116	124
United Kingdom	100	101	101	105	110	113
Belgium	100	105	104	108	111	115

SOURCE: Federal Ministry of Economics, Achievement in Figures, (Wiesbaden, 1963), p. 88. It must be noted that this computation is based on relative GNP growth rates and not absolute.

TABLE I Continued
 GNP PER CAPITA OF VARIOUS OECD MEMBERS
 (1954 = 100)

	Comparative Figures				
	1956	1957	1958	1959	1960
Federal Republic	155	162	165	174	187
Austria	147	155	159	164	177
France	125	131	132	133	140
Italy	134	142	148	158	168
Norway	118	119	118	125	129
Sweden	116	119	120	125	129
United States	113	113	110	115	116
Netherlands	127	128	129	133	142
United Kingdom	114	116	117	118	124
Belgium	119	121	117	121	125

Actually, Adenauer had very little knowledge of economics as he was a lawyer by trade.⁹ He, therefore, wisely gave Erhard a free hand in this realm but failed to support him on many occasions. Erhard seemed to understand German psychology and offered effective incentives at every chance.

Neo-Liberal Thinking

In 1945, in the immediate postwar days, the problem of selecting an adequate and workable political philosophy faced the German people. In this particular era, postwar socialism prevailed in Germany as well as in other areas of Europe. These areas were plagued with depressions, monetary and fiscal problems. Most areas of Europe were relying on the doctrines of Keynes in the economic realm. Germany was actually faced with three political philosophies from which to choose. She could accept a collectivist economy which would denote controls and planning. Most Germans had bitter dislike for such a system due to their past experiences. Others felt that a lesser form of socialism would be the answer since a certain amount of planning and control was indispensable. The third avenue presented a radically different conception considering Germany's past. This would involve accepting a new theory which was heretofore untried

⁹Terence Prittie, Germany Divided (Boston, 1960), p. 206.

and unproven. This was the theory of the Freiburg school whose founder was Walter Eucken and whose chief proponents were Ludwig Erhard and Wilhelm Röpke. The Freiburg school called themselves the Ordo-liberals, orden being the word for order in German.¹⁰

This school of German neo-liberals argues that a collective economy is unable to determine what kind of and how much production should take place to satisfy needs because a collective society has no means of measuring production. This inability to measure brings about errors in production and investment which ultimately limits profits. The collective authority puts all emphasis on investment and ultimately causes forced savings. If this emphasis on investment proves inefficient, the collective authority resorts to the issuance of currency which absorbs all unemployment, but at the same time plants the seeds of inflation. The emphasis on investment further produces a multiplication of unsatisfied demands and useless production.¹¹

To the neo-liberals, the collective economy, a welfare state, is nothing but an immense pumping and distribution center of fortune. The people under such an economy are pressured with higher and higher taxes which are then distributed in the form of aid, subsidies, and free services.

¹⁰Donald Watson, Economic Policy: Business and Government (Boston, 1960), p. 71.

¹¹Kunz, p. 38.

This system does not enrich the nation, it is felt, but rather impoverishes it, since the whole system works on a mass basis of wastage caused by the collectivist administration. Such wastage has serious effects upon the spirit of enterprise, as excessive control discourages the entrepreneur from producing better and more, and the gain he would derive from more efficient production is taken by the treasury. The entrepreneur is guaranteed an outlet for his product because an excessive demand is maintained. If his enterprise should ever fall into difficulty, the state would rush to his aid to avoid unemployment. The neo-liberals feel that an economy must be sought in which increases in production and productivity permit salary increases, thus freeing man from need and enhancing his individual initiative.¹²

The German neo-liberals feel that a society must be created for the good of the man who lives in it. Such a society would contain the maximum of liberty and the minimum of coercion and permit an individual to develop dignity and personality. Thus, in sketching their program, the neo-liberals feel that it is not necessary to concentrate purely on the economic needs of man but that it is essential to grasp man as a whole. Consequently,

¹²Wilhelm Ropke, A Humane Economy, translated by Elizabeth Henderson (Chicago, 1960), pp. 227-248.

the economic structure can only be reconcilable with a democratic political regime in a state of law. These two institutions are essential for the maintenance of a market economy. This structure can only be a market economy of which the principles are a coherent price mechanism, a stable currency, free markets which anyone can enter, private property, and a certain constancy in the climate of the government of the economy. This market economy is not applicable to just any society. It must be based on the whole of moral and social value, but it aids these to develop and grow firmer. It is felt that society can be educated in liberty; such education is necessary to an economy which has been plunged into a collectivist society void of moral and social values.¹³

The German neo-liberals feel that the most important thing is to guarantee each man his individual freedom within the framework of law. This would be carried out by making provisions for individual liberty and reconciling these provisions with a state of law. It is not a question of the most profitable economic form but the one that best guarantees liberty. The problem, therefore, is not posed so much in economic terms but as in human terms.¹⁴

¹³Kunz, pp. 40-41.

¹⁴Ibid., p. 27.

The primary emphasis of the German neo-liberals is placed beyond the supply and demand of goods and services. The importance is put upon assuring man a dignity, a richness, and a fullness of existence, the foundations of which are not of economic order but more of moral and religious order. The neo-liberals claim that the socialists have contributed to their own downfall by neglecting man's moral and spiritual welfare in an unrestrained search for profits.¹⁵

The neo-liberals feel that too many decisions in the past have been based on economic profit and that man is too often judged by his financial power. This, then, has made man the slave of progress, determinism, and other earthly values. Under this type of system, elements such as democracy and competition become serious defects. Social and human concerns, according to the neo-liberal, must have the upper hand over short-run economic considerations when they conflict on fundamental questions.¹⁶

Ropke sees our modern day civilization clinging to the outdated laissez-faire theory and quite susceptible to collectivism. He feels that the solution to this problem is the enactment of a free market economy with the state

¹⁵Ropke, A Humane Economy, pp. 103-128.

¹⁶Kunz, p. 28.

formulating the standards of economic life with consideration for the dignity and personality of man.¹⁷

The German neo-liberals are of the opinion that a free market economy will render social justice, protect the people, provide security, distribute justice, and do away with the exploitation of consumers, suppliers, and workers. Duties of the state in this social market economy are enacting factory legislation; providing care for the sick, aged, and unemployed; and making provisions for a subsidized education. To help finance these, a progressive income tax is recommended. The neo-liberals are proponents of social insurance and unemployment insurance but not compulsory health insurance.¹⁸

Intervention and the Price Mechanism

The term neo-liberal was adopted to show that this group of liberal economists has cut resolutely away from the old liberalism of the nineteenth century. They have not tended to rejuvenate old policy but rather define and construct new policy to fit the present century. The German neo-liberals give credit to nineteenth century liberalism for making possible the industrial revolution,

¹⁷Wilhelm Ropke, The Social Crisis of Our Times, translated by Annette and Schiffer Jacobsohn (Chicago, 1950), pp. 23-186.

¹⁸Henry Oliver, Jr., "German Neo-Liberalism," Quarterly Journal of Economics, LXXIV (February, 1960), 148.

thereby aiding progress. The neo-liberals feel, however, that classical liberalism sowed the seeds of its own destruction because it allowed the liberty of association. This allowed for the formation of cartels, which prevented the principle of competition from displaying its effects. Competition began to kill competition, and soon it became possible to directly influence the play of supply and demand. It is because nineteenth century capitalism overlooked this fact that modern-day capitalism has no free function of supply and demand. This leads to inequalities which do not exactly favor the most efficient sectors of the economy. These inequalities have led the state to intervene, which explains the stronger and stronger hand of the state in the economic area.¹⁹

It is this type of intervention which the neo-liberals are against because it breeds bureaucracy and privileged positions and tends to encourage cartels. Due to uncoordinated policies, state intervention sometimes cancels out other policies because of a lack of total concept of the problem. The neo-liberals feel that interventionism cannot represent an economic organization of stable character until the interventions have been submitted to general criteria and a total conception. They are aware that it is hard to

¹⁹Walter Eucken, The Foundations of Economics, translated by T. W. Hutchison (Chicago, 1951), pp. 140-175.

do away with political intervention in the economic sector, but they feel intervention should be according to precise criteria. False intervention, it is felt, will lead to collectivism and an economy totally directed by the state. Intervention which tries to replace a market economy can only be an interlude to collectivism.²⁰

To the neo-liberals, the essential task of the state is to create an economy where the price mechanism can function freely. To guarantee this, the state may intervene and even intervene often if necessary. It intervenes according to a total plan at first and not in a haphazard manner. Its interventions must be coherent and tend towards a goal. This goal should be to guarantee the functioning of the market economy and to protect the price mechanism.²¹

The neo-liberals demand that intervention must never be conservative. The state must never continue to maintain life in sectors which are not viable, nor should it defend acquired positions. If the state intervenes, the intervention should be to help the threatened industry leave its precarious situation and to help it convert itself to act on another market. Neo-liberals further demand that this intervention be in conformity and systematic. An intervention

²⁰Wilhelm Ropke, Civitas Humana, translated by Cyril Spencer Fox (London, 1948), pp. 24-69.

²¹Kunz, p. 44.

would be in conformity when it did not paralyze either the price mechanism or the automatic adjustment of supply and demand which flows from it. An intervention not in conformity would paralyze the price mechanism. However, conformity does not make every intervention recommendable.²²

The German neo-liberals believe the price mechanism to be a sensitive indicator of the forces of supply and demand. However, they depart from the conception of the classicals who wish to see in this function a divine invisible hand, perhaps a superhuman hand, which assures harmony. To the neo-liberals the price mechanism is a tool of which more must not be asked than it is capable of doing. The principal role of the state, according to the neo-liberals, is to create a social order, guarantee human values, maintain a state of competition, and guarantee freedom of the price mechanism. In affirming this, the neo-liberals go beyond the widespread prejudice that the state intervenes only to limit the play of competition. To accomplish its designated tasks, the state must refrain from taking measures which cause people to unite.²³

Neo-liberals point out that the maldistribution of income is inherited from the past, and reforms are needed

²²Ibid., pp. 44-45.

²³Ibid., pp. 42-43.

to correct this. Such reforms are considered extra-economic undertakings which will come to naught if the market is abandoned.²⁴

The neo-liberals desire a market composed of numerous small economic units so as to approach a purely competitive market. Under such a situation, no buyer or seller could influence the price mechanism.²⁵

This school of economic thought would support a strong but general economic development. The neo-liberals prefer the balanced growth approach over an unbalanced approach; consequently, they would agree to temporary aids to business, agriculture, and research if such aid would contribute to proper economic balance. Nevertheless, they feel that private enterprise can best set the proper pace for growth when allowed to function with a minimum of control.²⁶

The German neo-liberals feel that technological advances do not lead to economic concentrations and hindrance of advancement but rather technology tends to increase competition in markets which have tended to develop towards monopoly.²⁷

²⁴Patrick Boorman, "How Explain the German Comeback," America (September 17, 1955), p. 93.

²⁵Walter Eucken, This Unsuccessful Age, translated by John Jewkes (New York, 1952), pp. 29-40.

²⁶Watson, pp. 82-83.

²⁷Ropke, Civitas Humana, pp. 172-173.

Employment and Monetary Theories

In his "General Theory of Employment, Interest and Money," published in Germany in 1936, John Maynard Keynes included a special preface to his German edition. Within the text of this preface, Keynes praised Hitler's program in glowing words. He stressed the point that Hitler was fully implementing the Keynesian full employment policy as it should be and urged the German people to give it their support. This preface was enough to make any post-war German reject the Keynesian economic theory and merited Keynes the classification of a socialist.²⁸

The full employment policy of Keynes is no less badly received. Full employment, say the neo-liberals, is a political concept which must be accepted. But it is not a question of gaining full employment by sacrificing all other employment policies. This would only threaten the future. The Keynesian employment policy, as the neo-liberals see it, would let a constant inflationary pressure establish itself in an effort to maintain an effective demand in order to establish a sufficient level of investment. This policy bears in itself serious germs which threaten the entire structure of the economy. A set-back in business causes not only a set-back in investments but a set-back in the economy itself. According to the neo-liberals, Keynes' full employment

²⁸Hieronimi, November 21, 1964.

policy deals only with investments and fails to consider the imbalances which can occur in the rest of the economy. The full employment policies of Keynes destroy the currency, due to inflationary pressures created by an intense emphasis on investments. Inflation, in turn, destroys the self-regulating mechanism which causes profitable investment to be made while discouraging wasteful investment. Productivity becomes less and less respected, and false investments continue to increase. To guarantee sufficient markets for production, according to Keynesian policy, more money injections are necessary at an ever increasing rate and ultimately lead to an inflationary spiral. These Keynesian policies invite weakness in the economy and sacrifice the possible solution of short run problems to the inherent dangers of long run problems.²⁹

Keynes, in Chapter Twenty-One of his "General Theory of Employment, Interest and Money," argues that in an economy where production has reached full employment level the growth of monetary circulation causes prices to rise. But this is not the case when production is elastic. With elastic production, according to Keynes, and which he assumes, the growth of currency in circulation has more of an effect on demand and on production than on prices. The quantitative theory, he claims, is valid only for an economy of

²⁹Ropke, A Humane Economy, pp. 190-216.

full employment. Keynes further argues, in the same chapter, that certain secondary causes, even under-employment, might bring about a general rise in prices. And when prices do rise, there often develops imbalance in demand and supply; in other words, supply may not develop as rapidly as demand. Keynes also says that the law of diminishing profits can sometimes up prices. The lowering of productivity may cause prices to rise. Finally, the appearance of bottlenecks may be a reason in limiting supply below the level of demand and hence cause price increases. Keynes feels that it would be in vain not to foresee a certain rise in salaries which would occasion a rise in prices. In conclusion, Keynes states that, in reality, prices tend to rise progressively as employment increases, but this is not harmful because lightly increasing prices will induce the public to consume and invest, which will aid full employment.³⁰

The neo-liberals feel that a firm and solid monetary policy is an indispensable base for durable expansion, more so than the full employment policy known to Keynes. Such solidity can be assured only if investment does not exceed authentic savings. To the neo-liberals, this healthy monetary base must be present before any economic policy is attempted. This is the important neo-liberal principle,

³⁰John Maynard Keynes, The General Theory of Employment, Interest and Money (London, 1961), pp. 292-309.

whereas to Keynes, the importance is upon full employment of all resources.³¹

This school of thought would demand monetary and credit policy which would maintain a currency with stable values, which the neo-liberals feel is the essential base for a market economy. The neo-liberals feel that the task of providing a solid monetary base is not a task of a government which would be subject to political pressures, but to an organism capable of judging in an independent manner. This would be a central bank. Actually, the neo-liberals demand a certain amount of intervention in the monetary realm.³²

Deviations Within the Neo-Liberal School

In the United States, the Chicago school of economics has a close resemblance to the neo-liberals. This school proposes that the best economic system would be one of universal free competition and nonintervention operating within the framework of built-in stabilizers. The difference between these two schools lies in the area which they stress. In Germany, the stress is upon free competition and an orderly price system. The Chicago school stresses the automatic built-in stabilizers whose proper functioning would forestall depressions.³³

³¹Hieronymi, November 21, 1964.

³²Kunz, p. 46.

³³Henry C. Wallich, Main Springs of the German Revival (New Haven, 1955), p. 110.

Any school of economic thought will, of course, have its radicals. Ludwig von Mises and Frederick Hayek are the two radicals of the neo-liberal school. In many cases, it is felt that von Mises sees the government only as an assistant to the proper functioning of the market. Some classify him as a strict laissez-faire economist because he sees the market as a social cooperation of individuals and believes each individual can choose what work he wishes to do within the social division of labor.³⁴

Hayek, on the other hand, is strongly against large-scale government intervention because he feels large-scale government leads to socialism. He further feels that freedom and democracy cannot exist under the resulting socialism. Hayek does repudiate classical economics in that he would be for strengthening competition and economic policies by rules of law. He would, for example, support such policies as minimum wages and social security if they were dictated by rule of law and applied to everyone.³⁵

Summary of the Neo-Liberal Theory

Ropke is of the opinion that the prestige of the market economy is so great in the western world that it has robbed western socialism of its powers. He feels that the Germans

³⁴Ludwig von Mises, Human Action (New Haven, 1949), p. 712-737 and 829-849.

³⁵Frederick Hayek, The Road to Serfdom (Chicago, 1944), pp. 43-119.

adopted the market economy primarily because of their bitter past experiences with centrally administered markets. Ropke states that today, there seems to be a gap between theory and practice, due to the laxness of the government and central bank in controlling creeping inflation set in motion primarily by inflationary wage demands.³⁶

The neo-liberals, through Erhard, have not been able to enact their entire economic policy as fully as they would desire. In some respects, they have been forced to compromise. However, it seems that the results achieved by compromise might point out the value of flexibility to the neo-liberals.

Of the German social market economy Egon Sohmen says:

Nobody in his right mind would claim that West Germany is even close to perfect competition. The same variety of different forms of market structure can be found there which we are observing in all other advanced industrial nations. But the postwar German experiment seems to suggest that it is feasible to intensify competition sufficiently to make an economy perform markedly better than under alternate forms of social organization.³⁷

Wallich expresses the opinion that the social market economy has not been altogether free nor outstandingly

³⁶ Wilhelm Ropke, "Will West Germany's Free Enterprise System Survive," Commercial and Financial Chronicle, CXCIV (June, 1962), 42 (2794).

³⁷ Egon Sohmen, "Competition and Growth, The Lesson of West Germany," American Economic Review, XLIX (December, 1959), p. 994.

socially conscious. Its great contribution has been that it gives incentive to individual initiative. There are others who argue that Germany recovered in spite of her economic policy instead of because of it.³⁸ It seems that the ideas expressed by Sohmen and Wallich more nearly approach reality in Germany today.

The neo-liberals, in any respect, do not intend that their system will reach an ideal, as they believe that monopoly is inevitable in a few industries and oligopoly in a somewhat larger number of industries. The majority, however, agree with Eucken that policy should unite political and economic power only when there is no feasible alternative. In light of this, it would be dangerous to expand the role of state bureaucracy and give office holders arbitrary powers incompatible with the role of the law. It is generally believed that where oligopoly prevails, competition is still possible if government prevents mergers and monopoly wars.³⁹

Oliver gives a good summation of neo-liberal theory in this statement:

The idea that neo-liberal theory maximizes consumer autonomy is merely the libertarian version of the familiar doctrine that competitive markets plus "the rule of law" yield the best

³⁸Wallich, p. 147.

³⁹Henry Oliver, Jr., "Order and Coersion: A Logical Critique," Southern Economic Journal, XXVII (October, 1960), 82.

allocation of resources. Based on relative preference rather than the marginal utility theory of demand it substitutes maximum action in accordance with preferences for maximum satisfaction. Neo-liberal writings on allocation shift back and forth between utilitarian and libertarian vocabularies, with the two sometimes appearing interchangeable. Most frequently, the West Germans refer to their system's superior ability to satisfy wants thus giving their analysis a utilitarian slant.⁴⁰

⁴⁰Henry Oliver, Jr., "German Neo-Liberalism," Quarterly Journal of Economics, LXXIV (February, 1960), 136.

CHAPTER III

THE PRECURRENCY-REFORM PERIOD

MAY 1945 - JUNE 20, 1948

Allied Military Occupational Influence

To derive an idea of what the Allied economic policy was after the war, one must begin with the premise that Germany was to be made incapable of ever disturbing the peace of the world again. This language was deeply embedded in both the Yalta¹ and Potsdam agreements.²

Under the Potsdam agreement, Germany was to be divided into four zones but operated as an economic whole. However, the economy continued to be run on a zone basis due to the lack of joint cooperation and, thus, economic activity was hindered. The Russians were a hindrance to any joint economic policy from the very beginning.

The economic policy aimed at disarming Germany, seizing her patents and technological secrets, breaking

¹The Yalta Conference in 1945, was a meeting between the Big Four Powers to determine the division of Germany between the occupying forces. It is often referred to as the Crimean Conference.

²The Potsdam Agreement of 1945, took place after occupation. It was this conference which was to set up a coordinated Allied policy toward defeated Germany.

up her cartels, destroying the Nazi party, and breaking up the German industrial machine.³

The Potsdam Agreement had also provided for control of research connected with economic activities. This prohibited research in areas that could be applied to military use. It also aimed at the prevention of technological rearmament.⁴ Cartels were to be eliminated ~~X~~ because it was felt that such concentration of economic power had provided tools for mobilizing the German Army. The Potsdam Agreement also gave the Allies discretionary power to impose further controls if necessary. Under the Potsdam Agreement, controls would last until Germany could be admitted to the peaceful nations.

In the area of reparations, it was felt that Germany should make payments in kind and should pay for her damages to the Allied nations to her greatest ability.⁵ This payment in kind was to consist mainly in the dismantling and exportation of industrial equipment, which was to be accomplished within two years. Further steps were to include the allocation of productive capacities by zones and an Allied study of factories to be retained and those to be removed.

³Department of State, United States Economic Policies Towards Germany (Washington, 1947), 2630, p. 10.

⁴Ibid., p. 15.

⁵Ibid., p. 18.

Reparation agreements were complicated by the fact that the German economy was not self-sufficient and, therefore, would require some imports, especially food. To acquire these necessary imports, Germany would have to export. This, in turn, would require some industrial machinery. If Germany could not export due to a lack of an industrial economy, then she would have to be fed by someone else, namely, the Allies. This would essentially lead to the Allies' paying for Germany's reparations. The Allies overlooked this eventuality and indeed found themselves later inadvertently paying some of Germany's reparation bill.⁶

The above fact, once realized, necessitated putting * Germany on a self-sufficient basis as quickly as possible. To encourage this, it was agreed in 1945 that all exports would have a payment due to Allied authorities of eighty per cent of their price.⁷ These payments were to be used for the payments on imports.

On December 12, 1945, Secretary of State Byrnes outlined three rough stages for the recovery of Germany. In the first stage, there was to be no industrial activity, and emphasis was placed upon setting up machinery for reparation and industrial dismantling. The second stage

⁶Ibid., p. 20.

⁷Ibid., p. 23.

involved the completion of reparations and reactivation of selected industrial plants. It was admitted that Germany probably could not produce enough exports for her imports in this period, but it was felt that she would probably nevertheless reach an adequate level of industrial output for minimum survival. The third stage was a transitional stage in which the Germans would gradually regain control of their economy and use their resources in a limited manner to improve somewhat their standard of living. In practice, the third stage was abandoned on realizing the need for German strength against the Russian economic and political threats.⁸

It was actually the "Joint Chiefs of Staff Directive 1067" that determined the economic policies of the Allies. Most military economic policy after the war is, therefore, basically a derivative of "JCS 1067." It would be well to note that this directive had the basic ideas of both the Yalta and Potsdam agreements embedded in it. Under this directive, Berlin was set up as a four-power city and headquarters of the Allied commanders-in-chief.⁹

Under the "Joint Chiefs of Staff Directive 1067," the four Allied commanders-in-chief acting jointly were to administer the procedures and government of Germany. For the purpose of this administration, Germany was divided

⁸Ibid., p. 37.

⁹Ibid., p. 58.

into four zones: the American, British, French, and Russian zones. These areas were to function jointly and see that activities of the Control Council were carried out in all zones adequately. The commanders-in-chief of the four zones were to have exclusive jurisdiction throughout Germany. Some of the objective of the Control Council directives were reparations, dismantling, limitation of industry, forced coal exports, decartelization, and decentralization of industry.¹⁰

Wallich¹¹ offers the opinion that there were many changes in Allied economic policy during this period but that the spirit of "JCS 1067" was basically enforced.

There was also the influence of the Morgenthau Plan.¹² This was an asinine plan to reduce Germany to an agricultural country by depriving it totally of its industry and dividing it into pastoral estates. Roosevelt actually took this plan with him to the Conference of Quebec in September of 1944. Roosevelt himself had attended school as a child in Germany and had often expressed distaste for German arrogance and provincialism. Actually, some of the acid of the Morgenthau Plan is apparent in "JCS 1067" but had been diluted by the time "JCS 1067" reached effectuation.

¹⁰Ibid., pp. 59-60.

¹¹Henry C. Wallich, Mainsprings of the German Revival (New Haven, 1955), p. 66.

¹²Henry Morgenthau, Jr., Germany is Our Problem (New York, 1945), pp. 48-60.

The division of Germany into four zones seems to have been against any good reasoning. If Germany was to take its place in European recovery, it should have been left a single economic unit in order that it might recover more quickly and efficiently. Instead it was divided into four zones which resulted, in a sense, in as many economic systems as there were occupational forces. Such a breakdown was too diversified, and the situation was aggravated by the fact that in all zones a certain amount of collective controls left by the Nazis were adopted. What the Germans saw coming from the Allied forces, for at least three years, was nothing but more controls. Control was precisely what the Germans wished to get away from.

The Allied program for German recovery was also faulty in dealing with the currency market as it became difficult to do business within the limit of the law. If a firm were to sell its output through legal channels, it became almost impossible for it to replace its stocks of raw material or hold its labor. Firms producing readily-usable materials paid their workers in kind. Actually, in legal transactions, money became of secondary importance. The general business attitude seemed to lead the merchant to buy as much and sell as little as possible in order to build up inventory and to avoid selling against paper money.¹⁴

¹⁴Department of State, pp. 56-60.

It could be assumed that wartime control of prices and resource allocation, combined with the impossibility of obtaining raw material through international trade after the war were major factors in the low level of industrial output that existed in Germany in the immediate postwar days.

Germany, traditionally, as well as today, has always depended upon a large amount of raw material import and larger amounts of finished product exports for its subsistence. The division of Germany made international trade even more important. Ignoring Germany's traditional needs, however, the Allies demanded that Germany produce and export raw materials. In fact, the exports from the area of the Federal Republic during 1946 and 1947 consisted mainly of raw materials. The Allied Control Council in its "Proclamation Number Two" went so far as to forbid the Germans to engage in foreign trade. All foreign transactions had to go through Allied channels.¹⁵

The area of foreign trade prior to the currency reform was controlled by an Allied agency designated as Joint Export Import Agency (hereafter referred to as JEIA). This was a complicated system of trade because prices received for exports, or for imports, had little relationship

¹⁵Ludwig Erhard, Germany's Comeback in the World Market, translated by W. H. Johnston (New York, 1954), pp. 74-75.

to domestic prices. Money was used only as a unit of account since inflation had destroyed its normal value.¹⁶ This necessitated an artificial exchange rate whereby exports were priced in terms of dollars and imports in terms of RMs at a rate of ten cents to one RM.¹⁷ Consequently, Allied export policies became quite unpopular, and understandably so. Other European nations would be reluctant to sell to Germany products which could be sold elsewhere for dollars. Furthermore, they would naturally be reluctant to pay dollars for German products.

Wallich¹⁸ makes notice of, and Erhard¹⁹ is always grateful for, Allied aid, which was quite important in every phase of the German revival. When speaking of Allies, one means only the Americans, British, and French, since the Russians were against any joint plans or policies. As the rebellion of Russia became apparent, it was possible for the Allies to see Germany as a "buffer zone." This development probably encouraged Allied aid more than any other single event in the postwar Allied-German relationship.

The Allies' contributed to German economic recovery in a number of ways. They aided in the development of new

¹⁶Ibid., pp. 71-77.

¹⁷Lucis D. Clay, Decision in Germany (New York, 1950), p. 197.

¹⁸Wallich, p. 345.

¹⁹Erhard, p. 30.

resources; they encouraged domestic investment by supplying counterpart funds, they established certain effective economic policies and pushed for a number of basic economic reforms. Total aid received from the Allies amounted to approximately 4.4 billion dollars. An additional 1.7 billion dollars was poured into the German economy through the Government and Relief in Occupied Areas Organization (GARIOA), an organization established to aid in disease prevention and the development of adequate sanitation facilities. Once again, America was the largest contributor.²⁰ The Marshall Plan succeeded GARIOA, and it is this plan that is usually credited with the revival of German industry.²¹ It also seems certain that personal donations by Allied occupational troops amounted to a sizeable sum, but the importance of this kind of aid cannot be effectively measured.

General Lucius D. Clay must be given immeasurable credit in Germany's revival.²² It was he who opposed the Russians' ideas as to the type of economy the Germans should have. The Russians preferred a highly controlled economy for the Germans and did all in their power to effectuate any type

²⁰Wallich, pp. 354-356.

²¹General George C. Marshall was responsible for this plan. It envisaged American financial aid either as a loan or gift, or both, provided that the European nations made effective use of existing resources and sought to overcome political divisions and trade barriers. It terminated in 1951.

²²Clay, pp. 200-201.

of controls. It was Clay who rallied the support of the British and French and decided that the Allies would take no measures prejudicial to the kind of economy Germans might desire. This decision solidified in favor of the free market with the appointment of Ludwig Erhard as Minister of Economics in 1949. It was Clay who placed the utmost confidence in Erhard and who worked with him for the free enterprise principles after the division of Germany had been made. The appointment of Erhard was of real significance to the revival of Germany.

In September of 1946, U. S. Secretary of State Byrnes announced in Stuttgart that the U. S. did not intend to discriminate against the Germans indefinitely.²³ A few weeks later, Erhard, then Economics Minister for Bavaria, began his never-ending campaign for a free but socially committed economic system. He also pushed for an integration of the various zones. As he analyzed the situation, the American zone was federalistic, the British zone centralistic, and the French and Russian zones controllistic.²⁴ Erhard further stated:

If our German economy is to be restored to health and to fit organically into the wider framework of world economy, its structure must

²³ Ludwig Erhard, The Economics of Success, translated by J. A. Arengo-Jones and D. J. G. Thomson (London, 1963), p. 4.

²⁴Ibid., pp. 4-5.

first be reorganized and this cannot be achieved satisfactorily as long as the zones are isolated from each other. Thus, both for political and for economic reasons, it is essential to bring together people and human institutions that belong together, and so may we be permitted to hope that as good a compromise as possible be achieved. As long as we strive for economic unification we shall be reminded of the fact that, whatever our political limitation may be, we neither desire nor are able to evade the responsibility of establishing the closest possible links with the rest of the world.²⁵

It must be remembered that Erhard's only source of contacts with the people was by speech or newspaper article from 1945 to 1948. This was due to the fact that the Allies controlled all communications and Erhard had no access to any mass communication such as radio or television.

Monetary and Fiscal Policy

The years after the war were marked by complete financial disorganization. In 1947, currency in circulation in the four zones of Germany and Berlin was estimated at about ten times the amount that was circulating in the Reich in 1936 while the national wealth was about one-half that of 1936. Between 1945 and 1948, the cost of living rose about thirty-one per cent above the pre-war level. In October of 1945, it had only been twelve per cent above the pre-war level.²⁶

²⁵Ibid., pp. 5-6.

²⁶Horst Mendershausen, "Prices, Money and the Distribution of Goods in Postwar Germany," American Economic Review, XXXIV (June 1949), 649. . . . It would be well to note that any statistics given between 1945 and 1948 are, at best, only estimates because of the destruction of the actual records.

As a result of an over-supply of money, two new markets for goods appeared. One market was for rationed goods, and one was for goods traded in the black markets where prices were substantially higher.²⁷

Wallich estimates that the total money supply for the three western zones during this period was well above 118.7 billion RM. This would include circulating currency and all types of deposits. After the currency reform, one-tenth of the earlier amount of money that had been in circulation in the years 1945-1958 proved sufficient to conduct a larger volume of business at higher prices.²⁸

Despite inflation, however, it can still be said that during the years 1945 to 1948 there was something of a general rise in production and living standards. Some very important work did take place in this period in the form of repair of capital equipment and accumulation of inventories. It is also fairly evident that in this period the average German became disillusioned with controls and, hence, was ready to accept the free market offered by Erhard.

²⁷Ibid., pp. 649-650.

²⁸Wallich, p. 64.

TABLE II
 INDEX OF GROWTH OF WEST GERMANY'S ECONOMY
 (1936-49)
 (Current Prices)

Year	G.N.P.	Per Capita G.d.P.	Gross Private Domestic Investment	Industrial Production	Employed
1936	48.4	59.5	N.A.	90.2	N.A.
1938	59.8	72.1	N.A.	N.A.	N.A.
1948	N.A.	N.A.	N.A.	56.0	94.1
1949	80.6	76.3	77.0	79.5	95.1

Year	Unemployed	Population	Exports	Imports	Wages
1936	N.A.	82.3	N.A.	N.A.	N.A.
1938	N.A.	83.8	N.A.	N.A.	62.1
1948	61.4	96.6	N.A.	N.A.	84.4
1949	103.2	98.4	69.0	109.5	93.7

SOURCE: K. W. Roskamp, "Economic Growth, Capital Formation, and Public Policy in West Germany, 1948-57," unpublished doctoral dissertation, School of Economics, Wisconsin University, Madison, Wisconsin, 1961, pp. 62-63.

One of the most restrictive programs initiated prior to the currency reform in the fiscal and monetary area was a strong income tax law in early 1946 enacted by the Control Council. It reached a rate of fifty percent at the 2,400 RM level and seventy percent at the 13,200 RM level. This tax, however, was not as harsh as it could have been since people were not living on their nominal incomes but

rather were living by barter exchange. It did achieve its primary purpose of balancing the various state budgets.²⁹

Under a scheme called the Colm-Dodge-Goldsmith Plan, a group of American economists worked out a currency reform. Due to the extent of the inflation, this had to be a complete currency reform. The currency reform plan put into effect on June 20, 1948, was a combination of the Colm-Dodge-Goldsmith Plan and a German plan. This German proposal is known as the Hamburg Plan. The Germans were given some consideration in writing this reform, probably for political reasons.

The Colm-Dodge-Goldsmith Plan consisted of three major steps:³⁰

1. The elimination of a monetary overhang through the writing down of all monetary claims and liabilities in order to coincide the volume of money to the material wealth.
2. The equitable distribution of war losses between owners of monetary claims and real assets. This was to be carried out by a War Loss Equilization Fund. This fund was to operate along the lines of a mechanism employed for the distribution of a bankrupt estate among various creditors.

²⁹Wallich, p. 67.

³⁰Gerhard Colm, Joseph Dodge, and Raymond Goldsmith, A Plan for the Liquidation of War Finance and the Financial Rehabilitation of Germany (Washington, D. C., 1950), pp. 19-31.

3. The third phase involved the capital levy. The flat rate was preferred by those who felt that it would be the fastest method, and speed was essential. However, under this plan, the progressive rate was adopted because it was felt this would be more equitable. This progressive levy was to be imposed on individual net wealth as it existed after the scaling down operations and equalization measures had taken place. This would allow any individual to include the public mortgage as a liability while including the certificates as a part of his assets.

The Hamburg Plan, on the other hand, had advocated a blocking of accounts with later fractional releases depending upon the prevailing economic situations. This plan would have probably made a more equitable distribution of the new money and would have given monetary authorities more direct and immediate control over the newly created money. The important point in either proposal was the restoration of production. Both plans had provided for this.³¹

The currency reform had been ready as early as 1946, but due to negotiation problems with the Russians, it never materialized until June of 1948. The issuance of the new

³¹Statement by Otto Hieronymi, Professor of Economics, University of Dallas, Dallas, Texas, November 21, 1964. Otto Hieronymi was a student of Wilhelm Ropke at Geneva International Institute of Higher Studies.

currency marked the official splitting of the Allies and the Russians. Yet, this reform was necessary for the revival of the German economy.

Any currency reform would have been hindered by the Potsdam Agreement which limited German industrial capacity to sixty-five percent of the 1936 level. In 1947, a second military plan was instituted which limited German industrial capacity to sixty percent of the 1936 level. Actual production in 1947, however, was standing at only thirty-nine percent of 1936 production. The general index of production rose to about fifty percent of the 1936 level in the early part of 1948.³²

One important reason for Germany's quick recovery after the currency reform is that German industrial equipment was not completely destroyed by Allied bombing during the war despite Allied reports to the contrary in 1945. In many cases buildings and equipment had only to be repaired, and the investment required was small.³³ In effect, in the period 1945-1948, the industrious Germans were rebuilding a solid base which served as a perfect springboard once the reform was accomplished and the right to produce restored.

Under "JCS 1067," the Reichsbank could issue bank notes and currency for legal tender but only with the

³²Erhard, The Economics of Success, pp. 10-12.

³³Department of State, pp. 73-74.

permission of the Allied Authorities. No private bank or agency was permitted to issue bank notes or currency. It also gave the Allied occupation forces direct controls over all banks and financial transactions plus direct controls over foreign transactions.³⁴

Any currency reform was going to necessitate a bank of issue in order to get the new currency in circulation and to control credit. On February 15, 1948, the Bank deutscher Länder (now the Bundesbank) was established in Frankfurt. It was made the exclusive bank of issue. It was also made responsible for the development of common policies respecting banking and the regulation of credit including interest and discount rates and credit operations of the member State Banks. It could also deal in foreign exchange, accept deposits, rediscount bills of exchange, and grant loans against obligations of members, treasury bills and other public securities. Along with this was created a supervisory Allied Banking Commission. On August 1, 1948, the operation of the foreign exchange account was transferred to the Bank deutscher Länder and the JEIA was abolished.³⁵ This, of course, gave the western powers a sound banking system to facilitate a currency reform.

³⁴Ibid., pp. 73-74.

³⁵Clay, pp. 205-206.

Coupled with the above problems, Ropke offers the opinion that Germany was suffering from "repressed inflation" during this period.³⁶ To Ropke, repressed inflation occurs when there is a large increase in the volume of money relative to a slow recovery of production. This was quite applicable to Germany between 1945 and 1948. In order for "repressed inflation" to exist, wage control must be effectuated longer than price control. Wage control is the keystone for "repressed inflation" according to Ropke. If wages are controlled, it is possible to prevent an excess of demand from driving up prices and wages. However, before wages and prices have been adjusted to the inflationary increase of the volume of money, it would be possible to restore equilibrium between money and commodities by mopping up the inflationary surplus of money. Thus, the excess of purchasing power which leads to open inflation will have been taken away; with inflationary pressures removed, policies of repression can then be abandoned.

Ropke's criticism of the 1945 to 1948 period was that, instead of mopping up purchasing power, the Allies applied a high rate of taxation which did nothing but add to the economic inertia.³⁷ It is not precisely known what effect

³⁶Wilhelm Ropke, "Repressed Inflation," Kyklos, I (Spring 1947), 247-251.

³⁷Ibid., p. 251.

Ropke's thinking had on the currency reform. As a consequence of "repressed inflation," the Reichsmark lost its relation to the international system of values. Had production been allowed to increase and controls decrease, this possibly could have been avoided.

There could be little doubt that internal demand for goods and services would be high because, for the preceding ten years, no durable goods had been replaced in the consumer sector. Also, the large influx of refugees provided a prospective body of high propensity consumers. Therefore, it could be expected that after a currency reform, the propensity to consume would be high with a low propensity to save. In lieu of this, it is apparent that some form of controls would have to be used to force savings in order to obtain the investable funds needed for capital formation. The next chapter will bear this point out.

Also, Clay must be given credit in the area of the currency reform. It was he who stood strong against Russia's demands for two sets of plates, one for the Soviet zone and one for the Western zone.³⁸ He realized the issuance of a new currency would mean the final splitting of the occupational forces, the splitting of Germany, and the blockading of Berlin. Yet, he knew it must be done to

³⁸Clay, p. 156.

avoid wholesale starvation. There is not enough room to discuss the economics of the Berlin blockade. This subject is broad enough for a thesis alone.³⁹ It would be fair to say that Clay had only limited resources with which to combat the blockade and, in spite of this, did a commendable job.

With Germany a weak spot among the European nations, a really strong Europe could never be attained. It would take a strong Germany in order to revive completely the continent of Europe. A strong Germany would require a strong currency and freedom of her people. There is no doubt that the new currency, along with the return to freedom and dignity of her people, were among the major factors in Germany's revival.

Industry and Agriculture

The eastern part of Germany, that which the Russians held, was known as the bread basket of Germany. The western part of Germany had, traditionally depended heavily upon the eastern area for food products. Thus, the division of Germany was a very serious threat to the self-sufficiency of the western part. This was further aggravated by JEIA restrictions on agricultural imports to Western Germany.

³⁹A good account of this can be found in Drew Middleton, The Struggle for Germany, (Indianapolis, 1949).

also

Lucis D. Clay, Germany and the Fight for Freedom, (Cambridge, 1956).

Most of the industrial production was situated (about sixty percent) in the area known today as the Federal Republic. This is particularly true of the heavy industries, especially the Ruhr area. This basically left an agricultural economy in the east and an industrial economy in the west part of Germany. In reparations and dismantling of industrial production, this caused the western part to suffer the most. The eastern part of Germany could claim only light industries on the whole.⁴⁰ This dismantling would have necessarily caused a temporary structural change in industrial production in the western part. It is true this happened. However, with the currency reform and return to freedom, the heavy industrial plants in the Ruhr areas were quickly back into operation. This was favorable for the Federal Republic since the heavy industrial plants would offer incentives for the light industries to build in that area. The Ruhr area is favorable to heavy industry in that it has the most adequate supply of energy resources in the Federal Republic.

Food, of course, was the most important element in re-activating the people. In turn, coal was the most essential element in re-activating German industry. Coal was, and still is, the basis for German energy.

⁴⁰Wallich, p. 202.

Coal production was increased immediately in 1945, but output began to slow down in 1946. The cause of the problem was a small number of miners living on poor diets which resulted in low productivity. There was also a lack of experience and of housing for the miners.⁴¹

In the face of these problems in the coal industry, Germany was forced to export coal to other European nations under "JCS 1067." It was further directed that Germany export coal up to a point where she could support her economic life on a minimum basis.⁴² It seemed to be the spirit of "JCS 1067" that an entire collapse of the German economy was necessary to bring home to the people what Nazi leadership had inflicted upon them.

Balogh expresses the opinion that the two most seriously injured industries in Germany, due to Allied bombing, were the coal and transport industries. The whole German transport system had been heavily damaged, not only by Allied bombing, but also by the Germans' destroying bridges as their armies retreated. Allied military government policy called for a rapid reconstruction of waterways, rails and highways to carry

⁴¹Department of State, p. 40.

⁴²Ibid., p. 76.

essential traffic. This work was hindered by a shortage of necessary resources. By 1948, the railway system was carrying ninety percent of the pre-war freight tonnage.⁴³

With the influx of ten million refugees plus the destruction of German housing during the war, housing became a critical problem. Approximately 2.5 million dwellings were badly damaged or destroyed. Between 1945 and 1946, approximately forty percent of the population was living in impoverished quarters.⁴⁴ Reconstruction and construction in the area of housing did not begin until after the currency reform, due to lack of needed resources which the RM could not command.

In the area of agriculture, very little farm machinery could be produced because of lack of steel. This can be traced to a shortage of coal which held back the production of steel. Manufacture of fertilizers was increased in order to aid the land available in producing more. However, only the manufacture of low grade potash fertilizers was permitted. It was felt that the manufacture of high grade fertilizers such as nitrogen and phosphate could lead to the production of munitions.⁴⁵ It would seem to be a safe conclusion that

⁴³T. Balogh, Germany: An Experiment in "Planning" by the "Free" Price Mechanism (Oxford, 1950), pp. 8-9.

⁴⁴Office of the U. S. High Commissioner for Germany, Report on Germany, September 21, 1949 - July 31, 1952 (Washington, D. C., 1952), p. 34.

⁴⁵Department of State, pp. 46-47.

the land had suffered during the war years by a division of the high grade fertilizers into munitions.

The textile industry was one of the first industries re-activated in Germany. This was due to a world-wide shortage of textile products and a surplus of raw cotton, It was felt Germany could manufacture this raw cotton, keep enough for minimum domestic use, and export the rest in order to help pay for her imports.⁴⁶

In order to prevent any possible German return to war, the following industries were prohibited: all arms industries, aircraft, sea-going vessels, synthetic gasoline and oil, synthetic rubber, synthetic ammonia, ball and taper roller bearings, heavy machine tools of certain types, heavy tractors, primary aluminum, magnesium, beryllium, vanadium, radio-active materials, hydrogen peroxide, specific war chemicals and gases, and radio transmitting devices. The restricted industries included steel, non-ferrous metals, basic chemicals, dyestuffs, pharmaceuticals, synthetic fibers, machine manufacturing, heavy engineering, mechanical engineering, electro-engineering, transport engineering, agricultural machinery, spare parts, optics, and precision instruments.⁴⁷

⁴⁶Ibid., pp. 129-130.

⁴⁷Ibid., pp. 133-137.

In the area of energy production, the production of electricity was set at only nine million KW.⁴⁸ Coal was to be exported which left Germany low on energy resources. Germany was able to produce cement, rubber, pulp, paper, printing, textiles, boats and shoes. Prior to World War II, Germany had produced sixty percent of the world's chemicals. This area was severely restricted by the Allies.⁴⁹

It must be remembered that pre-war Germany was a highly industrialized country which had provided a high standard of living for the majority of the populace. This was provided by a collaboration of cartels, direct government controls, and monopolistic financial institutions. The Germans had seen the downfall of all of these resulting in their abject poverty.

Population and Labor

The influx of refugees into West Germany occurred because of political and economic reasons. This influx helped to offset, in some respects, the population lost in the war activity. By 1946, ten million refugees had reached the western zone and seven million had reached the eastern zone. The problem involved here was that the refugees settled in the two largest rural states of

⁴⁸One kilowatt is equal to 1,000 watts.

⁴⁹wallich, p. 272.

Bavaria and Schleswig-Holstein. There was no work for them in these two areas. This influx further aggravated the food and housing conditions.⁵⁰

The interesting point is that the influx did little to change the size of the labor force. Due to loss of manpower during the war, the postwar labor force was structurally different in terms of age and sex. The average postwar worker was older than his counterpart before the war, and the postwar labor force was glutted with female employees. Many of these were refugees from agricultural districts and, hence, had to acquire industrial skills before they could be hired. Also, in 1939, before the war, 51.2 percent of the population belonged to the labor force, whereas in 1948, only 43.5 percent were in this group.⁵¹

Wallich expresses the opinion that the influx of refugees had little depressive effect on wages.⁵² Due to lack of accurate data, this would actually be hard to determine. Also, many workers were paid in kind.

It does seem safe to say that without this large influx of refugees, Germany would have employed all of

⁵⁰Wallich, p. 272.

⁵¹Joint Report of the U. S. and U. K. Military Governors, The European Recovery Program (December, 1948), No. 2, p. 89.

⁵²Wallich, p. 284.

her own labor resources much sooner than she did. As it was, German internal labor resources were not fully exploited until 1954-1955. Another bit of reasoning in this area is that labor was the abundant factor, and abundant factors usually receive lower payments than do scarce factors. Capital was probably the scarcest factor in the immediate postwar days.

In some areas, highly skilled workers were unemployable because of the level-of-industry plan which allowed only certain firms to return to production. Under the level-of-industry concept, certain industries were to be built up while others were to be prohibited. This essentially would lead to a distinct unbalanced growth. It placed emphasis on the limitation of heavy industry and the idea that Germany could build sufficient light industries to bring her foodstuffs and raw material.⁵³ This was probably an illusion because the concentration of light industries in Europe was high as was the competition.⁵⁴ Any German engagement in light industries would have had adverse effects on light industries in other recovering European nations. Also, heavy industry was Europe's first prerequisite for recovery, and this

⁵³For a good account of the level-of-industry plan, see Department of State, United States Economic Policy Toward Germany (Washington, 1947) 2630, pp. 6-24.

⁵⁴Ibid., pp. 18-24.

was Germany's specialty. Apparently, this was not considered.

Of the German agricultural system, it can be said that, on the whole, it was totally inadequate. It still seemed to be suffering from the effects of feudalism. The official ration scales called for a daily diet of 1,550 calories consisting largely of bread and potatoes.⁵⁵ Wholesale starvation was principally avoided by combined American and British aid. This aid was sixty-four million dollars in 1945, forty-six million in 1945, and six hundred million in 1947.⁵⁶

Ludwig Erhard's Activities

Ludwig Erhard was born in 1897 in the town of Fürth near Nuremberg. He is the son of a small shopkeeper; he was severely wounded at the Battle of Ypres in World War I. He convalesced at home and later attended the commercial college in Nuremberg and went on to earn his doctorate in economics at the University of Frankfurt. Until the beginning of World War II, he ran a market research institute in Nuremberg. When he refused to join the Nazi party during the war, he was dismissed from Nuremberg.⁵⁷

In 1944, he drafted a memorandum for the rebuilding of Germany for a small German resistance party. In 1945,

⁵⁵Office of the U. S. High Commissioner, p. 32.

⁵⁶Wallich, p. 67.

⁵⁷Erhard, The Economics of Success, p. 265.

after the war, he was appointed to the post of Minister of Economics in Bavaria. In 1947, he held the title of Honorary Professor in the Department of Political Science at Munich University. In 1948, he was appointed German director of the Anglo-American Bizonal Economic Administration. In 1949, when Germany became the Federal Republic, he was appointed Economic Minister of the Federal Republic. This was a position he held until 1953 when he became the Chancellor of the Federal Republic after Adenauer had stepped down. In all of his offices, he sought to replace isolationism with internationalism, barter with free trade, cartels with competition, and low pay with rising productivity.⁵⁸

During the period 1945 to June of 1948, Erhard wrote numerous articles and made many public speeches. He constantly challenged the people to prove that a system of planning and regulating of economic activity would be more efficient than the combined economic intentions and wishes of society. He pointed out in a free economy, mistakes of management are reflected in price changes whereas in a state-directed economy, there is always the danger that these mistakes are covered up and left to fester until they erupt in the economy with detrimental force. He impressed upon people's minds that a state controlled authoritarian economy would wipe out consumer freedom as it had done in the past.

⁵⁸Ibid., p. 265.

He further instructed the people that the state should provide the economy with the principles and broad lines of policy and objectives designed to guide and regulate its functioning.⁵⁹

The question of freedom was important to the German people. It was their choice to return to the old institutions of the past or to accept an ideology with new institutions and brighter hopes for the future.

Erhard stressed to the people that the purpose of all economic activity was to meet consumer needs and, thus, to contribute to the welfare of the community. He also charged capitalism with betraying the basic principles of the market economy, namely competition and price freedom, and assuming one collectivistic attitude after another. He accused the socialists of playing into the hands of cartels and other economic monsters with no respect for the consumer. To Erhard, only the market economy would give fair distribution of the social product.⁶⁰

Erhard drove home the point that a nation's standard of living depended upon its economic performance.⁶¹ He probably did this because the standard of living was very low in Germany at the time. Erhard asserted his desire to raise the standard of living to get the people to accept his system.

⁵⁹Erhard, The Economics of Success, pp. 9-10.

⁶⁰Ibid., pp. 11-15.

⁶¹Ibid., p. 12.

On April 21, 1948, after being appointed Director of the Regional Economic Administration, Erhard delivered a speech to the Regional Economic Council in Frankfurt. It was based upon his concept of economic freedom and responsibility. He expressed a desire for the cooperation of all people to aid in the rebuilding of Germany. He stressed the need for a balanced growth approach for Germany. In this, he proposed more aid to smaller industries and freedom for the larger industries. He expressed his desire for a completed currency reform which would consider economic and social conditions. And he also pointed out that any reform would require sacrifice by the people, and they should be ready to make that sacrifice.⁶²

He expressed the opinion that an equalization of burdens would help to bring about a fair distribution of an increasing social product. He further stressed the idea that a shortage of resources would necessitate the growing of small firms along with the large firms, and this would bring about more individualism. Erhard made it known that after the currency reform, he would detest any reduction of business inventories or any business hoarding in attempts to achieve unwarranted security. This, of course, happened. It was his stated belief that a system that did not provide the individual with the right to select his own profession

⁶²Ibid., pp. 21-32.

and purchasing patterns was against the basic right of humans. Erhard also made it known that he regarded any abolition of controls immediately after the currency reform as impractical. He did this, however.⁶³

Erhard further pointed out the necessity of the Germans to use the Marshall Plan aid in coordination with the monetary reform. He felt this could help break Germany out of its low-level trap if properly used. He also stressed the importance of building Germany's export trade on a sound basis. Erhard felt industry must be made to work at home as it is to be expected to work in the foreign markets.⁶⁴

Throughout Erhard's writings and speeches, one can sense the air of paternalism and dogmatism which is characteristic of him. It seems as though he was sure he was offering the people a good system to replace a bad system. Marx had done this a century earlier and people had accepted, much to their dismay. The Germans accepted Erhard's offer, but it seems to be much more efficient than Marx's. In fact, it is a stronghold in modern Europe today against the Marxian ideology.

Germany became a Federal Republic on May 22, 1949, under the Basic Law. Under this, there were created the

⁶³Ibid., pp. 32-40.

⁶⁴Ibid., pp. 40-44.

states Bavaria, Baden, Bremen, Hamburg, Hesse, Lower Saxony, North Rhine-Westphalia, Rhineland-Palatinate, Schleswig-Holstein, Württemberg-Baden, and Württemberg-Hohenzollern. Under this, Berlin was to also become a state, but this was suspended by Allied action. However, Berlin is united with the Federal Republic in regards to the tax and monetary systems and most federal legislation.⁶⁵ The above states within the auspices of the Federal Republic are the major concern of this thesis.

⁶⁵ For a complete review of the Basic Law, see John F. Golay, The Founding of the Federal Republic of Germany (Chicago, 1958), pp. 217-264.

CHAPTER IV

THE CURRENCY REFORM

Inflation After Reform

Ironically, the first and most important step in West Germany's comeback and adoption of a free market economy was imposed by an authoritarian regime. This was the famous currency reform of June 24, 1948. Under this reform, the old reichsmarks were converted into deutschmarks at a rate of 10:1. After ninety percent of an individual's original amount of currency had been cut away through the exchange, half of the new amount was placed at the owner's immediate disposal. The other half was split, one-fifth being freely available later and one-tenth set aside for investment purposes in a blocked account. The other seven-tenths was completely cancelled out when it became apparent that its release would cause too much liquidity and endanger the reform.¹ As far as social justice goes, this was a cruel step, especially for the lower income families. This had the effect of completely wiping out savings for some families, as this scaling down applied to savings deposits as well as demand and time deposits.

¹Henry C. Wallich, Pains and Gains of the German Revival (New Haven, 1955), p. 69.

This actually amounted to an over-all conversion rate of 100:6.5. In lieu of this, people lost their liquidity and could not meet their debts. Therefore, to coincide with this scaling down, debts were devalued at a rate of 10:1.² This amounted to almost virtual debt elimination. To restore bank liquidity lost by the reform, banks were given reserves equal to fifteen percent of demand deposits and 7.5 percent of time and savings deposits.³

Actually, the Germans had little to say about the measures being administered, but it was Erhard who took the initiative and reasoned that a sound currency was essential to German recovery.⁴

The reform wiped out an estimated 135 billion RM in circulation (including bank deposits) and created 12.6 million DM. By April 30, 1949, credit expansion had enlarged this to 19.2 million DM.⁵

Currency reforms recently established in other countries gave Germany ample sources of information to help it work out its reform problems. Belgium had its currency reform in 1944. The Netherlands, Norway, and

²Ibid., p. 69.

³Ibid., p. 70.

⁴Ludwig Erhard, The Economics of Success, translated by J. A. Arengo-Jones and D. J. S. Thomson (London, 1963), pp. 27-44.

⁵Walter Beller, "Tax and Monetary Reform in Occupied Germany," National Tax Journal, II (June 1949), 216.

Denmark had initiated a reform in 1945. In 1946, France had tried to do something about her currency stability.⁶

TABLE III
VOLUME OF MONEY IN WEST GERMANY - APRIL 30, 1949
(Millions of DM)

Volume	Distribution of Initial Allotments	Volume of Money
1. By Source		
A. Initial Allotments		6,690
Individuals	2,780	
Business	470	
German Government, including R. R. and Postal System	2,670	
Military Government	770	
B. Reichsmark Conversion		5,910
C. Credit Creation		6,560
Total		<u>19,160</u>
2. By Type		
DM notes in Circulation		6,330
Bank deposits		12,830
		<u>19,160</u>

SOURCE: Walter Heller, "Tax and Monetary Reform in Occupied Germany," National Tax Journal, II (June, 1949), 216.

The conversion of reichsmarks into deutschmarks occurred over a period of time, and the last conversion claims dragged out until the end of 1949. However, the bulk of the creation of new money occurred up to September of 1948. Reichsmarks presented for conversion would be converted only

⁶For a good discussion of the French currency reform, see Mario Einaudi, Maurice Bye, and Ernesto Rossi, Nationalization in France and Italy (New York, 1955).

if it could be shown that the funds had not originated in the black market. Many authorities feel a large number of RM were not converted because of this. The DM was passed into the economy in two ways. The first was by legal creation of money by the state according to the currency laws. The second was by bank money creation. A total of 122.4 billion RM were presented for conversion. This amount consisted of 12.6 billion RM in paper money and 109.8 billion RM in deposits.⁷ In addition to legal creation of money, credit creation by banks rapidly increased.

In the days immediately following the currency reform, changes in economic policy also took place. Many of the controls that had existed were abolished. Price controls were lifted except for certain basic commodities. These two steps, currency reform and abolition of controls, were necessary for movement to Erhard's free market economy. Movement towards the free market economy continued until the upsurge of the Korean War necessitated certain controls to offset the disequilibrium in the world market.

Ludwig Erhard felt the currency reform necessary as well as an equally resolute economic reform. This economic reform was to loosen state controls in the economy all the way from the producer to the consumer. Erhard expressed

⁷Heller, p. 216.

the view that he took the only possible path and abolished dozens of price regulations on the day following the currency reform. In Erhard's own words, he stated:

It isn't as if we had any choice. What we had to do in this situation was loosen the shackles. We had to be prepared to restore basic moral principles and to start with a purge of the economy of our society.⁸

The deutschmarks granted the commercial banks under the currency reform actually exceeded their reserve requirements by fifty percent. This automatically gave them excess liquidity with no indebtedness to the Land Central Banks. This was a highly inflationary situation which would allow the bank to expand credit costlessly up to fifty percent, and then they could begin to incur further liquidity by turning to the central banks. This they did not hesitate to do.⁹

By December of 1948, commercial banks were indebted to the central banking system by DM 113 million more than they held in reserve accounts.¹⁰ The money supply had increased by DM 4.5 billion, and this was further aggravated by the fact that many state and municipal governments were running a deficit.¹¹

⁸Ludwig Erhard, Prosperity Through Competition, translated by Edith Temple Roberts and John B. Wood (London, 1958), p. 14.

⁹Robert Lerner, "West German Monetary Policy," Journal of Political Economy, LXIII (February, 1955), 55.

¹⁰Ibid., p. 56.

¹¹Erhard, Prosperity Through Competition, p. 74.

This large increase in the volume of money caused demand to rise distinctly over supply which, in turn, led to rising prices. Current incomes flowed into consumption with little consideration for savings. In light of this, the index of wholesale prices rose from ninety-one in June of 1948, to 104 by December 1948, (1949=100), and production rose by fifty percent.¹² Erhard had felt that prices would drop immediately after the reform. In lieu of this, the German people began to discredit the new currency. High prices, however, were quite helpful as much of the large profits were channeled back into business investments and capacity was enlarged in many cases.

Controls Enacted

To combat this inflation, monetary authorities took restrictive actions. They declared acceptances unacceptable for discount unless they were based on finance of foreign trade or the production of goods ordered by public authorities. Also, the minimum reserve requirement was raised from ten percent to fifteen percent.¹³ K

Erhard warned the people that such situations could only lead back to state control and bureaucratic interference. He assured the people the stability of the currency would never be threatened as long as there was

¹²Ibid., p. 18.

¹³Emmer, p. 56.

a balance between production and purchasing power combined with proper monetary and fiscal policies. He explained that it was only a matter of time for these adjustments to take place, and when they did, prices would begin to drop. He urged the people to "shop around" and * to defer their purchases if they could make them cheaper tomorrow. This, he said, would probably drive out the inefficient firms, but this was a necessary step for a free market economy. He urged the people to save what they did not consume and to be thrifty in their buying.¹⁴ This urging to save was probably done in light of the investment needs of the economy.

Actually, inflation had been further aided by restoration of the credit facilities in August of 1948. But Erhard contends that this restoration was essential even though it caused an inflationary situation.¹⁵

On the whole, these reforms were too late if anything. Also, minimum reserves did not prove effective because of the high liquidity of commercial banks and the banking system did not have marketable securities with which to meet the situation. Criticism in this area could be that the banking system did not fully utilize the tools available to them, namely, the reserve requirement and the

¹⁴Erhard, Prosperity Through Competition, pp. 47-52.

¹⁵Ibid., p. 20.

discount rates. These could have been raised higher than they were, and the discount rate was not used.

Another problem here is that many small German manufacturers were using bank credit to rebuild their plants, and any restrictive measure by the banking system could have been detrimental in this area. Given an elastic demand for short term capital, higher interest rates would have reduced the volume of short term credit and, hence, impeded the building of productive processes.

Emmer offers the opinion that the Germans were unfamiliar with this type of banking system and could not utilize it fully.¹⁶ This seems to be a reasonable argument and could be a partial explanation in the failure to fully utilize the old classical controls.

In Germany, at this time, there were three layers of banks. At the top was the Bank deutscher Lander with State Central Banks in each state. The State Central Banks had branch banks in each larger town. The State Central banks actually performed no function the Bank deutscher Lander could not perform, but the creation of these banks provided insurance, so to speak, against the formation of a monopoly in the banking area such as existed under the old Reichsbank. Yet, the creation of the Bank deutscher Lander seems to be evidence that centralization was not avoided.

¹⁶Emmer, pp. 62-69.

A Board of Directors composed of presidents of State Central banks and a president of the board determines the banking policy independent of the German government.¹⁷ This is contrary to both Erhard's wants and neo-liberal beliefs, as they feel that the central bank should be state controlled. In this, Erhard did not have his wishes. However, by working closely with banking officials, Erhard was able to gain considerable influence. This was especially important in combating inflation. The success in fighting inflation in Germany could be attributed to the fact that such measures are basic neo-liberal as well as German policies.

The basic monetary principles of the neo-liberals are a stable currency and free convertibility. It is certain that the neo-liberals were ready to make whatever changes were necessary in monetary policy to meet new situations. The economy was at such a low stage of development and the economic problems were so numerous that the neo-liberals probably found it necessary to classify their goals in order of emergency. It would be safe to state that a few neo-liberal ideas were incorporated in the monetary realm but only out of sheer coincidence.

¹⁷K. W. Roskamp, "Economic Growth, Capital Formation and Public Policy in West Germany, 1948-57," unpublished doctoral dissertation, School of Economics, Wisconsin University, Madison, Wisconsin, 1961, p. 199.

Actually monetary policy came under close supervision of the Allies. The creation of the banking system was due to Allied initiative, and no credit is due to Erhard or any German government party. In 1957, the Bank Deutscher Lander became known as the Bundesbank, but the same federal set-up was maintained.¹⁸

The currency reform was hindered by other problems. Among these was the problem of the equalization of the burden of war losses and the problem of capital formation. There was approximately DM 160 billion in claims against the new currency for equalization of war debt. If compensation for war losses was too high, it would hinder capital formation so necessary for German recovery. If compensation was too low, it would hinder the many individuals who suffered war loss or loss in the currency reform. The general path followed here was one which gave a strong incentive to entrepreneurial activity which would help increase production to cope with a rising supply of money.¹⁹

Return to Normalcy

By 1950, changes in the price structure had taken place. Retail prices fell 10.6 percent below the level of the first six months of 1949. Probably one of the

¹⁸Wallich, p. 316.

¹⁹Roskamp, p. 54.

major factors in arresting the inflation was a wage freeze. A wage freeze is strongly contrary to the neo-liberal ideas, but it seemed appropriate at the time.²⁰ Had wages been left to the forces of the market, Erhard's economic theory might well have been abandoned. This wage freeze occurred in the face of rising unemployment.

When the inflationary pressures had been arrested, monetary authorities continued to follow a conservative money policy. Actually, this was by dictates of the Allied Banking Commission. The Central Bank announced it would support public programs to relieve the unemployment only when required to do so. This attitude fell in line with neo-liberal theory. The monetary authorities made it known they felt their prime objective was monetary stability, and they continued on this course. They felt that any aid they might grant would only lead to more inflationary pressures.²¹

Tax Reform

In the same period of the currency reform, the high taxes levied by the Allied Control Council in 1946 were reduced sharply. These were not reduced as much as Erhard had desired, but he pushed for future plans to remove most of the price and other economic controls. The tax reform

²⁰ Erhard, Prosperity Through Competition, p. 21.

²¹ Poskamp, p. 56.

was issued by the Military Governments and covered almost all areas of taxation. Some of the most drastic changes * were reductions of the personal income tax by fifty percent; tobacco tax, sixty percent; property tax, sixty percent; and inheritance tax, forty percent. There were also reforms in the corporate area.²²

The occupational authorities did agree to exclude from taxation income saved and invested.²³ This concession played a vital part in the formation of capital and financing of the recovery. A detailed discussion of capital formation will be given later.

German tax laws present an interesting study. They are so arranged as to aid in accomplishing specific economic and social needs and work on the basis that tax concessions are more efficient than subsidies. Under the German system, tax reductions are granted according to type of business or person rather than by rates. These specific reductions are, undoubtedly, a great help in aiding sectors and persons which need help most.

Any further discussion of taxes in Germany is unwarranted by lack of full knowledge of the German tax laws. It is said that the average German does not understand them, and special study groups are set up to aid him.

²²Heller, p. 219.

²³Wallich, p. 70.

Adoption of a More Liberal Credit Policy

Industrial production reacted quickly to the reform. In six months, total production had increased fifty percent. This trend did not carry into the 1950's, however, because of problems involved in raw material supply and finished product distribution in lieu of the new level of production.²⁴

TABLE IV
INDEX OF TOTAL INDUSTRIAL PRODUCTION
(1936 = 100)

Year	Index
2nd quart 1948	52.1
4th quart 1948	75.4
1949	99.7
1950	121.7
1951	134.3
1952	145.3

SOURCE: Ludwig Erhard, Prosperity Through Competition, translated by Edith Temple Roberts and John B. Wood (London, 1958), pp. 26-48.

In the period of 1949 to 1950, the boom leveled off and was later given impetus by the Korean War in 1950. By comparing the increase in national income to the increases in industrial production, it can be seen that the industrial sector advanced more rapidly than did the national income. Thus, it could be concluded that there were not all-around increases in national

²⁴Erhard, Prosperity Through Competition, p. 26.

output and that the recovery was an unbalanced one with industrial output leading the way. Erhard had stressed the necessity for a balanced recovery, but actually stress was put upon the heavy industries.

TABLE V

GROSS NATIONAL INCOME 1936-1955
(In 1936 prices expressed as billions of DM)

Year	GNI
1936	47.9
1949	47.1
1950	54.8
1951	62.7
1952	66.7
1953	71.6
1954	77.5
1955	85.8

SOURCE: Ludwig Erhard, Prosperity Through Competition, translated by Edith Temple Roberts and John B. Wood (London, 1958), p. 3.

Communications and transportation began to show signs of recovery after the reform. The food supply also increased, which caused output per worker to rise in the area of transportation, which resulted in a decrease of people employed.²⁵

In early 1946, under Allied policy, Germany was forbidden to have sea-going vessels. However, these

²⁵Office of the U. S. High Commissioner, Report on Germany, September 21, 1949 - July 31, 1952 (Washington, D. C., 1952), p. 36.

restrictions were progressively removed and, as a result, the government invested heavily in this area and offered tax incentives to private people and business firms to do so. This resulted in a sharp increase of about 400,000 tons per year in shipping.²⁶

Housing increased little by 1949. In 1950, the Federal Government took steps to appropriate funds to this area, and by 1950 and 1951, 350,000 dwelling units per year were being built.²⁷

In the area of agriculture, output rose more slowly than in industry. However, low fixed prices were detrimental to production. This was done by the Allies in an effort to control agricultural imports so as to minimize German foreign trade. Grain prices were not raised to parity with world prices until 1951.²⁸

In the field of employment, the reform had an adverse effect. Money wages made it possible for workers to buy food which they had been forced to search for in earlier periods. Relieved of the necessity to spend normal working hours looking for food, most workers went to their jobs, thus glutting the labor force with more workers than needed. The result was that many lost their jobs.

²⁶Ibid., p. 36.

²⁷Ibid., p. 36.

²⁸Ibid., p. 36.

Also, before the reform, many firms had engaged in over-hiring to combat absenteeism resulting from people searching for food. The individual worker's plight was further aggravated by rising prices and a frozen wage level which resulted in a loss in real income for workers.²⁹ Irritated with this situation, the unions announced a strike. Any strike at this time would have led to economic chaos. Erhard combated this movement with the following statement:

It would be a grave mistake to try to combat present excessive rises in prices by the absolute methods of state control, that is to say going back to a system of enforced prices. Experience in the recent years proves that such actions would immediately bring back all the undesirable manifestations which have been successfully banished by allowing prices to find their own level. Goods and commodities would disappear from the market and the black market would spring up once more, barter dealings would again be commonplace, and the payments of wages in kind and inducements of one sort or another would have to be resorted to. The net result would be the collapse of all that has been achieved by the new economic policy, and the currency would be gravely endangered.³⁰

In light of this statement by Erhard, the German labor unions announced there would be no strike and that they would continue to be subject to restraints in the realm of wages. This is, of course, allowing the price of commodities to be formed freely while the price of labor is held in

²⁹Ibid., p. 36.

³⁰Erhard, The Economics of Success, p. 54.

restraint. Under free market theory, both the price of labor and commodities should be determined by the interaction of supply and demand along with the consideration of social justice.

On the whole, labor made a major contribution to the stability of the currency by practicing restraint. Had labor pushed to keep wages in line with prices, all of Erhard's policies might have had to be abandoned in order to stop an inflationary spiral.

The restraint of labor in keeping wages low made it possible for a large amount of self-financing by business firms which was necessary, due to lack of capital. It also helped to keep the price of exports down which increased Germany's competitive position in the world markets.

Erhard told the German people that as production expanded, prices would decrease and that consumers could aid in decreasing prices by searching for the correct seller before they purchased.³¹

Credit Base

By the end of March 1949, the directors of the Bank deutscher Länder were convinced that the inflationary pressures were on the decrease due to their previous

³¹Ibid., pp. 62-63.

restrictive money policies and the restraint practiced by labor. In lieu of this, it began to remove its restrictive credit measures. Banks were released from their obligations and reserve requirements were lowered. Increases in production at the time were also having a deflationary effect.

With the new liberalized credit, banks and the public took advantage of the situation. From the end of March, 1949, to the end of June 1950, short term credit volume rose from DM 4,234.9 million to DM 10,594.4 million. In spite of this, prices began to fall as Erhard had predicted would happen immediately after the reform. In a period of fifteen months, the index of industrial production fell eleven points and the cost of living index fell sixteen points to 151 where it had stood on the eve of the currency reform.³²

By September of 1949, due to conditions in its balance of payments, Germany was forced to consider devaluation of the mark. Britain had devalued her currency and other European nations had followed leaving Germany at a disadvantage, causing a deficit in the balance of payments despite a rise in exports. On September 29, 1949, Germany devalued the DM by 20.6 percent.³³

³²Ammer, p. 59.

³³Ibid., p. 59.

The level of production continued to fall until early 1950, resulting in unemployment. The Bank deutscher Länder was faced with a dilemma in that if she loosened credit to fight unemployment, she might also cause a price rise which would further aggravate the imbalance of payments.

Erhard felt that existing productive capacities were not being utilized and a freer credit policy was needed to increase production. In his view, the increased production would have a downward pressure on prices and this would alleviate the problems in the imbalance of payments. These ideas were firmly opposed by the Allies as Erhard was placing his emphasis on a stable currency more so than alleviating the unemployment situation.³⁴

Fortunately, this situation was corrected by a favorable turn in the balance of payments in the second quarter of 1950. This was a result of an increase in exports, due to the 20.6 percent devaluation of the mark. Increasing exports resulted in increasing employment in the export industries. Employment in the export industries climbed from 425,000 in December, 1949, to approximately 600,000 in June of 1950. By June, 1950, the index of industrial production reached 109.6, and employment had reached 13,845,000, a postwar record in both instances.³⁵

³⁴Erhard, Prosperity Through Competition, pp. 32-33.

³⁵Emmer, p. 60.

From the reform to 1950 is usually considered a period of low wages and high profits. The high profits along with low wages was essential in order to attract investment. Labor productivity, however, was generally low in this period due to damaged machinery and structural unemployment. Even after the wage freeze was lifted, wages remained low, as labor was an abundant factor due to a large influx of refugees. At the outbreak of the Korean War, prices were falling and wages were rising as production expanded. This was something the Germans had not experienced since the end of World War II.

Korean War Boom and Return to a Restrictive Policy

The Korean conflict was a major interruption in the downward movement of prices. The outbreak of war led German people to believe there could be a shortage of goods as they had so often seen in the past. This led to a drive to hoard by businessmen and consumers. A result of such hoarding was a fall in savings which is evidence the German people desired to hold goods instead of money. At the same time, fiscal policy was enacted, which added to liquidity. In April, 1950, the Federal Republic reduced its rates of the assessed income and wage taxes by seventeen points to twenty-five percent. This plus the fact that the states did not reduce their expenditures added increasingly to

the volume of money. For a while, production rose, which helped to effect an increase in money.³⁶

In the face of this, monetary authorities followed a generally restrictive money policy. After watching the activity for four months, they quickly initiated three restrictive measures to combat the inflation. These actions consisted in raising the reserve requirements, raising the rediscount rates, and banks were asked to reduce their acceptances and bills of exchange.³⁷ In this same period, Germany had used all of her available credit in the European Payments Union.³⁸

The Korean War had enhanced the German export market and her exports increased considerably. This added to the high domestic demand, touched off another inflationary spiral. Actually, the above restrictions did not achieve their ends, as prices pushed upwards and the Germans continued their rush to buy goods. The entry of the Chinese into the war marked the final rush of Germans to purchase goods at a high rate.³⁹

³⁶Ibid., p. 60.

³⁷Ibid., p. 61.

³⁸The European Payments Union was an organization composed of the U. S. and seventeen European nations. Its purpose was to provide a clearing agency for the trade balance of the European members, to stimulate multilateral trade and discourage bilateralism. Operations were suspended in 1958.

³⁹Earlier, p. 62.

After November 1950, the upward push of industrial production ceased and by February of 1951 had fallen 7.5 points. This was due principally to shortages in coal, iron, steel and electricity and Germany's position with the European Payments Union. Inflationary pressures continued to push prices upward. The continuing upward trend of prices of raw materials on the material market and a continuing boom in demand at home and abroad all contributed towards increasing the demands for imports to such an extent that by 1951, Germany's balance of payments position had deteriorated rapidly. This position was likely to continue as Germany had liberalized⁴⁰ sixty percent of her tariffs of her imports from other countries in the Organization for European Economic Cooperation. Germany's only solution was to abandon the degree of tariff liberalization she had achieved and apply to the EPU for special credit. This was done in February of 1951.⁴¹

It can be noted in Table VI that exports rose during the 1950's, but private domestic investment rose at a lower rate. Therefore, it is apparent that the increase in exports was at the expense of a decrease in goods available for domestic consumption. Also, as the number of people employed increased after 1949, an upward pressure on wages was exerted.

⁴⁰ Liberalization is used to denote an entire absence of import tariffs on the specified percentage (60 percent) of the entire quantity of goods imported by Germany from various other countries.

⁴¹ Enamer, p. 62.

TABLE VI

INDEX OF GROWTH OF THE WEST GERMAN ECONOMY 1948 TO 1957
(Current Prices)

Years	G.N.P.	Per Capita G.N.P.	Gross Private Domestic Invest.	Indus. Production
1936	48.4	57.5	N.A.	90.2
1938	59.8	72.1	N.A.	N.A.
1948	N.A.	N.A.	N.A.	56.0
1949	80.6	76.3	77	79.5
1950	100	100	100	100
1951	123.7	122.4	123.9	118
1952	134.6	132.3	137.8	126
1953	144.1	140.3	138.7	139
1954	156.2	150.4	152.7	155
1955	178.2	169.8	203.2	178
1956	196.5	185.0	211.3	198
1957	212.2	197.2	226.6	203

SOURCE: K. W. Roskamp, "Economic Growth, Capital Formation and Public Policy in West Germany, 1948-1957," unpublished doctoral dissertation, School of Economics, Wisconsin University, Madison, Wisconsin, 1961, p. 63.

TABLE VI - Continued

Exports	Imports	Wages	Population	Employed
N.A.	N.A.	62.1	82.3	N.A.
N.A.	N.A.	84.4	83.8	N.A.
N.A.	N.A.	93.7	96.6	94.1
49.5	69.0	100.0	98.4	95.1
100.0	100.0	115.3	100.0	100.0
174.4	129.6	124.0	101.2	104.1
202.3	142.5	128.7	102.0	108.1
221.7	140.8	133.4	103.1	112.2
263.5	170.0	142.5	104.2	117.7
307.7	215.2	155.1	105.3	124.5
369.1	249.9	N.A.	106.9	130.1
430.3	278.8	N.A.	108.4	132.3

Extension of Administrative Credit Controls

In light of the fact the tools of the monetary authorities were not effective, the board of directors decided upon direct controls in February of 1951. In a public speech, Erhard stated:

This does not mean to say that it is the aim of German economic policy to seek a solution by restrictive measures, although we are bound at present to insure that we do not incur more payment obligations than we can meet out of the foreign exchange we earn by our exports. This is scarcely the course we should have adopted, had we been free to choose, in order to get out of the present impasse. Every limitation and every restriction on the import side is, on the contrary, an emergency measure and can never, as I see it, be more than a temporary expedient. All our efforts must be bent on building up exports so as to recover greater freedom of action in regards to imports. We shall therefore take active measures to promote exports, for instance, by refunding turnover tax and by allowances on income tax and corporation tax.⁴²

Actually, Erhard and others felt it could have been possible to stay with liberalization and to weather the storm. However, Erhard felt that social policy would dictate the adoption of restrictive policies because of the fact that Germany had to think about the hardships its refugees might endure if liberalization was adhered to.⁴³ Again, this was a clear abandonment of the free market principles in order to correct an unfavorable situation in the market place.

⁴²Erhard, The Economics of Success, pp. 87-88.

⁴³Ibid., p. 35.

Whether the free market principles would have worked in this case if left to seek their end is an unanswered question. The fact remains that they were abandoned and controls enacted.

At the end of February 1951, monetary authorities requested commercial banks to reduce their outstanding short term credit to business and private borrowers to DM 1,000 million less than it had been on January 31, 1951. Banks were given three months to accomplish this.⁴⁴ This reduction was allocated among the eleven State banks.

Another step was the "guiding principles" which were more of an indirect control. These were a set of minimum or maximum values for the banks to follow in their four operating ratios.⁴⁵

Under Germany's banking set-up, the Bank deutscher Lander had no power to order member banks to follow the "guiding principles" nor reduce their credit. This was solved with a powerful threat by the Bank deutscher Lander that if a State bank did not follow suit it would be excommunicated, so to speak, from the banking system.⁴⁶ This, of course, gave the Bank deutscher Lander a powerful central weapon at a time when Erhard was fighting to avoid any form of centralism.

⁴⁴Robert Eramer, "West German Monetary Policy," Journal of Political Economy, LXIII (February, 1955), 62.

⁴⁵Ibid., p. 62.

⁴⁶Ibid., p. 63.

It is apparent that the old classical methods had not been fully utilized, (i.e., reserve requirements could have been further raised) and this caused argument against the board for its actions. However, the board felt that only direct controls would give it the selective control of credit it needed.⁴⁷

By March, 1951, short term credit had dropped by DM 589.9 million, and April witnessed a drop of DM 382.6 million. In June, both prices and the industrial price index began to fall and level off for the first time since the Korean War. Germany's balance of payments position with the EPU had improved and she was left with a DM eleven million surplus. By 1951, this surplus had reached DM 173 million.⁴⁸ This could be attributed to control of imports and a high rate of exports after liberalization had been suspended.

There is no doubt that the Korean crises had an upsetting effect upon the German economy. Most writers feel that it was this war which pulled Germany into another upward surge. Erhard expresses the opinion that the Korean crises was not needed to aid the recovery of the German economy and that, furthermore, it actually brought difficulty to German economic policy. The war

⁴⁷Ibid., p. 63.

⁴⁸Ibid., p. 64.

did break a favorable trend in consumer consumption and did cause bottlenecks because some industries such as coal and steel could not meet the increased demands.⁴⁹

However, to write the Korean war off as a hindrance to German recovery would be sheer folly. Germany greatly increased her exports and gained a surplus in her balance of payments. Also, her economy had been forced to expand to meet increased demand and this should have proved quite helpful. It did cause troubles in the realm of economic policy, especially for Erhard, but as the boom began to recoil, Germany stood as an economically stronger nation.

During this period, Erhard had actually been asked to freeze prices or resign by many of his opponents. He answered that he would neither freeze prices nor resign. He answered the charges against his market economy in this manner:

In any reckoning of failures the market economy is always debited with just those sins that belong to the account of planning and state control, the remains of which the market economy has so far been forced to carry with it. The bottlenecks in the basic industries are discussed, but there is silence about the fact that it is in these sectors that bureaucracy has celebrated its triumphs. It is there that the function of the market, particularly the free adjustment of prices, has been completely eliminated.⁵⁰

By June of 1951, the boom was over and Germany had much to show for it. She had doubled her exports with

⁴⁹Erhard, Prosperity Through Competition, p. 36.

⁵⁰Ibid., p. 32.

only small increases in prices and wages.⁵¹ By early 1952, Germany was again able to return to liberalization.

Return to Stability

By mid 1951, Germany had begun to show signs of recovery from the Korean boom. Production and employment continued upward as well as did incomes. Prices fluctuated some but remained relatively steady. From June of 1952 to June of 1957, the cost of living index rose by only five points in Germany. In those same months, it rose twenty-three points in Great Britain and eleven points in the United States.⁵²

TABLE VII

PRODUCTION, EMPLOYMENT AND INCOMES IN WEST GERMANY
(1950—1958)
(1950 = 100)

Year	Production	Employment	Average Net Income
1950	100	20,365	305
1952	126	21,300	391
1954	155	22,395	448
1958	208	24,585	597

SOURCE: Federal Ministry of Economics, Achievement in Figures, (Weisbaden, 1963), pp. 11-35.

⁵¹Wallich, p. 94.

⁵²Erhard, Prosperity Through Competition, p. 21.

The fact that prices rose slower than did average net income meant an increase in real income for the German worker. Meanwhile, credit restrictions were still enforced until the second quarter of 1952. From May, 1952 to April, 1953, the board of directors of the Bank deutscher Lander loosened their restrictions somewhat, and from May, 1953, the board continued to ease credit controls.⁵³

After the increased liquidity had been granted, consumer expenditures remained low. It was felt that people were unaware of future price trends. This also bothered the board, and they began making preparations to combat inflation again. In 1952, the board lightened the "guiding principles" somewhat and began to relax its other inflationary tools. After May of 1952 and early 1953, reserve requirements were lowered along with the rediscount rate in an effort to provide some inflationary expansion. This was possible because of a favorable balance of payments.⁵⁴

By 1954, production had doubled that of 1936. This trend continued to push upwards the remainder of the 1950's and even to the present day. Between 1950 and 1954, almost two million more people found jobs.⁵⁵ An international

⁵³Ermer, p. 65.

⁵⁴Ibid., p. 66.

⁵⁵Erhard, Prosperity Through Competition, p. 51.

comparison of the index of industrial production from 1950 to 1960 shows the Federal Republic maintaining a considerably higher rate of production than other comparable countries.

TABLE VIII
INTERNATIONAL COMPARISON OF INDEX OF
INDUSTRIAL PRODUCTION 1950 TO 1960
(1950 = 100)

Country	Index
Federal Republic	164%
Italy.	146
Austria.	110
France	104
Netherlands.	79
Norway	75
Canada	62
United States.	46
Sweden	46
Belgium.	40
United Kingdom	39

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), p. 40.

After 1952, the rate of interest was dropped from five percent to three percent. However, a rising influx of foreign currencies due to large amounts of exports put an upward pressure on prices. Also, in 1954-1955 Germany reached her labor resource ceiling which put an upward pressure on wages resulting in an upward pressure on prices. (See Table VII.) Also, due to increasing inflation in the world market, it would be safe to assume that

Germany, by increasing her imports, was adding to her own inflation. A large export surplus, importation of inflation, and a shortage of labor would have an effect upon the capital-market which was very undesirable.⁵⁶

TABLE IX
GERMAN FOREIGN TRADE 1950 - 1958
(In millions of DM)

Year	Exports	Imports
1950	8,400	11,400
1953	18,500	16,000
1956	30,900	28,000
1957	36,000	31,700
1958	37,000	31,100

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), pp. 62-63.

This situation led to the Central Bank adoption of restrictive policies. On May 1, 1952, the re-discount rate was introduced with quotas based on net worth.⁵⁷ However, it is not known to what degree the re-discount rate has affected borrowing by banks.

Also, in 1952, the Central Bank announced, for the first time, that it would buy Treasury bills of the

⁵⁶Roskamp, p. 196.

⁵⁷Ibid., pp. 225-226.

Federal Government and the bills of the Federal Railways. These operations remained insignificant until 1955.⁵⁸ The central bank actually plays a passive role in the open market operations. It sets the rates at which it is buying and selling but leaves the initiative up to the banks. The whole operation is carried out by one man answering the telephone and taking orders.⁵⁹

The German open-market operations have not been too successful. It is almost impossible for an individual to own the securities offered as they are sold only in denominations of DM 10,000. Also, the interest rates on savings accounts are usually higher, which causes people to save instead of buying securities.⁶⁰

Actually, the Germans look at the open-market operations as an enforcement for the discount mechanism. Open market operations are only engaged in when it is felt that the discount mechanism has not delivered the desired monetary results.

After the Korean crisis had been overcome and the policy of liberalization reestablished, many people began to fear that the German economy would stagnate. This

⁵⁸Ibid., p. 226.

⁵⁹Ibid., pp. 225-226.

⁶⁰Ibid., pp. 227-230.

feeling was especially high at the turn of the year 1953/54. In light of this, Erhard stated:

If the proper relationship between investible funds, the demands for capital, and the requirements for consumption cannot, for a number of reasons, be worked out in advance, then I consider it more advantageous in the present situation to maintain high consumption, and to allow strains to arise in the capital market rather than reduce consumption to adjust savings to a satisfactory level but at the price of causing anxiety about sale.⁵⁷

By the second half of 1954, as expressed earlier, Germany was approaching full employment. By 1955, she was suffering from a shortage of labor. This shortage of labor seemed to be the most serious threat to the expansion of the economy. Faced with workers moving from industry to industry, Erhard stated:

I am not against a free choice of jobs or against the freedom of the worker to choose his own place of work; but what is happening now I can only describe as the work of headhunters, who are trading in human lives.

The best solution, which would have favorable social and economic consequences, is to be found in an increase in the productivity of our economy. We must, therefore, do everything we can to modernize. We must use every means to increase productivity, to compensate what we lack in quantity, i.e., through a higher standard of efficiency.⁵⁸

This shortage of labor led to increases in wages of the worker. (See Table VII.) The year 1954 was also

⁵⁷Erhard, Prosperity Through Competition, p. 59.

⁵⁸Ibid., p. 66.

Marked by increases in investment due, primarily, to the rising cost of labor and also a rise in savings due to higher wages. This rapid rise of savings and investment continued until 1957.

TABLE X
SAVINGS AND INVESTMENTS IN GERMANY, 1950 - 1958
(Millions of DM)

Year	Investments	Total Savings
1950	22.6	9.9
1951	22.3	16.1
1952	23.2	21.0
1953	21.5	22.2
1954	23.2	- -
1955	26.3	34.5
1956	N.A.	37.2
1957	24.3	39.5
1958	23.7	40.2

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), p. 32 and p. 91.

Erhard attributes this willingness to save to the confidence in the stability of the currency.⁵⁹ On two occasions in the last half-century, the German people had seen their savings wiped out. It should be noted this willingness to save did not really manifest itself until about 1952. The years 1954 to 1956 were also marked by a rapid rise in foreign trade. (See Table IX.) By 1956,

⁵⁹Ibid., pp. 70-71.

Germany ranked as the third strongest country in the world market after the U. S. and Britain.⁶⁰

Again, in 1956, spectres of inflation appeared in the German economy. Erhard was pressured by various political groups and unions to engage in inflationary measures in order to allow the economy to expand at a faster rate. Instead, restrictive measures were applied to combat increasing wages and prices, and Erhard replied:

All measures taken to restrain economic development were based upon the wish to safeguard the stability of the currency, but I have never abandoned the principle and the aim of an expanding economy. I really cannot be accused of wishing to propagate a restrictive policy for selfish reasons nor is it true that I could suppose that to depress this boom forcibly is a worthwhile aim. No — certainly not — because the secret of the success of our economy lies in the fact that we have never retreated from difficulty but have always found the solution through moving dynamically and by expanding. And thus it shall remain, though naturally it should not be overlooked — and not only today — that some difficulties are becoming increasingly obvious.⁶¹

Actually Erhard was not against the wage increases, considering the above quote, but felt that any wage increase should be accompanied by increases in productivity. He felt that this was not taking place, and blamed a major part of price increases on wage increases.

On August 4, 1955, the discount rate was raised from three percent to five percent and by May of 1956, stood

⁶⁰Ibid., p. 71.

⁶¹Ibid., p. 74.

at five and one-half percent. This was also enforced with a rise in the reserve requirement. Actually, as pointed out before, Erhard had little to do with the monetary policies enacted as the banking system was independent of the Federal Government.⁶² Some writers express the opinion, however, that the monetary authorities waited to see what fiscal steps were taken and then acted in accord with fiscal policy. If this is true, Erhard may have been able to influence monetary policy indirectly with fiscal policy, but no clear-cut example of this is available.

By the end of 1956, it was felt that there had been a return to a healthy economy. By 1957 the discount rate was back to four and one-half percent. Erhard took this chance to state:

To maintain the stability of money is the basic condition for a balanced economic growth, and for true and certain social progress. The economic policy of the Federal Government must thus in the future be increasingly directed towards maintaining financial stability. Whether restrictive measures will finally be needed will depend on the readiness of all sections of our population to deny themselves those special advantages which are gained at the expense of all.⁶³

Here Erhard speaks of a stable currency and a balanced growth. It would be safe to assume that since the currency reform, Germany had a relatively stable currency with an

⁶²Ibid., pp. 76-76.

⁶³Ibid., p. 78.

unbalanced growth. This unbalanced growth was due principally to stress upon heavy industries and money aids flowing in the direction of heavy industries. Erhard's statement also clearly infers the Federal Government's readiness to act if the market economy does not bring desirable results. It would be hard to distinguish the state as a framework from the state as a controller in such situations. It seems obvious that the state as a framework quickly becomes the state as a controller as soon as the market economy breaks down. Of course, under neo-liberal theory, this is permissible as long as there is no interference with the price mechanism. That is, as long as prices remain to be set by the free interaction of supply and demand and free decisions of the consumers. However, not all of these are so free as has been pointed out. Erhard would attribute the revival to the assumption of freedom over state planning and the acknowledgement of the indivisibility of freedom.⁶⁴

Convertibility and Revaluation

On December 28, 1958, the European Currency Agreement was signed. Under this agreement, Belgium, the Federal Republic of Germany, Denmark, Finland, France, Great Britain, Eire, Italy, Holland, Norway, Austria, Portugal, Sweden, and

⁶⁴Ibid., p. 232.

Switzerland announced they would revert to a free convertibility of their currencies.⁶⁵

Erhard had long been an advocate of the free convertibility principle and was a major figurehead in this movement. As early as 1953, Erhard was waging his battle for the principle, mainly to facilitate foreign trade. He expressed the feeling that if convertibility was not attained, it would become a central problem in world trade agreements and severely hinder the flow of liberalized trade.⁶⁶

Erhard expressed the opinion, and it is a part of neo-liberal thinking, that for too long the currencies of the world had been misused to subserve trade policies and these, in their turn, to correct the mistakes of a misguided monetary policy which blocked the awareness of the need for integration among closely related economic entities.⁶⁷

In February of 1961, growing payment surpluses made the revaluation of the DM inevitable. The banking system had tried to restrict credit from 1959 to 1961, but it

⁶⁵Ludwig Erhard, The Economics of Success, translated by J. A. Arengo Jones and D. J. S. Thomson (London, 1963), p. 246.

⁶⁶Ludwig Erhard, Germany's Comeback in the World Market, translated by W. B. Johnston (New York, 1954), p. 265.

⁶⁷Erhard, The Economics of Success, pp. 246-247.

was to no avail. The export boom had started in early 1959, and to combat the inflation involved, the Federal Government had maintained a restrictive fiscal policy and ran a budget surplus. This situation had been further aggravated by an increase in the supply of money from the outside which, in a sense, was amounting to imported inflation. From mid-1960 on, the pressures of this foreign currency was so great that any monetary policy was having little effect. Regulation of foreign exchange was suggested, but this would have been incompatible with the DM as a convertible currency.⁶⁸

In light of this, the only acceptable method to maintain a stable currency was to alter the exchange rate. Erhard acknowledged that this would make German exports more expensive but felt the reduction in exports would be temporary. He further expressed his belief that revaluation would reduce the cost of imports with a resultant pressure on the price level. This would be cause for competition to become greater not only in the domestic market but also in the world market.⁶⁹

Erhard had engineered the drive which had increased the international value of the mark by five percent. Actually, Erhard had wanted more than five percent but could

⁶⁸Ibid., pp. 246-265.

⁶⁹Ibid., pp. 347-348.

not gain the support of Adenauer. A higher revaluation would have cut exports more severely and increased imports and possibly, in this sense, acted as an anti-inflationary measure and helped to eliminate some of the annual budget surplus.⁷⁰

This budget surplus was a worry to Erhard, and there were probable reasons he would have liked to have eliminated most of it. Due to this surplus, the American government was continually prodding the Germans to take a more active part in defense. This was an idea which most Germans were frankly against. Furthermore, low military expenditure had made it possible to use the money for capital formation. This could be a major reason Erhard favored a higher rate of revaluation.

Another feasible action in this area would have been to drop export subsidies and import taxes and lower taxes in general in an effort to offset the surplus. This action, however, could have brought severe political reactions. In 1961, for example, the budget surplus was 250 million dollars which is quite typical of budget policies to date.⁷¹

⁷⁰"Will the Small Boost Be Big Enough," Business Week (May 11, 1963), p. 34.

⁷¹"West Germany: The Boom Tapers Off," Business Week (December 2, 1961), p. 71.

A healthy budgetary policy is a direct derivative of neo-liberal thinking. The neo-liberal believes in a balanced budget (not so much as a budget surplus) and is strictly against deficit financing as we know it in America. The neo-liberals would allow for a deficit only if the money were borrowed from the people and not a central bank. Neo-liberals look upon borrowing from a central bank as inflationary and a threat to monetary stability. This idea is derived from the belief of the neo-liberals, as well as Erhard, that solid growth can be attained without inflationary measures and that inflation has to be constantly guarded against, as well as the measures which spawn it.⁷²

The currency situation in Germany from 1961 to 1964 has remained quite stable in light of the various changes in the domestic and international markets. In 1964, the year after Erhard succeeded Adenauer as Federal Chancellor, talk about another change in the DM began to take shape. This, again, was due to inflationary tendencies within the economy, surpluses within the balance of payments, and continued imported inflation. To this question, the new Minister of Economics said, "No." The new Minister of Economics is Kurt Schmuecker, close and reliable friend

⁷²Statement by Otto Hieronymi, Professor of Economics, University of Dallas, Dallas, Texas, November 21, 1964. Otto Hieronymi was a student of Wilhelm Ropke at Geneva International Institute of Higher Studies.

of Erhard. Schmuecker feels, like Erhard, that a re-valuation of the DM would run counter to a system of fixed rates of exchange, which would lead to disturbances in international trade. Schmuecker further feels that inflationary tendencies could best be combated by a well co-ordinated economic policy, especially with other countries.⁷³

Summary of Monetary Policy

From its very beginning, the West German Central Bank only had three monetary tools with which to enforce its policies. These were the minimum reserve requirements, discount rate, and the "guiding principles." It was initially felt that these would be powerful enough to combat any inflationary pressures. Later, open-market operations were added to increase the effectiveness of the central bank.

Actually, the Germans had relied on this discount rate to be their most effective weapon. Again, the influence of the Americans could be illustrated here. Under our own early Federal Reserve System, the discount rate was felt to be a very powerful tool. We were later forced to add open-market operations when the discount rate failed.

It seemed the German monetary authorities overlooked the fact that the tax structure was causing a great deal

⁷³ "No Change in D-Mark," German International (July 31, 1964), pp. 24-35.

of internal financing and their restrictive controls would be diluted. Also, the original liquidity granted the commercial banks by the currency reform was a troublesome factor.

It could be said that even with the ups and downs experienced by the German economy that monetary policy has generally been adequate and has provided for growth. Its long-run objectives have been price stability and providing adequate measure of finance for steadily increasing production. It is also directly concerned with the trade problem in both the long run and short run. These policies, monetary and international trade, sometimes conflict but when they do, it seems that international trade has priority, followed by price stability and maintenance of growth and production.

The rapid recovery of the German economy after the currency reform has often been referred to as a "miracle." However, this miracle could probably be explained by some generalizations. The economy of Germany was almost rebuilt from ruins which provided a good base for growth. Tax laws aided in capital formation, and this, in turn, was aided by a low defense budget as Germany was forbidden to re-arm. Germany's expansion occurred in a period of general over-all expansion in Europe. Low wages made Germany's exports cheap in the world markets, and inflationary pressures abroad caused people to prefer German products.

No doubt, the currency reform was unjust, which was against the social policy of the neo-liberals, but it is hard to see how this injustice could have been completely avoided. Criticism could be that the reform created too much money but it would have been almost impossible to tell how much money was necessary for the stability of prices. It seems that a less inflationary approach to the reform would have been a larger ratio of reduction for the RM, plus making the original issue smaller and having the majority of DM's obtained through borrowing in relation to the expansion of production.

Given the fact that the Germans twice had their savings wiped out within the past half-century could have resulted in their high propensity to consume which granted sellers high profits, which in turn resulted in inflation after price controls were released. The general rise in prices after the reform surprised many, even Erhard. However, this could be attributed to a continuous increase in the volume of money, a high velocity of circulation, and a renewed hoarding of goods toward the end of 1948.

Many households in Germany had been unable to buy what they had desired in the past years, and this desire had been repressed until the reform. Once the reform was accomplished, these repressed wants resulted in an increased effective demand which was, no doubt, inflationary.⁷⁴

⁷⁴Wallich, p. 339.

Roskamp expresses the view that the link between the monetary and fiscal policies has been weak. It is his opinion that the fiscal authorities have been leaders in actions to which the central bank merely tries to accommodate itself. Fiscal surpluses and deficits have not always fitted the moves of the central bank.⁷⁵

General Monetary Policy and Capital Formation

Capital formation in Germany, as has been expressed, was an essential part of her recovery. Yet, little attention is given this area by the majority of writers. Most writers are explicit in their explanations of revival and growth while overlooking the basis of it. It is felt essential that this should be discussed. The only available comprehensive and extensive study of this was obtained in an unpublished doctoral dissertation by K. W. Roskamp. Roskamp obtained his information from a two-year stay in Germany working closely with banking officials of the Federal Republic. The conclusions arrived at were derived from information presented by Roskamp as well as reasoning on the information available in readings. It would be well to note that the statistics involved from 1948 to 1950, as well as in any other West German figures in this period, are at best reasonable estimates due to the destruction and loss of many vital papers.

⁷⁵Roskamp, p. 201.

It can be seen by referring to Table XI that the structure of lending definitely changed between 1952 and 1953. In the beginning, short term credits predominated, due to lack of capital. Later, long term credit became available as savings deposits and public funds increased. Under the given conditions, the interest rate probably did not have an influence in the borrowing sectors. Those that needed to borrow would presumably have a low interest sensitivity.

TABLE XI
INCREASE IN VOLUME OF BANK CREDITS 1948-57
(expressed as a %)

Year	Short term Credit	Medium and Long term Credit
1948	14.4	0.8
1949	16.3	3.5
1950	14.1	8.3
1951	7.7	7.3
1952	9.8	7.8
1953	8.0	12.5
1954	10.4	14.3
1955	7.1	18.5
1956	4.6	14.8
1957	7.6	12.1

SOURCE: K. W. Roskamp, "Economic Growth, Capital Formation and Public Policy in West Germany 1948-57," unpublished doctoral dissertation, School of Economics, Wisconsin University, Madison, Wisconsin, 1961, p. 248.

Actually, Roskamp is of the opinion that monetary policy has little selective effect on capital formation

except for specific cases of funds being channeled to specified areas.⁷⁶ This probably stemmed from the German idea that any direct influence would be inflationary and that tight money would aid in maintaining stable prices and assure adequate capital formation. However, this resulted in extremely high cost funds which would have stymied capital formation if all firms had had to bear the costs. It rather seems that monetary authorities followed a "not quite so neutral" policy in this vein.

The Social Security system played an important part in capital formation in Germany. This is an often overlooked point. Many home mortgages were financed out of the Social Security funds. From 1948 to 1957, the Social Security system provided about DM 20 billion for investments, mostly in residential construction.⁷⁷ This sector can be counted on for increasing help to capital investment in light of higher wages and employment increases.

The central bank also allocated funds to the Work-Creation and Housing Program of the Federal Government in 1952. This was actually a program against unemployment and is the only instance of the central bank engaging in

⁷⁶Ibid., p. 257.

⁷⁷Ibid., p. 165.

such an activity.⁷⁸ As stated earlier, the central bank felt its major function was to maintain a stable currency.

Retained earnings played an important part in the investible funds in Germany as is shown by Table XII. Retained earnings are almost as large as government savings. Again, this was due to the tax structure which made it advantageous to plow earnings back into operations. This was also necessitated by a low volume of personal savings.

TABLE XII
PERCENTAGE DISTRIBUTION OF NET SAVINGS
BY ECONOMIC SECTORS 1948-1957
(Current Prices)

Year	Individual Savings	Retained Earnings By Business	Government Savings	Social Security Savings
1948	35.1	33.3	29.8	1.8
1949	22.0	43.1	30.3	4.6
1950	17.0	42.3	31.7	8.9
1951	14.6	47.0	29.2	9.2
1952	22.4	37.8	31.8	8.0
1953	25.8	23.9	39.0	11.3
1954	28.4	22.0	37.7	11.9
1955	21.0	34.3	34.6	10.0
1956	20.6	31.3	37.3	10.7
1957	30.5	29.3	32.4	7.8

SOURCE: K. W. Roskamp, "Economic Growth, Capital Formation and Public Policy in West Germany 1948-57," unpublished doctoral dissertation, School of Economics, Wisconsin University, Madison, Wisconsin, 1961, p. 125.

Also, tax policy favored retained earnings and penalized the payment of dividends. To further aid in capital

⁷⁸Ibid., p. 166.

formation, German merchants maintained abnormally high prices which made large profits possible, at the same time causing some degree of forced consumer savings.

Roskamp points out that not only did the government finance its gross investment out of taxes, but it also borrowed it in the capital market. It not only used its savings but also used savings of surplus sectors for investment.⁷⁹ This would refer to domestic funds and foreign funds such as Marshall Plan funds which were vital after the currency reform. This surplus savings in the government sector made it possible for the private sector to invest in excess of its savings.

The West German government not only played an important role in capital formation by such means as advantageous tax laws, but the government itself was an active factor in the formation of capital. By this is meant that the private sector could not, at first, provide an adequate supply of savings necessary for capital formation. This responsibility, under neo-liberal economic theory, therefore, fell upon the Federal Government which responded in accord. Both investments and savings were stimulated by tax incentives under the tax structure.

Looking at Table XIII and the amount of fiscal surplus, one would imagine that the government would decrease taxes

⁷⁹Ibid., p. 153.

in an effort to leave investible funds in the private sector. The fact that taxes were not reduced until 1945, but maintained, stresses the point that the government saw fit to take an active part in capital formation. These funds were used in faltering sectors in an attempt to achieve a balanced growth.

TABLE XIII

PERCENTAGE DISTRIBUTION OF GROSS SAVINGS
BY ECONOMIC SECTORS 1948-1957
(Current prices)

Year	Individual Savings	Retained Earnings By Business	Government Savings	Social Security Savings
1948	22.7	50.0	26.1	1.1
1949	14.0	59.6	23.4	2.9
1950	9.4	65.2	20.5	4.9
1951	8.9	65.2	20.3	5.6
1952	13.5	59.9	21.8	4.8
1953	15.8	50.6	26.7	6.9
1954	17.8	48.4	26.3	7.5
1955	14.2	53.4	25.6	6.8
1956	13.5	52.6	26.8	7.1
1957	19.5	52.4	23.1	5.0

SOURCE: K. W. Roskamp, "Economic Growth, Capital Formation and Public Policy in West Germany, 1948-57," unpublished doctoral dissertation, School of Economics, Wisconsin University, Madison, Wisconsin, 1961, p. 138.

From the statistics in Table XIII, several factors that allowed for a high rate of investment are apparent. It can be seen that the country saved between twenty-three percent and twenty-nine percent of gross income. Private consumption

declined, which indicates that the Germans lived sparsely. Government defense expenditure dropped as the cost of German defense was carried by other Western countries. This was due to the fact that Germany was forbidden to re-arm. Later, as will be discussed, Germany was asked to share in the defense of Europe.

TABLE XIV
DISTRIBUTION OF GNP IN PERCENTAGES
(Current Prices)

Year	Private Consumption	Gov't. Expenditures		Gross Private Domestic Investment	Foreign Trade
		Current	Defense		
1948	60.8	10.2	5.4	23.6	-3.3
1949	65.8	10.4	5.6	21.4	-3.3
1950	63.6	10.3	4.5	22.8	-1.2
1951	60.3	9.7	5.1	23.0	1.9
1952	59.0	10.1	5.6	22.8	2.5
1953	59.9	10.5	4.3	21.4	3.8
1954	60.0	10.6	3.9	22.0	3.5
1955	58.3	10.2	3.4	25.7	2.4
1956	59.2	10.4	2.8	24.2	3.4
1957	58.7	10.3	3.0	24.0	4.0

SOURCE: K. W. Roskamp, "Economic Growth, Capital Formation and Public Policy in West Germany, 1948-57," unpublished doctoral dissertation, School of Economics, Wisconsin University, Madison, Wisconsin, 1961, p. 138.

In Germany, there were only state and municipal fiscal levels existing between 1945 and 1948. In 1949, the Federal level came into existence as the third fiscal level

along with the Equalization of Burden Program as the fourth fiscal level.⁸⁰

TABLE XV
PERCENTAGE DISTRIBUTION OF TOTAL TAX RECEIPTS
AMONG THE VARIOUS LEVELS OF AUTHORITIES
(Current Prices)

Year	Federal Government	State	Local	Equalization Fund
1949	43.3	35.7	12.6	8.3
1950	47.4	30.2	12.9	9.5
1951	54.8	25.2	12.7	7.3
1952	56.5	24.8	12.8	5.9
1953	55.3	25.0	13.1	6.1
1954	55.8	24.6	13.4	6.2
1955	56.0	24.7	12.9	6.4
1956	55.2	27.0	13.2	4.6
1957	54.0	27.7	13.8	4.5
1958	55.4	27.1	13.4	4.1

SOURCE: K. W. Roskamp, "Economic Growth, Capital Formation and Public Policy in West Germany, 1948-57, unpublished doctoral dissertation, School of Economics, Wisconsin University, Madison, Wisconsin, 1961, p. 266.

The Federal level receives most of its revenue yields from turnover taxes, customs, and indirect taxes. It is also entitled to receive a certain percentage of personal and corporate income tax. However, the greatest bulk comes from indirect taxes. The State receives the greatest amount of its revenues from personal tax, inheritance tax, beer tax, and automobile tax. This means that the progressiveness

⁸⁰Ibid., p. 263.

of taxes lay at the state level. On the municipal level, there is the real estate tax, business tax, dog tax, and amusement tax. The Equalization of Burden Fund is actually considered as part of the Federal level. There is vertical as well as horizontal connection between all levels.⁸¹

It can be seen in Table XV that the share of the government in total tax receipts has increased, and the share of the Equalization Fund has decreased. This shows the growth of the Federal Government in the realm of fiscal policy. The Equalization of Burden Fund was an attempt to spread the losses of the war more evenly. This fund received contributions from both federal and state governments, and these funds were then distributed to distressed areas for investment purposes.⁸²

Most of the public expenditures went for construction on the state and local levels. This was approximately sixty-five percent to seventy percent.⁸³ This does not seem to be a desirable situation. This left funds in the hands of state and local authorities and their decisions, no doubt, would be determined by local factors and not so much by the general economic situation. Considering the effect construction can have on a modern-day economy, this could have been a considerable source of instability.

⁸¹Ibid., pp. 263-264.

⁸²Ibid., pp. 264-265.

⁸³Ibid., p. 270.

Government expenditures went to such areas as agriculture, industry, trade, and public enterprise. The profit motive was not left to automatically guide the funds to the desired places.⁸⁴ This, of course, was contrary to neo-liberal thinking, but it was the only workable solution.

In 1948, the Germans were also given the advantage of accelerated depreciation. Roskamp expresses the opinion that this has been the main source of investment for business firms.⁸⁵

Loans made for the construction of business or residential buildings were also granted tax exemption. This provision, of course, would have appealed to individuals in the high-income brackets seeking to escape high income taxes. The disadvantage here would be that the creditor would be deprived of his liquidity for a long period of time. Some corporations used this to build housing for their employees.⁸⁶

Shipbuilding, which was at first prohibited under occupational law, was also granted some incentives. The tax law stated the ships could be depreciated fifteen percent per year for the first two years. It also provided that loans made to shipbuilders could be deducted

⁸⁴Ibid., p. 270.

⁸⁵Ibid., p. 305.

⁸⁶Ibid., p. 305.

as a business cost in the year which they were made. However, no interest could be collected on them.⁸⁷

Individuals, as mentioned, were also granted some concessions within the tax structure. Payments, by individuals only, to building associations and insurance companies were made deductible. Later, in 1949, savings were made tax exempt. However, these savings accounts were blocked from three to ten years, which made them undesirable to many potential savers.⁸⁸

The capital market, per se, has not been too active in Germany. Most firms can obtain adequate capital from depreciation and internal financing. When external financing is necessary, it is usually in the form of bond issues.⁸⁹ It is probably feared that stock issues would dilute control.

In 1952, the "Law for the Encouragement of the Capital Market" was passed in an effort to create new incentives for the suppliers of funds. Its purpose was to raise the yields of securities by granting tax exemptions. These exemptions were granted only to low-yield securities.⁹⁰ This would have possibly brought about competition between

⁸⁷Ibid., p. 306.

⁸⁸Ibid., p. 308.

⁸⁹Ibid., p. 350.

⁹⁰Ibid., pp. 354-356.

low-yield tax free securities and high-yield securities.

In December of 1954, the capital market law expired which, in general, led to lower interest rates. This caused chaos in the capital market because of a great deal of switching from low-yield bonds to high-yield industrial bonds. This movement was enough to convince the government that a less free security market would be preferable to a free one and, once again, incentives were enacted to supply funds to construction and bottleneck industries.⁹¹

To liberate interest rates and leave it to the capital market to find a new equilibrium would have inevitably resulted in some favored sectors of the economy being excluded from obtaining investible funds. Instead, funds would have flowed to the sectors of the economy with the highest marginal efficiency of capital. This could have caused even more structural disproportions in the German economy.

It can be seen that West Germany made considerable and highly successful use of tax legislation to spur capital formation. This was, no doubt, a centrally influenced allocation of resources, which seems to have

⁹¹Ibid., p. 364.

been a significant departure from the principles of the neo-liberal school. Why was this departure necessary?

This departure could be rationalized under the neo-liberal theory in the following manner. Germany, as a country, was damaged more than any country in Europe. This made her need for capital and resources urgent. Germany had been divided into zones, which resulted in an imbalance of industrial distribution. Some sectors were equipped to produce an abundance of supply while other sectors were not. Furthermore, it could be assumed the war effort had developed some sectors of the economy at the expense of others. This would have made some readjustment indispensable. The three years after the war, 1945 to 1948, had only complicated this. The U. S. military machine had freed Germany to produce, in those years, products which were of no aid to the economy.

In addition, a major part of the labor force had to be directed to the proper sectors, which would demand considerable investment. Had not the state intervened in capital formation, the task would have been left entirely to the rationalizations of entrepreneurs. This type of intervention by the state in capital formation is control-istic but would still leave basic liberties, that is, to take or not take advantage of the fiscal measures.

The above conditions and the urgency for capital formation made it necessary to resort to measures which could

have an immediate effect. However, the neo-liberals would call this only a temporary intermediate policy having dangers within it. In the end, they would favor a capital market playing the role of selector to avoid false investments.

This self-financing, which the fiscal policy permitted, necessarily had its shortcomings. It favored the large enterprises and existing industries while discriminating against small enterprises and any potential new industry. This is not consistent with neo-liberal thinking and could be tied directly to the existing structural imbalance.

This stage, which was to be only temporary, tended to last as the favored became satisfied with the benefits of it. The government also, it can be assumed, became satisfied with it, due to its business holdings and, hence, did not follow the dictates of Erhard.

Furthermore, the high tax rate certainly did not favor the private savings sector. Basically, it was the powers within the Occupational forces, as well as the Federal Government, which made it possible to ignore Erhard's concepts.

CHAPTER V

ATTEMPT AT RESTORATION OF THE MARKET MECHANISM

Industry

German industry was stifled from 1945 to 1948 by the Allied level-of-industry plans and dismantling projects. She had also lost her foreign industrial plants and equipment. In 1947, the level-of-industry plan was elevated by the Allies but not as much as the Germans desired. In 1949, when Germany became a Federal Republic, the level-of-industry plan was abolished by the Allies but industry continued to remain controlled in growth. By 1952, most sectors of the economy had been freed of controls and were making efforts to expand.

Germany has for many years been a strongly industrialized country, especially in heavy industries, with a marked weakness in foods and raw materials. Such a situation has made Germany heavily dependent upon export markets and import supplies. The partition of Germany was of great consequence to her, as she lost the two highly industrialized areas of Silesia and Saxony and a large portion of the industrial capacity of Berlin which was dominated by the electrical industry.¹

¹Henry C. Wallich, Mainsprings of the German Revival (New Haven, 1955), p. 195.

It has been noted earlier that Allied bombing did less damage than was intended to the German industrial machine. This, plus the fact that the Germans were willing to dig through the rubble and immediately begin building back, were some major factors in Germany's quick revival. Dismantling and the industrial limitations imposed seem not to have been as burdensome as expected.

The Ruhr Valley in Germany constitutes one of the largest concentrations of industrial power in Europe. It is in this valley that the majority of German heavy industry is situated today. Since the day Germany became a Federal Republic, this area, as well as other industrial areas, has experienced an upward and uninterrupted growth. However, today all things point to the fact that the initial bloom is off the boom and that Germany has settled down to an industrial economy seeking to hold its place in the world markets.²

Aggressive selling, advertising, market research, and quality control methods are used extensively by many German firms to promote their exports, but little of this is done for the domestic economy. Usually, in the domestic market, goods are pushed to designated distributors and wholesalers who, in turn, pass them to designated retailers.³

²"German Cartels Try for a Comeback," Business Week, (March 13, 1954), p. 148.

³Ibid., p. 149.

Erhard has always been against things of this nature, as he believes businessmen should be flexible enough to survive competition both at home and abroad. He has also always been against granting the entrepreneur security, as this reduces him to a replaceable functionary.

Government ownership of industry has been an embarrassing subject for Erhard in Germany. Since government ownership of industry is against the free market theory the Socialists constantly accuse Erhard of not following his teachings. Table XVI illustrates the fact that government ownership is actually increasing rather than decreasing.

TABLE XVI

SHARE OF GOVERNMENT OWNED ENTERPRISES IN
TOTAL PRODUCTION BY PERCENTAGE

Industry	1957	1958	1959
Iron Mining	34.7	36.7	36.3
Coal Mining	25.7	25.7	24.6
Coke Production	16.7	15.1	14.8
Aluminum Production	72.1	70.1	72.2
Pig Iron Production	4.4	5.3	6.1
Lead Production	39.7	34.1	N.A.
Zinc Production	43.5	45.2	N.A.
Electric Power	14.6	16.4	16.7
Shipbuilding	16.6	18.0	20.3
Passenger Car Production	41.9	40.3	44.6

SOURCE: Frederick C. Reuss, Fiscal Policy For Growth Without Inflation (Baltimore, 1963), p. 233.

In 1961, the socialists charged that out of 161 big corporations, 108 government officials were members of the boards.⁴

In 1957, due to work by Erhard, a Ministry for Federal Property was established in order to transfer government owned enterprises into private ownership. To date, parts of the Volkswagen Manufacturing Company and the Preussag Mining Company, along with various manufacturing, public utilities, and holding corporations have been sold. However, in these sales, the government has retained a powerful minority position.⁵ A classic example would be the sale of the Volkswagen firm.

The Volkswagen concern was sold in such a manner that twenty percent of the total shares went to the federal government and twenty percent to the state of Lower Saxony, where the main plant is located. The other sixty percent was sold to the public at an issue price less than half of book value. Only people with incomes of DM 8,000 per annum, or DM 16,000 if married, could buy shares, and their purchases were limited to DM 500. No private owner could acquire more than 1/1000 of the total capital, nor could anyone represent more than 1/50 of the capital by proxy.⁶

⁴Frederick G. Reuss, Fiscal Policy For Growth Without Inflation (Baltimore, 1963), p. 235.

⁵Ibid., p. 235.

⁶Ibid., pp. 235-236.

Thus, the strong minority position of the government can be seen. What really was effectuated was a holding company between the government and the state of Lower Saxony and a sale of some of the shares to the public.

In the case of the Preussag Mining Company, 22.39 percent of its shares were sold to another large corporation, the Vereinigte Elektrizitaets and Bergwerks Aktiengesellschaft. This cartel showed a book value of DM 603 million in 1958 and is fully owned by the federal government.⁷

These two examples are perfect illustrations of the effective combinations between government and business that exist in so many cases. Erhard was left powerless to prevent such developments due to lack of political support and lack of support from the Federal Chancellor, Adenauer.

An important facet, when speaking of industry, is the structure of output within the economy. This concerns the main industrial groups of basic materials, capital goods, and consumer goods. By 1952, in Germany, capital goods were showing definite increases while consumer goods failed to increase as rapidly, and basic goods increased their relative standing. The whole of Table XVII shows a slight shift towards more capital goods and relatively less

⁷Ibid., pp. 207-208.

TABLE XVII
 TURNOVER FROM INDUSTRY AS A WHOLE
 (Billions of DM)

Year	Industry as a Whole	Basic and Production Goods	Iron & Steel Producing Industries	Chemical Industry
1950	80,395	22,485	4,350	6,783
1952	119,382	36,755	8,861	9,107
1954	140,943	42,240	8,976	11,769
1956	185,646	56,451	13,595	14,661
1958	205,069	59,663	13,217	17,236
1960	258,169	80,010	18,436	22,346
1961	277,922	83,122	17,800	23,336

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), p. 35.

TABLE XVII ContinuedTURNOVER FROM INDUSTRY AS A WHOLE
(Millions of DM)

Vehicle Building	Iron, Steel, Tin and Hardware Industry	Consumer Goods Industry	Capital Goods Industry
3,351	3,747	20,336	18,253
5,521	6,094	25,259	31,803
6,974	7,085	29,361	39,589
9,671	9,794	36,422	55,400
11,754	10,934	39,422	65,239
16,726	14,338	47,613	84,871
18,335	15,646	51,502	95,284

consumer goods. This reflects a high demand for investment and restraint of consumption. This situation is further exemplified by Table XVIII which gives a percentage utilization of the gross national product. The restraint of consumption in the private sector as well as the state sector can be seen with a consequent rise in investments. Such a situation, no doubt, has enabled Germany to effectively take advantage of international demand and to push her exports. The increasing weight of the basic goods industry, meanwhile, has helped her to reduce her dependency upon imported raw materials as is illustrated by Table XVIII.

TABLE XVIII

PERCENTAGE UTILIZATION OF GROSS NATIONAL PRODUCT

Year	Private Consumption	State Consumption	Investments	Imports	Exports	Foreign Contribution
1950	64.2	14.4	22.6	13.4	12.2	-1.2
1951	61.1	14.7	22.3	14.4	16.3	1.9
1952	59.0	15.3	23.2	14.5	17.1	2.5
1953	60.2	14.5	21.5	14.3	18.1	3.8
1954	59.3	14.1	23.6	16.9	20.3	3.4
1955	58.0	13.3	26.3	18.6	21.0	2.4
1957	58.8	12.8	24.3	20.8	24.9	4.1
1958	59.0	13.4	23.7	20.3	24.2	3.9
1959	58.2	13.6	24.9	21.5	24.9	3.4
1960	56.8	13.6	26.8	22.2	25.0	2.7
1961	56.9	14.1	26.8	21.6	23.8	2.2

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963) p. 91.

A glance at Table XI will offer further verification of this point. The index of production in the capital goods

TABLE XIX
INDEX OF INDUSTRIAL PRODUCTION
(1950 = 100)

Year	Industry as a Whole	Basic and Production Goods	Capital Goods Industry	Consumer Goods Industry	Building
1950	100	100	100	100	100
1952	126	123	146	115	117
1954	155	151	181	146	153
1958	202	202	269	183	182
1959	224	228	291	194	212
1960	249	261	338	211	222
1961	262	274	363	218	239

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), p. 35.

industry scored rapid and unusual gains from 1950 to 1961 while followed by relative increases in the basic goods industries and less relative increases in the consumer goods industry. However, the index of industrial production, as a whole, shows a nicely mounting growth in industry in Germany today. It can also be seen in Table XVII that Germany made a quick recovery in the field of chemicals. Today, mergers continue to take place in this field and once again, it is one of Germany's major industries. Table XX not only verifies this but also depicts the concentration of firms in chemicals, iron and steel, and mining in relation to other industries. A disparity in the relative increase in all figures can be noted in Table XVIII for the years 1957 to 1958, which would suggest

the Germans were affected by the processes of the world economy, namely, the 1957-1958 recession in America.

TABLE XX
THE TEN LARGEST GERMAN INDUSTRIES IN 1960

Type	Sales in Billions	Number of Plants
Food	7.5	6,392
Machinery	6.1	4,229
Chemicals	5.6	1,945
Electrical	4.8	2,241
Iron and Steel	4.6	146
Textiles	4.1	4,301
Mining	2.6	644
Metal Fabricating	2.5	3,471
Stone and Earth	1.8	5,171
Apparel	1.7	4,094

SOURCE: "West Germany," Steel (October 16, 1961), p. 85.

From the day controls on industries were released, which was due greatly to the work of Lohard, shipbuilding became a major industry. By 1957, Germany ranked as the third largest shipbuilder in the world, and its Merchant Marine fleet was the tenth largest. This rapid recovery in shipbuilding is a direct result of Germany's stress upon the output of heavy goods and the flow of exports from her ports.⁸

⁸Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), p. 38.

The shipbuilding industry has been greatly aided by government tax incentives and by export subsidies and preferential rail rates. The government is able to directly influence rail rates as it owns the railroads in Germany. This method is similar to the method used by the German government prior to World War II, in order to compete in international shipping.⁹

TABLE XXI
GERMAN SHIPBUILDING

Year	Ships	GRT
1949	1,423	303,880
1950	1,673	742,484
1957	2,576	3,877,015
1958	2,708	4,432,755
1959	2,740	4,733,799
1960	2,683	4,753,350
1961	2,680	5,024,541

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), p. 38.

For the growth of a highly industrialized economy, an adequate supply of energy is essential. As can be seen in Table XXII, coal is the basis of energy today in Germany. Coal consumption for energy is followed by use of mineral oil and water power. Natural gas plays a small part in energy resources due to the lack of natural gas reserves in

⁹Daniel Marx, Jr., International Shipping Cartels (Princeton, 1953), p. 101.

TABLE XXII
 CONSUMPTION OF PRIMARY POWER IN GERMANY
 (Million tons HCU)

Year	Total Consumption	Hard Coal	Brown & Bituminous Coal	Mineral Oil	Fuel Oil	Natural Gas	Water Power
1950	134.8	99.9	22.6	5.9	0.6	0.1	3.3
1951	151.6	113.1	24.5	7.3	1.3	0.1	3.5
1952	159.0	120.4	25.1	7.5	1.4	0.1	3.1
1953	158.2	116.8	25.5	9.5	1.5	0.1	3.5
1954	168.6	120.9	28.2	12.2	2.9	0.1	4.0
1955	185.4	132.2	29.9	15.9	4.4	0.3	4.5
1956	197.2	139.0	30.7	19.5	6.6	0.5	4.9
1957	200.8	139.1	31.7	22.4	8.4	0.5	4.6
1958	191.6	124.6	31.3	27.3	12.3	0.4	4.9
1959	195.2	121.8	30.8	34.5	15.9	0.5	4.1
1960	212.7	128.2	31.6	43.6	22.0	0.6	4.8
1961	218.0	123.7	31.7	53.5	27.4	0.6	4.8

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), p. 41.

Germany. On the whole, it can be seen that total consumption of energy has increased, which would denote a degree of industrial growth.

However, today there is concern over the low productivity and high prices in the coal area. This concern has resulted in sharp increases in the use of mineral oil since 1958. These price increases and the low productivity can be attributed to the same basic problems America has in its coal industry. Due to this, there has been an adoption by many chemical firms, of a process by which oil base can be extracted from coal and diluted with other chemicals.¹⁰

¹⁰ "Boom Levels Out in German Chemicals," Business Week (August 19, 1961), p. 58.

Construction is a highly important aspect of any mature and industrial economy. This industry lagged in Germany, as depicted by Table XXIII, until after the currency reform in 1948. In 1949, under the tax laws, tax concessions were granted on money used to make home loans. This industry has shown continued growth since that time. The ten million refugees who migrated to Germany, no doubt, had a definite influence upon construction because each refugee family was a potential homeowner.

TABLE XXIII
NUMBER OF DWELLINGS COMPLETED
(1949 - 1961)

Year	Number of Dwellings
1949-51.	1,000,200
1952	451,000
1953	534,000
1954	561,300
1955	562,600
1956	579,900
1957	560,700
1958	517,700
1959	589,800
1960	574,500
1961	564,800

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), p. 45.

A good over-all international comparison of Germany's growth in industrial production can be seen in Table XXIV.

TABLE XXIV
 INTERNATIONAL COMPARISON OF GROWTH OF
 INDUSTRIAL PRODUCTION 1950 - 1960

Country	Percentage
Federal Republic.	164
Italy	146
Austria	110
France.	104
Netherlands	79
Norway.	75
Canada.	62
United States	46
Sweden.	46
Belgium	40
United Kingdom.	39

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), p. 40.

On an international comparison, Germany leads the world in growth of industrial production. However, this type of comparison is sometimes unfair because of the variations in the economies involved. However, the point is made that Germany has had tremendous industrial growth since 1950.

No discussion of German industry would be complete without a thorough study of the Schuman Plan. On May 9, 1950, M. Robert Schuman, French Foreign Minister, announced the outlines of this plan. Six European nations: France, West Germany, Italy, Belgium, the Netherlands, and Luxemburg responded to the idea. Two years later, the treaty was to be put into effect. This resulted in what is

known today as the European Coal and Steel Community. The aim of this plan was to create a truly supranational organization dedicated to the preservation of economic freedom and economic expansion in the coal and steel industries. The aim of the Schuman Plan was a unified Europe.¹¹

In the supranational set-up, there was an executive arm, the High Authority which is somewhat akin to a European cabinet; a Council representing the cabinets of the member states to reconcile the interests of the Federation as a whole with those of its members; an Assembly closely akin to a parliament; and a Court with jurisdiction over legal controversies including treaty questions. In addition, there was provided a Consultative Committee which was to provide representation for producers, workers, and consumers and furnish advice to the executives. Within the territory included in the treaty, there were no restrictions as to the movement of goods, capital or people, and no artificial deterrents to the maximum development of productive capacities and energies. Also, the power of the government to interfere in this area was explicitly limited.¹²

This plan actually transferred control over the various steel and coal industries to the Community. Many felt this was a first step towards a united Europe. Others doubted

¹¹William Diebold, Jr., The Schuman Plan (Massachusetts, 1959), pp. 1-7.

¹²Ibid., pp. 427-516.

the plan because they felt it impossible for the six countries involved to ever bury their century-old fears of each other. Others felt it amounted to a front for an international cartel arrangement. History seems to bear out the opinion of the latter group. On the economic side, the treaty permitted mutual access between producers and consumers of coal, iron, and steel equally and without regard to nationality. None of the member states were to be allowed to subsidize their own producers directly or indirectly nor to impose disabilities or disadvantages on producers in other member states. This would cause producers, no matter where located, to compete for business solely on the basis of their productive ability and would enable consumers to purchase from any producer without discrimination. Of course, the underlying concept of a free market economy can be seen here.¹³

Under the treaty, the High Authority was vested with the powers to prevent interferences with the competitive forces or exploitation of the consumer by cartel agreements or by questionable combinations which could result in market power. The High Authority was also to insure there would be no unfair practices such as cutting costs by exploiting workers. It was also empowered to work in emergency situations such as shortages or over-supply, but in each case, the

¹³Ibid., pp. 516-542.

institutions of the Community would provide a check on its actions. The decisions of the High Authority had to be derived and justified openly. Also, the High Authority was to be charged with promoting the expansion of the coal and steel industries within the market by facilitating exchange of information and technique and by extending appropriate financial aid for the purpose of modernization. This plan was not to be adopted overnight. Rather, there was a transitional provision provided which laid out orderly steps, including temporary subsidies and protection to the countries involved for limited periods of time. This aid was of definite value in the transformation period of 1952 to 1954.¹⁴

Erhard gave the Schuman Plan his full backing and felt it was an important first step in actually building new institutions in Europe and felt it was an example of good practical work in that area. Erhard, however, was unhappy with the supranational control by the High Authority, as he felt it could assume, too easily, a dictatorial rule. He did, however, like the pre-eminence of free competition embedded in the plan. He remarked that the efficiency of this institution would depend upon the people who would control it, as do all man-made institutions. He further felt that the basic determinant of success would be

¹⁴Ibid., pp. 542-619.

dependent upon the idea of competition in the form of competitive production beyond national boundaries.¹⁵

However, today, Germany as well as the other countries involved in the Schuman Plan have been plagued by a not-so-free competitive production.

Before the Schuman Plan, Germany had been required to export a certain amount of coal to other European nations. As mentioned, coal was scarce at the time, and such enforced exports undoubtedly held back German economic recovery. Also, her export price on the exported coal was held lower than the average European price by Allied controls and Germany was prevented from building a sizeable foreign exchange.

In 1954, only two years after the German adoption of the Schuman Plan, a spectre appeared on its economic horizon. It was this year that the High Authority announced new coal prices which unhappily coincided with a big recession in the Ruhr coal mines. Under the order, the coal mines were to cease granting rebates to the Federal Railways and increase the price of household coal by \$3.50 per ton and reduce coal for industrial consumption by forty-seven cents a ton. Furthermore, the Germans were ordered to abolish their sales organization, Georg, whose price-fixing

¹⁵Ludwig Erhard, The Economics of Success, translated by J. A. Arengo-Jones and D. J. S. Thomson (London, 1963), p. 124.

function, it was claimed, made possible the subsidizing of the old and unprofitable mines of the South Ruhr district. West Germany made an issue out of the fact that she had the largest coal and steel production of the six nations involved and also paid more than any other country to subsidize the plan. She further threatened to withdraw. In light of this, the High Authority agreed to allow some of the German cartels, split up by the Allies, to reconcentrate.¹⁶

This quieted the storm for only a period of months, and again, complaints were flowing from German industrialists. Actually, since Germany has regained her sovereignty, she has refused to be controlled by the High Authority. However, it is possible that the Schuman Plan might prevent Germany from breaking away from the basic ideas of European integration.

Since 1958, what is usually referred to as the coal crises has increased, and the number of workers employed in coal has decreased by sixteen percent with workers migrating to more suitable jobs. Coal wages are at the bottom of the pay scale. As a consequence there has been some discussion about the creation of centralized transmission plants which would transmit power from a coal basis located in the Ruhr to other parts of Germany.

¹⁶Abstairst Horne, Return to Power (New York, 1956), pp. 307-308.

This would be a joint project of federal and state governments. The principle here is not so much to increase the concentration of the coal industry but rather to replace the inefficiency that exists within the system.¹⁷

The Schuman Plan was an important plan for Germany, as it transformed her role from that of a conquered nation to that of an equal and respected partner in a community of free nations and, as a result, aided in the termination of Allied control over German coal and steel. In light of the fact that the basis of energy in all western Europe was coal, it was essential for this agreement to come about. Germany's ability to produce coal was greater than any other nation involved in the Schuman Plan and such an agreement prohibited Germany from taking sole advantage of her position in the future and, possibly, retarding the growth of the rest of western Europe.

The effects the transition period allowed for in the Schuman Plan had on Germany can clearly be seen in Table XXV. The years 1952 to 1954 in iron and steel production are marked by a fall in the production of pig iron, raw steel, and rolled steel. By the end of 1954, transition to the Schuman Plan was completed, and the years 1954 to 1955 are marked by a considerable increase in all areas of iron and steel production in Germany.

¹⁷ "Blue Skies over the Ruhr," The Economist (February 1, 1964), pp. 437-438.

TABLE XXV
 IRON AND STEEL PRODUCTION IN GERMANY
 (Thousands of Tons)

Year	Pig Iron	Raw Steel	Rolled Steel
1950	9,473	12,121	8,166
1951	10,697	13,506	9,356
1952	12,877	15,806	10,698
1953	11,654	15,420	10,200
1954	12,512	17,434	11,467
1955	16,482	21,336	14,207
1956	17,577	23,189	15,621
1957	18,358	24,507	16,446
1958	16,659	22,785	15,220
1959	21,601	29,435	19,351
1960	25,739	34,100	22,531
1961	25,431	33,458	21,861

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), p. 38.

Under the Investment Aid Law, from 1952 to 1956, business in general was to provide one billion DM, which was to be channeled into basic industries to accelerate the elimination of production bottlenecks. In return, the creditors received securities issued by the receivers of the funds. This created much bitterness, as payment was made according to the kind of business and not the income group. This caused many businesses to lose their liquidity. These funds were collected by a quasi-tax of 3.5 percent on profits and four percent on transactions.¹⁸

¹⁸K. W. Roskamp, "Economic Growth, Capital Formation and Public Policy in West Germany, 1948-57," unpublished doctoral dissertation, School of Economics, Wisconsin University, Madison, Wisconsin, 1961, p. 326.

Table XXVI depicts how the one billion DM collected was distributed.

TABLE XXVI
DISTRIBUTION OF FUNDS UNDER THE
INVESTMENT AID LAW

Industry	Amount in Millions DM
Iron and Steel . . . . .	.DM 278
Electric Power	252
Coal	234
Gas.	126
Water.	60
Government Railroads	50

SOURCE: Frederick C. Ruess, Fiscal Policy for Growth Without Inflation (Baltimore, 1963), pp. 203-204.

Following this breakdown, nearly half of the funds contributed went to government enterprises, that is, public utilities and the railroads. Noting the government's large ownership of industry and the aid government has relegated to these industries, one can clearly see the reason for government's keen interest in effective capital formation. It would be fair to say that the large amount of government activity in the field of capital formation was essential for the success of government industry. Also, if prices are going to be administered in an economy, and they clearly are in some sectors in Germany, the government can play a very effective role as price leader in the oligopolistic or monopolistic markets that exist within the

economy. This could be the basic reason for the government retaining strong minority positions in its previously totally owned industries and further reason for a relative stability of prices in Germany over the years.

This large government ownership of business is in opposition to the neo-liberals and Erhard. It must be pointed out, however, that Erhard did not weaken nor deviate from the neo-liberal thinking. It was Erhard and his Ministry against the Parliament of Germany, with Parliament winning most of the battles.

Even before the Investment Aid Law was passed, the government was supplying aid to coal in order to help it increase its productivity. In 1958 and 1959, government-owned mines produced twenty-five percent of total coal output. Government aided this sector by paying a part of all operating expenses, paying operators' shares in social insurance, by paying grants-in-aid for a special addition coal miners receive to the old age and survivors benefits of the Social Security system, by paying funds for the housing of miners, and by general investment and depreciation aids.¹⁹ All of this is a deviation from the original Schuman Plan.

By the end of 1959, most of government aid to coal had been discontinued and an overproduction of coal was

¹⁹Reuss, pp. 205-206.

enjoyed for the first time since the war, and the German coal industry became a major export industry. However, the year of overproduction led to a market glut and caused the coal industry, private as well as government, to believe that overproduction could be as disastrous as underproduction. Since that time, coal has been a regulated and subsidized industry.²⁰

Modern-day industrial complexes in Germany include such industries as the world's most modern irradiation center at Cologne for commercial irradiation in the manufacture of medical equipment. There are new steel processes of which the "explosion process" is the most modern. This process can turn out an entire automobile body in a fraction of a second by exploding steel against an ice mold at 130,000 miles per hour. This process can also be used with the unorthodox metals of beryllium, titanium, and tantalum which are metals used in supersonic airplanes. The process can be said to accomplish the heretofore unheard-of feat of welding together all various types of metals. There has also been a growth in continuous hot strip mills as well as electrolytic zinc coating mills and hot rolling mills for seamless steel tubing.²¹

²⁰Ibid., p. 206.

²¹"Industry," German International, VIII (Bonn, January 31, 1964), 25-41.

The energy area is sprinkled with an ever-increasing number of nuclear generating plants which have been in use since 1959. These are aided by numerous atomic research centers. The chemical industry is the fastest growing industry in Germany, led by Farbenfabriken Bayer, Farbwerke Hoechst, Badische Anilin and Soda-Fabrik, and Berlin Schering AG. These companies have branched out into virtually all areas of the world. There is also much activity in the field of petrochemicals, oxygen research, hydrogen and deuterium research.²²

Essentially, what happened in the German economy was that some industries were returned to the free market while basic industries remained controlled. This left Erhard's economic theory intact in some areas of the economy but ineffective in the basic industries.

The most apparent sectors not returned to the free market, coal, steel, electricity and building, are essentially the areas which present problems to the free market theorists today. The aid granted these sectors can be rationalized into the neo-liberal theory under their social policy. A slow rise in supply in these areas would cause a price rise which would be socially undesirable. This is especially true in housing.

In housing, for instance, it can be rationalized that German rent controls prevented the attraction of necessary

²²Ibid., pp. 21-40.

investment which impelled the state to act in a direct manner. This rent control was, and is, necessary because the lack of living quarters could well have brought about high rents in Germany. Most of this aid, as has been noted, was through fiscal policy.

Cartels

Actually, decartelization began early in 1947, under Allied policy and was later adopted by the Germans. U. S. Military Law 56 prohibited all price-fixing and other agreements in restraint of trade and made illegal many domestic and international cartels in existence at the time. This law was also effective in the British and French zones.²³

Under Military Law 56, the definition of an excessive concentration of power was an enterprise which employed more than 3,000 people and represented more than twenty-five percent of the total production in its field or had an annual turnover of RM 25,000,000. Military Law 56 also prohibited German participation in international cartels, or the formation within Germany of combinations in restraint of trade, or combinations which engaged in fixing prices, or the limitation of production.²⁴

²³Office of the U. S. High Commissioner, Report on Germany, September 21, 1949 - July 31, 1952 (Washington, D. C., 1952), p. 117.

²⁴Lucis E. Clay, Decision in Germany (New York, 1950), pp. 325-326.

The decartelization policies were formed under the Decartelization Division of the Office of the U. S. High Commissioner. Under the guidance of this office, each state appointed an officer, associated with the state Ministry of Economics, to aid in enforcing the law locally. This policy was closely coordinated through representatives of the Federal Government. In 1950, a group of German professional leaders, representatives of trade unions and industry, were sent to the U. S. for a ninety-day study of U. S. anti-trust regulations, problems, and policies.²⁵ This was probably an effort to show the Germans that the decartelization movements by the Americans were not an effort to suppress the German economy.

The High Commission agreed to surrender its policies in the field of restrictive practices as soon as the Federal Government adopted a cartel bill encompassing the same basic provisions as the U. S. bill.²⁶

In 1949, soon after Germany became a Federal Republic, Erhard drafted his first cartel bill. This bill was not passed by the German Parliament until January of 1957 with considerable revisions. Erhard argued that planning and control by individual firms was as harmful as the same done by the state and that cartels must be

²⁵Office of the U. S. High Commissioner, p. 118.

²⁶Ibid., p. 112.

eliminated for a just distribution of the income and a true social policy. Erhard further argued that life, including economic processes as a part of life, cannot be lived without risk, yet it is the strong who are always begging for security. He also expressed the view that if cartels were allowed to function, even though they function smoothly, they would soon either absorb or drive out the smaller firms. Hence, cartels would threaten the free sectors of industry and would have a serious effect on the dynamic forces of the economy and prevent the utilization of available capital for productive means.²⁷

This prediction made in 1949 had uncomfortable truth in it. Granted that cartels are on the comeback in Germany, it can be seen in Table XXVII that small business is on the decrease, and in Table XXVIII it can further be seen that labor is more efficient than capital. This could lead to a conclusion that small firms are being driven out and cartels are suffering from overcapitalization. However, it would be impossible to say that the dynamic forces of the economy have been held back, as Germany has continued to show favorable economic growth.

In the international trade realm Erhard felt cartels were a block to a liberal foreign trade policy and saw

²⁷Erhard, The Economics of Success, pp. 68-69.

cartels as having a taxing power, in effect, on the German people.²⁸

TABLE XXVII
BUSINESS: PERSONS EMPLOYED AND
TURNOVER IN HANDICRAFTS

Year	No. of Businesses	Millions Employed	Million DM Turnover
1949	864,000	3.05	19,900
1950	N.A.	3.14	25,600
1951	N.A.	3.19	30,100
1952	N.A.	3.26	32,600
1953	N.A.	3.32	36,100
1955	N.A.	3.50	47,700
1956	752,000	3.62	53,400
1957	739,000	3.65	57,200
1958	728,000	3.75	60,300
1959	722,000	3.80	66,600
1960	717,000	3.84	74,600
1961	710,000	3.80	82,800

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), pp. 53-54.

It is doubtful, however, that the existing cartels have influenced foreign trade to any great extent. Rather, some export firms have been granted legal cartels to engage in foreign trade.

In May of 1950, two trade associations and five individuals were charged with price fixing and forming international cartels in abrasives. They were fined a total of

²⁸Ibid., pp. 70-71.

TABLE XXVIII
 CAPITAL - OUTPUT RATIO 1949 - 1957
 (Constant 1954 Prices in Billions of DM)

Year	Total Economy	Industry Only
1950	0.3	0.6
1951	0.8	0.8
1952	1.3	1.6
1953	1.2	1.4
1954	1.6	1.4
1955	1.1	0.8
1956	2.5	2.4
1957	3.2	2.5

SOURCE: K. W. Roskamp, "Economic Growth, Capital Formation and Public Policy in West Germany, 1948-1957," unpublished doctoral dissertation, School of Economics, Wisconsin University, Madison, Wisconsin, 1961, p. 80.

DM 140,000 (\$35,000). Later in October 1951, a U. S. Zonal District Court decision compelled light bulb manufacturers to cease fixing prices by agreement. This was followed by a reduction in the price of light bulbs. At the time, this won public favor and new support for the decartelization program. Later in 1951, action was taken against a group of poultry feeders for price-fixing. Similar charges were also pressed against the dairy industry in 1951.²⁹

In 1954, fifty concerns accounted for 17.7 percent of West Germany's turnover. In 1960, the share of the

²⁹Office of the U. S. High Commissioner, p. 118.

top fifty firms had risen to 28.3 percent of total turnover.³⁰

By 1952, economic recovery seemed to be coming to a point of stagnation. The Occupation Statute had been lifted, and there was continued opposition by the Federation of German Industries to Erhard's cartel bill. This bill would suppress restrictive practices and ban cartels in general while permitting their formation only in exceptional cases. Erhard continued his never-ending battle against cartels and maintained that a socially committed free market could never be maintained provided there was growth of large concerns which could dominate the market. In order to combat the resistance of the Federation of German Industries, Erhard drafted his "Ten Theses in Defense of Anti-Cartel Legislation." The ten theses revolved about the theory of the competitive markets and the necessity for protection for the consumer and an equal distribution of the new wealth. Great stress was put on price freedom and the evils of reverting back to a planned economy which Erhard felt cartels would bring. He also expressed the idea that the Cartel Authority, included in his proposed bill, would have the power not to destroy freedom but to make sure it is secured. He

³⁰ "Germany's New Businessmen," The Economist (August 1, 1964), p. 486.

concluded his theses by a demand for the removal of tariff barriers, currency restrictions and the dissolution of cartels in order to aid Germany in gaining larger and freer international markets.³¹

It was necessary for Erhard to defend his proposed Cartel Authority, because he had been accused by some members of Parliament of creating a new bureaucracy and new methods of planning.³² However, such an intervention was a rationalization in order to assure market freedom under the neo-liberal theory. Actually, the bureaucratic machinery created by the final cartel law was not intended to happen under Erhard's original plan.

Erhard's cartel bill, the Law Against Restrictions on Competition, had not been read in the first legislative meeting of the Federal Parliament between 1949 and 1953. After considerable resistance to the bill, both inside and outside of Parliament, it had its first reading in Parliament in March of 1955. By this time, substantial revision had taken place and much of the anti-cartel punch removed from it.³³

Erhard appeared before the Parliament on the day of the reading of his cartel bill and once again stressed the

³¹Erhard, The Economics of Success, pp. 128-138.

³²Ibid., p. 170.

³³Ibid., p. 170

human aspects involved. He argued strongly that cartels deprived a person of his right to freedom. He pointed out that the past seven years, under his economic theory, had been successful years for the Germans and there was nothing that warranted the changing of his theory by permitting cartels. He felt that too much of the bill had already been destroyed and expressed the opinion that some legislators had missed the point of the bill in that they felt the bill was to prevent abuses by cartels rather than prohibit cartels entirely. He concluded his address by reminding the legislators that in a "Social Market Economy," the market mechanism must consider the social aspects of the problem and that the formation of cartels would be a definite hindrance to any effective social policy. He also reminded them of their duty to think of Germany as an integrated part of Europe and the effects cartels would have on an integrated Europe.³⁴

On July 27, 1957, the law pushed by Erhard passed, but it was much weaker than proposed at first. Rather than forbidding monopolistic practices outright, as Erhard had desired, it emphasized the publicity of cartel agreements and limited voiding of cartel agreements to those which "misuse" or "intend to misuse" economic power. This left the burden of proving misuse to the government.

³⁴Ibid., pp. 170-178.

Monopolistic contracts which are not for "misuse" are registered with the Cartel Office and are thereby legalized. These registrations are usually granted if the monopolistic agreement does not exceed twenty percent of the market. The problem is that no one has defined the market.³⁵

Under the cartel bill that was passed, coal and steel industries, banks, public utilities, insurance, government monopolies, and export trades are exempt. In 1961, an inquiry on cartels was requested by Parliament. The Cartel Office reported that there were 535 cases pending in 1960. Out of these, one had been decided, twelve others had been decided but were being appealed, forty-seven consent decrees were made, 232 cases dismissed, and in twelve cases, jurisdiction was denied by the courts.³⁶

Erhard did express the opinion that under some given conditions, cartels might be necessary and that he was not unaware that the theoretical model of pure competition is not applicable in all areas and may have to be modified. He felt conditional and rationalization cartels as well as cartels in the export industry might be necessary.³⁷

Since 1955, a massive merger movement has been underway. This marks the year that West Germany was given its

³⁵Reuss, p. 245.

³⁶Ibid., pp. 245-246.

³⁷Erhard, Prosperity Through Competition, p. 130.

full sovereignty by the Western powers. One of the important mergers in 1955 was the acquisition of Bochumer Verein, one of the largest steel producers in the Ruhr, by the Krupp Steel Works. There has also been a tendency toward concentration of commercial banking.³⁸

Many feel that the enforcement of competition by prohibition of cartels can never be effective. However, the final cartel bill passed must have had some retarding effect on their growth, otherwise the industrialists would not have fought the bill so vigorously.

Before the war, the I. G. Farbenindustrie had accounted for approximately forty percent of the world's chemical products. After the war, only ten percent of the company's total assets were located in the American zone, but this amounted to an astounding forty-two manufacturing plants, forty-six sales offices, and numerous other installations, employing approximately 27,000 people. The gross sales of one of these plants alone had reached DM one billion in 1951.³⁹

On August 17, 1950, under the auspices of the U. S. High Commission, I. G. Farbenindustrie was divided into nine fully independent new unit companies, and four Farben subsidiaries were set up as independent units. The remaining

³⁸New York Times, January 7, 1959, p. 97.

³⁹Office of the U. S. High Commissioner, p. 114.

assets were liquidated and proceeds employed to satisfy creditors' claims and to provide working capital.⁴⁰

In July, 1957, a law was passed fully re-establishing, for tax purposes, that I. G. Farben was to be treated as a unified entity. This meant that the various units of Farben were once again working in close relationship with one another. This bit of legislation exposed the fact that the earlier efforts of the Allies and Briard to break up this cartel had been in vain. I. G. Farben possessed superior technical resources and had a considerable head-start over other producers in other countries. It could, in the prewar period, avail itself to large government aids which gave it a position of power in dealing in the international markets. When it entered joint ventures with other companies such as du Pont, Standard, Allied Chemical, and Union Carbide, it did so only in return for substantial benefits and usually insisted on retaining ultimate control.⁴¹

I. G. Farben's tentacles reached to every major chemical producer and every branch of chemical manufacturing. This insured Farben's great power in the world's chemical industry. Farben traded mostly on its patents and know-how and established itself in the American market under the name of

⁴⁰ Ruess, p. 126.

⁴¹ ibid., p. 126

the Bayer Company. Farben had tried to negotiate with du Pont to achieve this entry, but du Pont had demanded too much of a cut in certain areas. Later, I. G. Farben again entered the American economy in the photographic field under the name of Ansco Photoproduct Incorporated. Before World War II, the majority of American chemical firms had understandings with I. G. Farben. Standard Oil of New Jersey had a so-called "marriage contract" with Farben in petroleum and chemicals. Farben was always interested in restricting American exports of products manufactured under its patents in America. Farben had further cartel agreements with General Aniline in dyestuffs, with Agfa Ansco in film, with Sterling and Winthrop in drugs and pharmaceuticals, with Rohm and Haas in acrylate plastics, with Unyte Corporation in urea formaldehyde plastics, with Hercules Powder Company in cellulose plastics and chlorinated rubber, with Dow and the Aluminum Company of America in magnesium, with American Cyanamid in cyanides, with Ethyl in tetraethyl lead and iron carbonyl, with Pennsylvania Salt, Stauffer Chemicals, and Koppers in particular fields. In all of these agreements, I. G. Farben refused to take a subordinate position. Most American firms defended their cartel agreements with Farben on the basis that they were gaining valuable productive processes, thus aiding the growth of American industry.⁴²

⁴²George W. Stocking and Myron W. Watkins, Cartels in Action (New York, 1947), pp. 466-498.

The UFA combine, which was the Reich's motion picture properties, were disposed of in such a manner as to create a motion picture industry free of governmental and political control. This was done by sale of the properties to individuals not involved with the Nazi regime. Following this, the companies of Robert Bosch GmbH, Siemens and Halske, Hinkel-Degeuss-Metallgesellschaft, and Vereinigte Glanzstoffwerke, considered to be excessive concentrations of economic power, were liquidated and reorganized.⁴³

In 1950, the Ruhr coal and steel area produced approximately fifty percent of the coal and thirty-seven percent of the steel produced in western Europe. At the end of the war, ninety percent of the Ruhr steel production and fifty-five percent of Ruhr coal production was controlled by twelve closely integrated steel companies. Due to lack of coal throughout other western European nations, this allowed the twelve companies to control the coal industry in Europe. Under the Allied High Commission, in 1950, the number of steel companies was increased from twelve to twenty-eight by creating twenty-four new companies and continuing the four smallest old companies. Ruhr coal production had been controlled by nine major combines including the steel companies with coal holdings. The mines controlled by these

⁴³Office of the U. S. High Commissioner for Germany, pp. 115-117.

combines were distributed among twenty independent unit coal companies. Also, the Deutsches Kohlenverkauf, a monopoly sales agency through which Ruhr coal was marketed, was dissolved and its functions were transferred to competitive sales agencies.⁴⁴

Another important area was the breaking up of the so-called Big Six Banks. These banks had powers which far exceeded the powers of any American banks and were closely integrated with industry and the stock exchange. The assets of these banks represented fifty-five percent of the total assets of Germany's 653 commercial banks. These banks were broken up into twelve separate units. However, by 1954, mergers had reduced this number to nine, and future plans included a reduction to six.⁴⁵

The establishment of trade freedom was a goal of the U. S. Commission as well as Erhard. This would give every German the right of free exit and entry into the field of his choice. For many years in Germany, no one could open a new business without first obtaining a license from the appropriate governmental authorities. Admittance of a new competitor was usually contingent upon approval of the professional organization in which entry was desired. If these

⁴⁴Ibid., pp. 109-112.

⁴⁵Lucis D. Clay, Decision in Germany (New York, 1950), pp. 327-328.

organizations felt admission was undesirable, economically, then it was denied.⁴⁶

This system could, of course, be related to the old medieval guild system which survived in Germany long after it had lost its influence in other European countries. This licensing was an integral part of the Nazi regime's intentions to direct all phases of production and distribution.

By 1948, it was evident, due to the large influx of refugees and other structural labor problems that such a system was hindering productivity. In the fall of 1948, the U. S. Military government issued directives establishing trade freedom. These directives abolished the licensing of business except where safety, welfare, or public health demanded it. When safety, welfare, or public health demanded that a business be licensed, it was determined by a government agency and not by a board of the individual prospective competitors.⁴⁷

Table XXIX shows the immediate effects upon the economy after liberation from licensing. It would be safe to assume most of these businesses were opened by refugees who had practiced a trade in their mother country.

The principle of trade freedom was essential to Germany in its recovery. This policy, no doubt, avoided untold

⁴⁶Office of the U. S. High Commissioner for Germany, p. 157.

⁴⁷Ibid., p. 138.

TABLE XXIX

NEW BUSINESSES OPENED IN THE U. S. ZONE
BEFORE AND AFTER ELIMINATION
OF LICENSING

State	1948 1st Quarter	1949 1st Quarter
Bremen	1,110	3,173
Hesse	5,240	20,703
Wuerth-Baden	6,596	16,505
Bavaria	1,940	55,791

SOURCE: Office of the U. S. High Commissioner for Germany, Report on Germany, September 21, 1949 to July 31, 1952 (Washington, D. C., 1952), p. 152.

economic waste by allowing thousands of competent persons the opportunity to work in those fields where their interest was. It also, undoubtedly, helped the government by relieving the unemployment rate to a great extent while, at the same time, raising the government's revenues by the amount of taxes paid by new businesses. A licensing system could have been most detrimental to the German economy at the time, considering the millions of refugees wanting to work and who were able to do work.

In 1953, the Federal Handicraft Law (Handwerksordnung) was passed. This law was similar to the old "Handwerk" law dating back to the 1880's in Germany which involved the old handicraft guilds. The modern day "Handwerk" law deals with licensing rights, rules concerning the structure and tasks of the "Handwerk" organization, and vocational training

in the crafts.⁴⁸ Under it, three and one-half years are spent in apprenticeship, five years as a journeyman, and the master's examination is the final step. From 1945 to 1963, about a half million people had taken the master's examination with approximately eighty-seven percent passing it.⁴⁹

In Germany today, there are approximately 9,700 guilds of the individual branches of handicraft. These guilds are ruled over by approximately 430 craft associations and forty-five chambers of handicraft. All handicraft operations come under the auspices of the House of German Handicrafts in Bonn. Here the Central Association of German Craftsmen represents the whole field of "Handwerk."⁵⁰

The effects of the "Handwerk" law can be seen in Table XXX, which is a survey of handicraft business. According to this information, the number of handicraft businesses are decreasing while employment is increasing somewhat. The turnover increase has probably been aided by a general over-all growth in the economy. The effects of a guild system can be most clearly seen in the decline of the number of businesses and a decline in the number of people admitted to apprenticeship.

⁴⁸Press and Information Office of the Federal Government, Handicraft in Germany (Cologne, 1963), pp. 25-27.

⁴⁹Ibid., p. 27.

⁵⁰Ibid., pp. 25-30.

TABLE XXX
 SURVEY OF HANDICRAFT BUSINESS

Year	No. of Businesses	Millions Employed	Million DM Turnover	Persons Taking Apprenticeship
1949	864,000	3.05	19,900	N.A.
1950	N.A.	3.14	25,600	N.A.
1951	N.A.	3.19	30,100	178,400
1952	N.A.	3.26	32,600	180,600
1953	N.A.	3.32	36,100	187,700
1955	N.A.	3.50	47,700	212,900
1956	752,000	3.62	53,400	199,800
1957	739,000	3.65	57,200	178,000
1958	728,000	3.75	60,300	161,800
1959	722,000	3.80	66,600	158,500
1960	717,000	3.84	74,600	144,700
1961	710,000	3.80	82,800	120,046

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), pp. 53-54.

Erhard firmly rejected and worked against this restricted entry into the various fields. He stressed that such a system would be an absolute denial of free economic order and would lead to a loss of competition in the retail trade. Actually, the bill was passed, despite Erhard's activities, due to pressures from retail trade put upon Parliament.⁵¹

Erhard's efforts in this area probably had the effect of preventing the passage of the "Handwerk" bill until 1953. This is said in lieu of his unpopularity among retail traders. Once again, as in other instances, Erhard stuck

⁵¹ Erhard, Prosperity Through Competition, pp. 112-115.

to his policies and principles but was defeated by lack of Federal backing and vote-seeking politicians, many of whom sat on retail trade boards.

Cartels and restraint of trade have been life-long German practices. Tendencies towards cartels could possibly be explained by the German love for order. It would probably be difficult for the average German not to believe that something without order, such as a competitive market, could be aided by applying a little discipline.

A major sin charged against the cartels is that they stymie technological advance, growth, and cause unemployment. However, this was not true in prewar Germany, nor is it true in postwar Germany. Prewar Germany made some of the greatest technological discoveries known to man through its cartels. Evidently, cartels did not retard investment because there is no apparent chronic unemployment, which would be the logical result of cartels hoarding savings.

It was Erhard who had the burden of proof in showing Parliament that cartels had restricted German trade and growth. In this he was not successful. Even though his cartel bill did not pass in the manner and spirit which he desired, it offered a movement heretofore unknown against cartels in Germany. Had it not been for his cartel bill, the degree of competition that exists in Germany today

might well have never been attained and the concentration of cartels might have been greater. In this battle, as in most others, the Federal Chancellor Adenauer remained silent and lent no strength to Erhard's policies.

The opposition which the bill met could well be tied to the close relationship between government, politicians, and business. Whether Erhard's policies have been right or wrong, credit and admiration must be given to him for never wavering from his beliefs. On many occasions, such as his cartel bill, he was alone and void of the support of his contemporaries.

It has been Erhard's trait not to be swayed by pressures or by obstacles when a decision is to be made. He was not swayed by American policy but, rather, stuck closely to the principles of neo-liberalism and fought for his views regardless of the decisions of Parliament. In doing so, he lost the friendship of politicians, industrialists, and managers but won the support of the middle class which his policies favored. Since 1948, many policies have been enacted by the Federal Government of Germany which have been contrary to the neo-liberal theory, but Erhard has been influential enough to get parts of his theory into the economy.

Labor

From 1945 to 1948, German laborers experienced some unusual phenomena. The labor force had been increased by

some ten million refugees at the same time the employment possibilities had been reduced by Allied bombing. The labor force had been structurally changed by the war efforts. It was dominated by the young and the old and was predominately female. Many of the middle-aged males had lost their lives in the war effort. Many workers were paid in kind for the work they could find, and many spent more time searching for food than they did at their jobs. The dismantling of many German firms and the level-of-industry plans were further aggravation to the situation. With a bridled economy,

TABLE XXXI

WORKERS UNEMPLOYED IN THE FEDERAL REPUBLIC 1949 - 1961

Year	Thousands Employed	Thousands Unemployed	Percentage Unemployed of all Employees	Millions of Additional Jobs Created
1949	N.A.	1,300,000	8.8	13.6
1950	20,365	N.A.	N.A.	N.A.
1951	N.A.	N.A.	N.A.	N.A.
1952	21,300	N.A.	N.A.	N.A.
1953	N.A.	240,000	5.5	16.0
1954	32,395	N.A.	N.A.	N.A.
1955	33,230	N.A.	N.A.	N.A.
1956	23,830	410,000	2.2	18.6
1957	24,360	370,000	1.9	18.0
1958	24,585	330,000	1.7	19.4
1959	24,865	190,000	0.9	20.1
1960	25,330	110,000	0.5	20.4
1961	25,720	95,000	0.5	20.9

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), pp. 11-12.

expansion was slow and, hence, jobs available were few. Once a man found work, his productivity was extremely low due to an inadequate diet. Wages were low due to the downward pressure of an abundant factor and also due to the fact that wages were purposely held low in order to attain high profits which would attract investment. Labor leaders had their efforts to increase the working-man's lot stifled by stiff warnings from the government.⁵²

In 1948, after the currency reform, labor threatened a general strike, as high prices and a low level of income had deteriorated labor's real wages. The German Trade Unions Confederation called a general strike for November 12, 1948. After the unions announced this strike, they were responded to immediately by Erhard. He warned that such actions could severely hinder the stability existing in the economy and would only lead the Germans back to state controls and further unemployment. Erhard further stated that the Administration would refuse to recognize the strike.⁵³

In light of this warning, labor did not strike and, thus, saved the day for Erhard's policies. Had the strike been enacted, it could have caused serious difficulties for Erhard's policy. The unaggressive tendencies of

⁵²Wallich, pp. 272-287.

⁵³Erhard, The Economics of Success, pp. 56-57.

German labor unions has been of aid to the economy in some areas. It has helped, no doubt, the stability of the new currency as well as helped to make exports competitive in the world market and hence, has probably been a source of investment attraction.

As late as 1950, the unemployment situation was considered disturbing in Germany. On February 9, 1950, the Federal Chancellor made plans to combat this situation. However, his plans were far from adequate to relieve the existing unemployment due to a reluctance of the Federal Government to engage in long-term borrowing from the central bank. The Allied High Commission suggested other steps the Germans should take. By the end of 1950, 215 million dollars of the Economic Cooperation Administration counterpart funds had been released to the Germans. Of this sum, 190 million dollars was released by the German government into the economy with emphasis on reducing unemployment in construction, mining, industry, and electric power projects.⁵⁵

The basic Law in Articles Nine and Twelve guarantees every person the free choice of trade, profession, place of work and education. Every employee has the right to paid holidays, to exemption from work on Sundays and to

⁵⁵Office of the U. S. High Commissioner for Germany, pp. 12-13.

protection against unjustified dismissal and impairment of health while at work. Article Twelve also gives labor the right to organize.⁵⁶

In 1962, out of a total labor force of approximately twenty-six million, eight million workers were organized. Concentration of this organization is highest in civil servants and trade union areas with the lowest concentration in white-collar areas. In Germany today, there are sixteen trade unions and industrial trade unions united under the German Federation of Trade Unions. The result is a unified labor front whose chief organ is the Trades Union Congress.⁵⁷

The practice of co-determination is commonplace in Germany today. This is the right of the worker to share in the management of the firm. Workers have one-third of the seats on the board of directors of joint stock companies and one-half of the seats on the board of directors of mining and smelting companies. A Director of Labor sits on the directories of heavy industrial firms. He is nominated by the leading organization of the workers and sits with the business and technical department heads. The weapons of labor and management are strikes and lockouts respectively, but neither have been used frequently.

⁵⁶John F. Golay, The Founding of the Federal Republic of Germany (Chicago, 1958), p. 220.

⁵⁷Press and Information Office of the Federal Government of Germany, Germany in Brief (Wiesbaden, 1964), pp. 82-87.

Disputes are referred to a labor court in which both employee and employer are represented. These courts are not open to executive or political influences.⁵⁸

A law passed on April 9, 1949, empowers the Ministry of Labor and Social Conditions to declare collective agreements, made freely for a part of an industry, binding for the whole industry concerned. Between 1949 and 1958, this law had been used in 1,200 cases.⁵⁹

TABLE XXXII

WAGES AND SALARIES AS PERCENTAGES OF G. N. P.
FOR THREE ADVANCED INDUSTRIAL NATIONS

Country	1950	1952	1958
Germany	45.3	44.3	48.7
United Kingdom	57.3	57.9	59.2
United States	54.0	56.0	58.0

SOURCE: Frederick G. Ruess, Fiscal Policy for Growth Without Inflation (Baltimore, 1963), p. 60.

Strikes are few in Germany today, and it could be envisaged that constant inflations and devaluations of German money over the years has wiped out any effective strike funds. Also, strikes as a weapon of labor seem to be on the decline the world over. Furthermore wages

⁵⁸ Ibid., pp. 84-87.

⁵⁹ Frederick G. Ruess, Fiscal Policy for Growth Without Inflation (Baltimore, 1963), pp. 58-63.

seem to have remained a stable percentage of NNI over the years; however, the total of gainfully employed persons has also risen.

TABLE XXXIII
WAGES AND SALARIES AS PERCENTAGES OF
NET NATIONAL INCOME FOR SELECTED YEARS

Year	Percentage in NNI	
1925.	59.9	Prosperity
1929.	61.9	Depression
1931.	64.6	Depression
1934.	58.7	Hitler's Wage Freeze
1936.	55.6	Hitler's Wage Freeze
1938.	54.9	Hitler's Wage Freeze
1950.	59.1	Reconstruction in Europe
1955.	59.6	Reconstruction in Europe
1958.	61.4	Reconstruction in Europe
1960.	61.0	Reconstruction in Europe

SOURCE: Frederick G. Ruess, Fiscal Policy for Growth Without Inflation (Baltimore, 1963), p. 60.

Wages and salaries have remained a smaller percentage of GNP in Germany than in other industrial nations. This could be attributed to lack of aggressive policies of labor leaders and the influence of the government to keep wages low in order to increase exports. Consumption expenditures have remained low as a percentage of GNP in the face of rising incomes showing, again, the government's direct effect on capital formation.

TABLE XXXIV

CONSUMPTION EXPENDITURES AS PERCENTAGES
OF GROSS NATIONAL PRODUCT

Country	1948	1950	1952	1958
West Germany	N.A.	78.3	74.6	72.0
United Kingdom	86.4	86.2	85.3	82.3
United States	78.8	79.7	82.3	83.8
France	N.A.	81.4	83.3	80.8
Italy	84.5	81.7	84.0	77.7
Netherlands	84.1	80.1	75.2	72.4
Sweden	82.4	81.2	77.8	79.5

SOURCE: Frederick C. Ruess, Fiscal Policy for Growth Without Inflation (Baltimore, 1963), p. 61.

Labor seems to be satisfied with its current rising wage levels. This rising wage level is enhanced by little inflation, but a large number of job vacancies from 1956 onwards indicates that the labor resource ceiling has been

TABLE XXXV

AVERAGE ANNUAL AND WEEKLY INCOME OF
GAINFULLY EMPLOYED PERSONS

Year	DM Average Annual	DM Average Monthly
1950	3,726	243
1955	6,024	366
1957	6,915	415
1958	7,341	N.A.
1959	7,838	465
1960	8,660	507
1961	9,342	558

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), pp. 13-15.

reached and this could make any labor demands for higher wages effective. In fact, over one-half million workers were imported into Germany in 1960 to fill these vacancies.

TABLE XXXVI
NUMBER OF JOB VACANCIES IN THE FEDERAL REPUBLIC

Year	Vacancies
1950 . . . . .	.142,000
1951 . . . . .	.124,000
1953 . . . . .	.140,000
1956 . . . . .	.236,000
1958 . . . . .	.259,000
1959 . . . . .	.350,000
1960 . . . . .	.524,000
1961 . . . . .	.573,000

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), pp. 12-13.

Labor leaders, however, have seemed to abandon demands for wage increases in lieu of demands for sharing in the wealth of the corporation. Such demands by labor are probably helped in Germany due to the closeness of the U. S. S. R. This bit of social policy is a direct tenet of the Papal Encyclicals, *Rerum Novarum* and *Quadragesimo Anno*. These encyclicals suggest the acquisition of income producing assets rather than demands for increasing wages. They are embedded in the neo-liberal thinking. These demands for profit sharing would, of course, increase the general

welfare of labor and reduce the concentration of wealth which are important facets of neo-liberal theory.⁶⁰

Reflecting back to Table XXVIII, it can be seen that labor is evidently more efficient than capital in Germany. This could point to the probabilities of overcapitalization in many German industries.

German trade unions have seemed to have a preference for cartels which would offer them job security and wage protection.⁶¹ Actually, this could be another reversion to authority which the Germans so well love.

Erhard stressed the point on many occasions that trade unions were essential to his "Free Market Economy" and, therefore, carried a great deal of responsibility. He offered the opinion that only a free economy would permit the development of trade unions and that trade unions had developed over the years due to the principles of freedom. He expressed his opinion for a highly developed international division of labor and free worker mobility. Erhard's idea would be a Europe where workers could migrate from country to country with no restrictions, comparable wages, and a convertible currency.⁶²

⁶⁰ Ibid., p. 62.

⁶¹ Erhard, The Economics of Success, p. 70.

⁶² Erhard, The Economics of Success, pp. 253-256.

Actually, most wages in the Federal Republic are fixed by the interaction of labor and industrial bargaining; also the general conditions in the economy are taken into view. Erhard believes that wages and working conditions arrived at by these powers must be within supportable limits at all times. He points out that he never rejected a wage rise when business conditions permitted, and he encouraged business to take the initiative to raise wages when times permit. In times he felt business conditions could not warrant a wage rise, he issued stern warnings and was usually heeded. In the area of labor policy, Erhard usually received the support of the industrialists.⁶³ This would be understandable since on many occasions, Erhard was pushing to keep wages low to combat inflationary pressures.

The neo-liberals point out that the division of labor has greatly increased the productivity of labor, and therefore, propose an intensive division of labor. This division of labor would be within a plant or factory as well as the social division of labor among the different independent plants. The neo-liberals feel this social division of labor prevents socialism and feel socialism is made easier by an industrial division of labor in the entire economy. They

⁶³Ludwig Erhard, "Labor and German Prosperity," Current History, XXXVII (August, 1959), 66.

feel that a social division of labor is contingent upon a continuous exchange of goods against money, not the indirect exchange of one good for another. Therefore, it is essential to have a uniform international monetary system to permit an international, as well as social, division of labor. The neo-liberals feel, however, that this division can be carried too far and, if so, a disturbance in one sector of the economy will result in a disturbance in another sector of the economy, which could prove to be unhealthy. Thus, the neo-liberals feel that such a division should approach a limit. The neo-liberals feel that some of the instability in the world today is due to an extreme division of labor.⁶⁴

An extreme division of labor, however, is not apparent in Germany today. This as well as other existing factors could lead one to assume most of the basic tenets of neo-liberalism have been followed by labor.

⁶⁴Wilhelm Ropke, Economics of a Free Society, translated by Patrick Boorman (Chicago, 1963), pp. 44-72.

CHAPTER VI

IMPEDIMENTS TO NEO-LIBERAL SOCIAL POLICY

Agriculture

The German agricultural sector was asked to perform an almost impossible task after the war. The land had been over-tilled and lacked the fertility needed for adequate crops. Germany had never produced enough in the agricultural sector to sustain its population but had always relied heavily upon food imports. The separation of the Russian zone from West Germany in 1948 caused further food problems. This area, predominantly agricultural, was the German bread basket. This food problem was further aggravated by the influx of ten million refugees who looked to Germany and the free world for food. German agriculture still suffers from the effects of feudalism. Before World War II almost two-thirds of the land under cultivation consisted of farms of less than fifty hectares, and over fifty percent of all farms had less than five hectares. One acre is equal to 0.4 hectare.¹ This same feudalistic order made German

¹Henry C. Wallich, Mainsprings of the German Revival (New Haven, 1955), p. 204.

farmers reluctant to accept changes. This factor was important in creating a low degree of productivity.

Since 1951, however, there has been an increase in motor power, and it could be assumed that this motor power is playing an important role in increasing the productivity of agricultural workers. It could also be assumed that the acceptance of motorization is due to a change in attitude of German farmers.

TABLE XXXVII

THE RELATIONSHIP OF ANIMAL TO MOTOR TRACTIVE POWER

Years End	Animal Tractive Power in 100 TDs	Motor Tractive Power in 1000 Tractor h.p.	Number of Tractors in Thousands
1935-1938	1,934	500	20
1950	1,824	3,267	139
1951	1,781	4,218	185
1952	1,740	5,390	245
1953	1,668	6,300	300
1955	1,468	8,990	461
1956	1,350	10,435	543
1957	1,251	11,735	614
1958	1,143	13,150	696
1959	1,009	14,940	778
1960	879	16,850	857

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), p. 51.

Table XXXVIII shows that the loss of East German farm land to the Russians has had effect upon the structure of agricultural output. This loss has caused an increasing

emphasis on the output of animal products. With the loss of the eastern farm land more vegetables and cereal products have to be imported. Table XXXVIII also offers verification that Germany has suffered from a low caloric

TABLE XXXVIII
FOOD PRODUCTION IN WEST GERMANY

Economic Year	1000 Tons Grain Units			Index	Percentage Share of Animal Product
	Vegetable	Animal	Total		
1948-49	8,534	17,399	25,933	79	67
1949-50	8,298	22,461	30,759	94	73
1950-51	9,052	24,973	34,025	103	73
1951-52	9,614	26,797	36,411	111	74
1952-53	9,456	27,400	36,856	112	74
1953-54	9,915	28,940	38,855	118	74
1954-55	9,934	30,075	40,009	122	75
1955-56	9,404	30,341	39,745	121	76
1956-57	9,616	31,501	41,117	125	77
1957-58	9,760	33,102	42,862	130	77
1958-59	11,683	33,784	45,467	138	74
1959-60	10,011	35,274	45,285	137	78
1960-61	12,650	36,740	49,390	149	74

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), p. 48.

diet over the years. The index of agricultural production shows an increase of 185 percent over the years, which verifies that mechanical changes have been accepted. Wallich expresses the view that these changes have been in the form of greater mechanization, the increasing use of fertilizers, and technological improvements within the field.²

²Wallich, p. 204.

TABLE XXXIX

PREWAR AND POSTWAR FERTILIZER CONSUMPTION OF BIZONAL AREA, GERMANY

Fertilizer	Year	Highest Prewar Level Consumed		Consumption in 1948-49		
		Total Metric Tons	Per Hectare of Agri. Land Kilos	Total Metric Tons	Per Hectare of Agri. Land Kilos	Percent of Previous High
N P ₂ O ₅ K ₂ O	1938-39	294,200	23.3	308,100	25.3	109
	1939-40	351,800	28.5	382,900	31.5	111
	1940-41	612,300	44.2	611,800	50.3	114

SOURCE: Philip M. Raup, "Postwar Recovery of Western German Agriculture," Journal of Farm Economics XXXII (February, 1950), 4.

A major factor in Germany's agricultural revival was the increased use of fertilizer. The increased availability of fertilizer was dependent upon the revival of the chemical industry. The chemical industry, in turn, could not be revived until the coal problem was alleviated in 1951. The per hectare applications of fertilizers in the 1948 to 1949 period, compared to the previous high, were nine percent higher for nitrogen, eleven percent greater for phosphate, and fourteen percent higher for potash. Potash shows the largest increase in use as the production of nitrogen, and phosphate was limited in the early postwar years by the Allies. It was felt that the latter two chemicals could too easily be used for munitions if produced in large quantities.

The percentage of land utilized for agricultural purposes runs quite high in Germany. The total land used for crops and timber in Germany accounted for eighty-six percent of land utilization in 1962.

The amount of land available for agriculture will diminish in the future. This is due to expected increases in industrial buildings, a high demand for more highways, and the building of dams to provide hydro-electric power as well as open surface water supplies. These activities can only be carried on at the expense of a diminishing supply of land for agricultural purposes. This could have a depressing effect upon a long-run aggregate output of

TABLE KXXX
UTILIZATION OF FEDERAL TERRITORY 1962

Sector	Square Miles	Percentage of Land
Agriculture	141,800	57.4
Timber	71,200	28.8
Buildings, Farms and Industrial	8,500	3.4
Roads and Rails	10,100	4.1
Waste or Unfit Land	8,600	3.5
Water, Airfields, etc.	6,700	2.8
Total	246,900	100.0

SOURCE: Press and Information Office of the Federal Government of Germany, Germany in Brief, (Wiesbaden, 1964), p. 41.

agriculture as well as an effect upon per hectare productivity, rendering Germany still more dependent upon food imports.

The number of persons employed full time in agriculture is 3.5 million, of which 3.2 million are family farm workers. This leaves only 11.4 percent of the total population employed in agriculture. Between the years 1949 and 1960, more than thirty-nine percent of the population employed in agriculture left to work in industry.³ This shift of workers seeking employment in industry is due to a large growth in the industrial sector and a scarcity of

³Press and Information Office of the Federal Government of Germany, Germany in Brief (Wiesbaden, 1964), p. 42.

TABLE XII
 AGRICULTURAL OUTPUT AS A PERCENTAGE OF GNP

Year	Percentage of GNP
1950	10.4
1954	8.7
1955	8.1
1956	7.6
1957	7.3
1958	7.2
1959	6.9
1960	6.7

SOURCE: Frederick G. Puess, Fiscal Policy for Growth Without Inflation (Baltimore, 1962), p. 195.

labor resources as well as higher wages in industry. This factor has probably been the major incentive for mechanization in German agriculture. Actually, agriculture is coming to play a smaller part in the GNP of West Germany as industry continues to play an increasing role.

Thus, the level of industrial income could readily influence production in the agricultural sector. By this is meant, if industrial income increases, industrial workers should be able to demand more milk, meat, and eggs. If the industrial level of income decreases, there should be a corresponding decrease in the demand for milk, meat, and eggs and an increase in demand for cereal products. The interesting outcome of this situation is that German agriculture would be able to produce less of total

TABLE XIII

PERCENTAGE PRODUCED IN THE FEDERAL AREA
OF TOTAL FOODSTUFFS CONSUMED 1960 - 1961

Production	Percentage Produced
Whole Milk for Human Consumption	100
Rye	99
Potatoes	98
Butter	96
Meat	84
Meat Fats	85
Mixed Corn (total)	79
Wheat	75
Vegetables	74
Eggs	60
Edible Fats (total)	49
Vegetable Fats (only)	5

SOURCE: Press and Information Office of the Federal Government of Germany, Germany in Brief (Wiesbaden, 1964), p. 43.

agricultural demand when industrial incomes are high and more of total agricultural demand when industrial incomes are low. This would be true if granted the premise that as income rises, so does the quality of foods consumed. That is, there would be a consumption shift from the cereals to milk, meats, and eggs.

Thus, higher incomes could cause an increased demand for imports in the areas of milk, meats, and eggs and a decreased demand in imports of cereal products. In this case, it seems more feasible for Germany to raise the expensive food products and import the less expensive food products. In either case, agricultural imports are necessary,

and conditions affecting trade are an important factor entering into the determination of the structure of agriculture in Germany.

In 1947, a land reform program was enacted in the American zone to provide small farms to aid in the settling of refugees. The reform started with a fifty percent reduction in holdings of 300 hectares of agricultural land. This percentage increased rapidly for larger holdings. Under the land reform program, large seed and stock farms were excepted, as it was felt they could not operate economically as small units. Under the land reform plan, fair compensation for land taken was made. This land reform program was constantly hindered by deficits in states' budgets and general opposition. The land reform program was an effort to increase productivity in the agricultural area and proved to be of little value.⁴

Land reform received a set-back from a severe winter in 1947 which cut agricultural output by twenty percent. The shortage of agriculture output was offset by increased imports. However, 1948 was considered to be a bumper crop year and, by the year's end, the food shortage was relieved. Livestock population during the period 1947-1949 had been reduced in order to convert grazing acreage to human food

⁴Lucis D. Clay, Decision in Germany (New York, 1950), pp. 268-269.

TABLE XLIII
 RE-PARCELLING OF LAND

Year	In 1000 Hectares*
1949-50 . . . . .	.181
1951. . . . .	.132
1952. . . . .	.159
1953. . . . .	.160
1954. . . . .	.182
1955. . . . .	.195
1956. . . . .	.200
1957. . . . .	.198
1958. . . . .	.237
1959. . . . .	.257
1960. . . . .	.273
1949-60	2,174

* One acre is equal to 0.4 hectares.

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), p. 51.

production (See Table XXVIII). In 1949, a co-operative credit bank was established to provide short-term credits to agriculture, and measures were taken to bring German farm prices into line with world market prices.⁵ Certain basic crops such as sugar beets and grains had had their production held back by low fixed prices. By 1951, grain prices had been raised to parity with world prices.⁶

⁵Clay, pp. 270-272.

⁶Office of the U. S. High Commissioner for Germany, Report on Germany, September 21, 1949 to July 31, 1952 (Washington, D. C., 1952), p. 37.

Modern day German farm policy is codified in the "Green Plan" of 1955, an extensive aid law for agriculture.

TABLE XLIV
FINANCIAL EXPENDITURE IN CONNECTION
WITH THE GREEN PLAN
(Millions of DM)

Subsidies and Credits	1956	1957	1958	1959	1960	1961
For improving the agrarian structure and the agricultural labor and living conditions.	249.5	415	403	573	648.5	750
For improving the conditions of pay of the agricultural population.	366	797	938	768	822.5	850
TOTAL DM	615.5	1,212	1,341	1,341	1,471.0	1,600

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), p. 52.

Germany, despite the free market theories of Erhard, is no exception, as it joins all other advanced economies of the world in guarding its agricultural sector. This plan requires an annual report from the Minister of Agriculture to the Parliament. Within this report are recommendations which Parliament usually follows.⁷

⁷Frederick G. Ruess, Fiscal Policy for Growth Without Inflation (Baltimore, 1963), pp. 192-193.

Table XLIV indicates that agricultural subsidies and credits have been increasing ever since the initiation of the "Green Plan" in 1955.

In addition to this, there were agricultural credits from European Recovery Program (ERP) counterpart funds which began to decrease as early as 1958. Other aids to

TABLE XLV
 AGRICULTURAL CREDITS FROM ERP COUNTERPART FUNDS
 (Millions of DM)

Years	Credits
1949-1956. . . . .	.631.9
1957. . . . .	.160.3
1958. . . . .	.108.4
1959. . . . .	.119.3
1960.	79.0
Total DM	1,044.9

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963)., p. 52.

agriculture are federally owned enterprises which serve pioneering purposes, as well as a chain of state universities for the advancement of agricultural technology and science. There is also a rural development bank and eleven land development corporations. Agriculture is also able to take advantage of various tax privileges.⁸

⁸Ibid., p. 135.

Such subsidies, tax privileges and protections granted agriculture are all contrary to neo-liberal free market theories. However, the neo-liberals grant agriculture a special place within the economy and rationalize that it is necessary for the social good of the country to insure that agriculture is prosperous and remains functional. Neo-liberal economic thought seeks to provide justifications for deliberately sacrificing economic efficiency for specially endangered regions which are felt to be of value to social welfare. Agriculture happens to be one of the select areas in which deviations from free market principles are justified to prevent possible stagnation in that area from stagnating industry as a whole. Distressed areas, according to neo-liberal thinking, afford a responsible economic theory only two choices. It can overlook the stagnation, which will cause economic losses and impose hardships on the people involved, or it can prevent this "social erosion" and require the remainder of the economy to bear the cost of constant direct or indirect subsidies.⁹

Neo-liberals feel that a good farm policy would grant family farming a high degree of stability and self-sufficiency at all times with a minimum of protective

⁹Wilhelm Ropke, International Order and Economic Integration, translated by Gwen E. Trinke, Joyce Taylor, and Cicely Kaufer (Dordrecht, 1959), p. 192.

measures and subsidies which would result in a minimum burden for the national economy. They would advocate, for an industrial economy, an agrarian sector composed of numerous units of family farms. They feel this would not only be more economical for the industrial economy but would also have profound sociological effects which would encourage the farm family to maximize its efforts.¹⁰

The neo-liberal school of thought believes that both laissez-faire and collectivism, harm agriculture. Their theory is designed to declare war on monopolies, where they may arise, and aid agriculture by research and instruction. Agriculture, they feel, must be given a sound structure within the scheme of the total economy which would insure the farmer a high degree of material and spiritual satisfaction. In this, they would seek the advice of the farmers.¹¹

Neo-liberals further rationalize that agriculture is deserving of a special place because of its tendency toward decreasing returns, uncertainty of harvest, changing rhythms of the seasons, difficulties of storage, and a smaller optimum size of enterprise than in industry. It is felt that agriculture is not so much a business but a way of living to which one is born. Neo-liberals feel

¹⁰Ibid., p. 185.

¹¹Wilhelm Röpke, Civitas humana, translated by Cyril Spencer Fox (London, 1958), p. 193.

that a farmer should produce primarily for his needs and only after they are adequately met should he sell his surplus.¹²

It is further felt, by the neo-liberals, that agricultural labor can never be as fully industrialized as other sectors of the economy and, therefore, without subsidies, would be asked to compete on an unfair basis with these highly industrialized sectors. Subsidies help to keep agricultural prices low for the urban and industrial consumer.¹³

Basically, the neo-liberals prefer the small feudal farm system of postwar Germany. As a result, they were acceptable but the growth of industry and new technological developments have caused a pulling away from these ideas, and Germany is moving toward higher subsidization of agriculture. It must be remembered that the neo-liberals support subsidizing agriculture, but they feel this should be kept to a minimum.

Modern day German agriculture has been faced with various problems. Up until 1963, there had been a decline in agricultural incomes.¹⁴ This was happening at a time

¹²Wilhelm Ropke, The Social Crises of Our Time, translated by Annette and Peter Schiffer Jacobsen (Chicago, 1950), pp. 244-245.

¹³Wilhelm Ropke, A Humane Economy, translated by Elizabeth Henderson (Chicago, 1953), p. 206.

¹⁴Ruess, p. 196.

when the movement of workers from the farm to German industry was causing expensive mechanization on the farm. This was clearly a situation of declining incomes and increasing costs which only maximum subsidation could stop.

The small fragmentation of farm holdings in postwar Germany has been mentioned. However, today the tendency is toward concentration and larger farms, as the total of German farms has decreased by 360,000 in the last thirteen years.¹⁵ This movement, a necessary one, tends to break up the small farm family units the neo-liberals want. These structural changes could, of course, take place only through subsidation, as German agriculture is far from affluent enough to undertake, without aid, the necessary changes demanded by present day economic conditions in Germany. So it seems that modern day agriculture tends to pull away from neo-liberal thinking.

These conditions have also caused considerable trouble for Germany in the "Green Pool" which is a type of Schuman Plan for agriculture. To support the high cost of mechanization and aid the necessary structural changes, the federal government has undertaken a program to consolidate 13.5 million acres within the next few years. Under the Treaty of Rome, Germany has claimed full benefit of the

¹⁵German International, VIII (July 31, 1954), 36.

transitional period to permit a leveling of major disparities between the various agricultural regions of the common market. She further claims adequate time in which to raise her agriculture to a level competitive with other countries in the common market. According to the Treaty of Rome, the deadline for this transition is 1970.¹⁶

If an adequate solution is not reached in the near future, Germany will face another problem. Starting in January of 1966, decisions of the EEC will be arrived at by majority vote which will replace the present day unanimous vote. The major problem for Germany has been the high price of cereals in Europe. Germany, as mentioned earlier, imports her cereals in large quantities so as to devote her attention to the production of the more expensive items of milk, meats, and eggs. As a result, Germany is the greatest importer of cereals in Europe, and France is the largest exporter.¹⁷ French cereal prices, therefore, could have considerable influence on the prices of milk, meats, and eggs in Germany.

Energy

An essential element in the recovery of Germany was a broad and adequate energy supply. From 1945 to 1948, low productivity in the coal area presented a serious

¹⁶Ibid., p. 37.

¹⁷Ibid., p. 37.

obstacle to recovery. In fact, coal has been, the foundation of energy in Germany. It is used as a fuel, as a source of electric power, as a raw material for the chemical industry, and has proved to be a valuable export item.¹⁸ It was essential for coal to be abundant in order for the chemical and electrical industries to snap back and function properly. This was also true for the iron and steel industry.

With Germany's increased population, due to the influx of refugees, it was imperative that she not only attain prewar levels of output but exceed them. Essentially between the years 1945 to 1951, German industry expanded much faster than coal production. By 1951, German industrial output was thirty-six percent higher than in 1936, but hard coal production was less than two percent higher than the 1936 level.¹⁹ This low level of coal production forced the Germans to import coal as well as substitute other forms of energy.

Germany had been cut off from other European nations and could not depend upon them for coal imports. Furthermore, under Allied occupational policy, Germany was forced to export coal to other European countries, which severely

¹⁸Office of the U. S. High Commissioner for Germany, p. 33.

¹⁹Ibid., pp. 45-47.

depressed the domestic supply of energy. By 1951, Germany had turned to the United States for its coal imports. Low productivity in the coal area was further aggravated because of poor coal seams. Most of the imported coal went for the expansion of steel output because steel was essential for the rebuilding of German industrial plants.²⁰

Today, increasing production costs and rising prices have resulted in efficient utilization of other fuels, especially mineral oils. Germany has also increased its activities in the oil areas of the Middle East and has been successful in obtaining considerable oil and natural gas from this area. Some chemical firms are using a chemical process which extracts the oil base from coal.²¹

Today, as in the past, coal is a highly controlled, protected, and subsidized industry which cannot depend upon internal financing for the investment it needs.²² As was mentioned earlier, the federal government plays an important role as owner in the energy sources. Moreover, this control has tended to increase over the years, especially in electricity. Thus, the government has been an effective supplier of capital for energy industries.

²⁰Ibid., pp. 46-47.

²¹"Boom Levels Out in German Chemicals," Business Week (August 19, 1961), p. 58.

²²K. W. Roskamp, "Economic Growth, Capital Formation and Public Policy in West Germany, 1948-57," unpublished doctoral dissertation, School of Economics, Wisconsin University, Madison, Wisconsin, 1961, p. 103.

TABLE XLVI
 CONSUMPTION OF PRIMARY POWER IN GERMANY
 (Millions of tons HCU)

Year	Total Consumption	Hard Coal	Brown and Bituminous Coal
1950	134.8	99.9	22.6
1951	151.6	113.1	24.5
1952	159.0	120.4	25.1
1953	158.2	116.8	25.5
1954	168.6	120.9	28.2
1955	185.4	132.2	29.9
1956	197.2	139.0	30.7
1957	200.8	139.1	31.7
1958	191.6	124.6	31.3
1959	195.2	121.8	30.8
1960	212.7	128.2	31.6
1961	218.0	123.7	31.7

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963)., p. 41.

TABLE XLVI - Continued

Mineral Oil	Fuel Oil	Natural Gas	Water Power
5.9	0.6	0.1	3.3
7.3	1.3	0.1	3.5
7.5	1.4	0.1	3.1
9.5	1.5	0.1	3.5
12.2	2.9	0.1	4.0
15.9	4.4	0.3	4.5
19.5	6.6	0.5	4.9
22.4	8.4	0.5	4.6
27.3	12.3	0.4	4.9
34.5	15.9	0.5	4.1
43.6	22.0	0.6	4.8
53.5	27.4	0.6	4.8

This is, of course, a direct deviation from the free market policies of Erhard and the neo-liberals. However, such a deviation could be rationalized under the social policy of the neo-liberals.

TABLE XLVII

SHARE OF GOVERNMENT-OWNED ENTERPRISES IN
TOTAL PRODUCTION BY PERCENTAGE

Industry	1957	1958	1959
Coal	25.7	25.7	24.6
Coke Production	16.7	15.1	14.8
Electricity	14.6	16.4	16.7

SOURCE: Frederick C. Ruess, Fiscal Policy for Growth Without Inflation (Baltimore, 1963), p. 233.

Under a free economy, the neo-liberals feel it is not the function of the government to initiate measures for the support of specific branches of industry. The neo-liberals feel, however, that such policies are permissible in cases where the free economy is not fully operative due to conditions within the particular sector. The free competition theory would demand that the market place determines which branch of industry should expand at the expense of another. Actual neo-liberal practice demands, however, that social as well as political consideration must be taken into account. Therefore, it is essential to modify the theory, especially where social aspects are concerned. It is the

aim of this economic policy to grant assistance which would allow adjustments to the market and hope for a gradual diminishing of assistance. The policy is further aimed at protecting the coal workers from the social consequences of unemployment.²³

Subsidation of the coal industry could also be justified for various other reasons. The coal industry was damaged more than many other industries by Allied bombing. This was probably due to the fact that the Allies realized that if the source of energy was destroyed, the industrial machine itself would be incapacitated. Also, the ratio of profit to capital required is quite low in the coal industry. Due to this, there was lack of adequate capital formation and a resultant lag in technological advance and productivity. Also, as a basic energy source, it was necessary to firmly establish the coal industry to allow for general economic expansion. The increased population increased demands on power and there was also the problem of competition from imports. These reasons seem to be as valid as any for justifying government intervention under neo-liberal social policy.

The future competition aspects, internal as well as external, have caused considerable worries that coal

²³Atlantik-Brücke, Meet Germany, A Report to Further International Understanding (Hamburg, 1963), p. 82.

producers may not be able to sell their present output of coal at prices which will cover production costs. This future outlook on competition has been an inducement to the coal industry to seek rapid modernization to increase productivity. Between 1950 and 1958, the output per underground worker per shift rose from 1650 kilograms to over 2500 kilograms, which is an increase of fifty percent. This is still relatively low in relation to American coal. American coal costs DM 20 per ton of hard coal produced, while German coal costs DM 60 for the same. Even with freight costs, American coal is still cheaper in German markets.²⁴

However, it is not easy to ignore the fact that German coal mines are situated mainly in the Ruhr Valley district as well as is the greater part of German industry.²⁵ This is an example of industry seeking its energy source in order to cut transportation costs of energy and, thus, deliver a low-priced finished product.

It is political and social questions such as the coal situation that justify the intervention of the federal government under the social policy of the neo-liberals. However, this protection is to be effective

²⁴Ibid., pp. 82-83.

²⁵Ibid., p. 83.

only during the period of transition or adjustment. Evidently, the definition of a period of transition was overlooked.

It is estimated that by 1975, the German demand for consumption of primary energy will have increased by fifty percent. It is doubtful, considering the present coal situation, that the German coal industry will be able to meet this increased demand. This will necessarily lead to substitution of petroleum and coal imports and the ultimate use of atomic energy. However, the consensus is that coal will maintain its importance in the steel industry. For its sources of petroleum imports, the Federal Republic relies largely upon the reserves of the Middle East, which holds approximately two-thirds of the total world reserves of oil. However, the security of this supply is questionable due to political aspects. German foreign explorations have also uncovered natural gas reserves in the Sahara and in various parts of Europe.²⁶

Foreign exploration is important, and also a necessity for Germany, as she is able to produce only approximately one-third of her domestic demand for crude oil which is mainly produced in the North German lowlands.²⁷

²⁶Robert Marjolin, "The Importance to European Energy Policy of the German Inquiry into Energy," unpublished paper of the EEC read to the Institute for the Economics of Energy, University of Cologne, June 14, 1962.

²⁷Press and Information Office of the Federal Government of Germany, Facts About Germany (Wiesbaden, 1956), p. 17.

The security factor involved in the securing of oil supplies would seem to be reason enough to maintain German coal production at an adequate level through subsidizing it.

On February 20, 1962, the European Parliament passed a resolution proposing a common energy policy for the EEC. This was placed under an Energy Committee for the EEC. It proposed cheap supplies, assured supplies, gradual transition, stability of supplies, free choice for the consumer, and unity of the common market. The Energy Commission would also offer security for the coal market until atomic energy could take over. This Energy Commission estimates the demand for coal to be only thirty-five percent of total energy demanded by 1970, while petroleum consumption will rise to fifty percent of total demand. This common energy policy would also provide for common custom tariffs in trade with non-member countries with no tariffs on crude oil. Germany would be permitted, however, to maintain her tariffs on crude oil for a period of time in order to protect her coal industry.²⁸

Under this same basic idea, the Euratom Commission was set up in January, 1959, to initiate the Community's common atomic energy program. It is this commission's task to create, within industry, a peaceful use of atomic

²⁸Robert Marjolin, June 14, 1962.

energy and promote scientific research and training of specialists. The aim is to create a Supply Agency to channel nuclear fuel through, and to supervise the use of fissionable materials as well as to protect the workers and the population.²⁹

Neo-liberals, including Erhard, are against most forms of European community activity. They feel such an organization as the EEC could lead only to international centrism and international bureaucracy and diminution of public opinion and eventually an international welfare state. Such an organization, the neo-liberals feel, is only an expression of international economic planning, international economic intervention, and international economic bureaucracy which gives a home to planners, statisticians and econometricians.³⁰

Erhard and the neo-liberals propose complete liberalization of trade based upon universal rules and principles composed by the nations of the free world. This would be a matter of reducing controls and tariffs on the world front as well as obliterating bilateral and multilateral trade agreements.³¹

²⁹European Community Information Service, The Facts (Brussels-Luxembourg, ECI Printing Company, 1962).

³⁰Ropke, A Humane Economy, pp. 242-243.

³¹Ludwig Erhard, Prosperity Through Competition, translated by Edith Temple Roberts and John B. Wood (London, 1958), pp. 232-238.

Why then has Germany participated in the activities of the European Community? Adenauer desired bilateral and multilateral trade agreements and through these agreements desired to work for a United States of Europe. Erhard desired a united free world in the realm of liberalized trade. Adenauer, not Erhard, had the backing of Parliament and, therefore, was successful in gaining his policies. Adenauer's bilateral tendencies showed most directly in his trade agreements with France.³²

Germany has been quite active in the realm of building nuclear reactors for energy purposes. In 1964, Germany was capable of producing fifteen Megawatts of installed capacity.³³ Her estimated installed capacity for 1965 is 332 MW. In 1964, there were fourteen research reactors and four working reactors being built within the Federal Republic. Some of these reactors have been fully operative since 1962. The reactors include boiling water reactors, gas-cooled pebble-bed reactors, as well as high-temperature reactors. In 1962, Germany was to have a large nuclear generating plant. Before this, she had been limited to experimental and research installations which produced little current. By the end of 1966, Germany is expected

³²Charles Wighton, Adenauer (New York, 1964), pp. 362-381.

³³One Megawatt is equal to one million watts. One watt is equal to 1/746 of one horsepower.

to have a nuclear current output of 727 MW. On the whole, Germany has been unhappy with the decisions of Euratom and has been quite reluctant to negotiate with this group.³⁴

The development of an adequate system of nuclear reactors could well be the answer to a cheap and secure source of energy for Germany. This seems to be essential in view of estimates of her long-run demand for energy which supersedes that of any European country. As can be

TABLE XLVII

FUTURE TOTAL CONSUMPTION OF PRIMARY ENERGY
(Million Tons Coal Equivalent)

Country	1950	1955	1960	1965	1970	1975
Germany	129.0	180.9	205.3	239	282	338
Belgium	28.4	33.5	33.9	37	42	48
France	82.5	102.4	121.9	151	187	231
Italy	26.2	43.0	65.6	99	137	176
Luxembourg	3.0	4.9	4.6	6.1	6.6	7.1
Netherlands	20.0	25.2	30.1	38	46	56

SOURCE: Unpublished Material of the European Community Information Service, The European Community's Long-Term Energy Prospects (Brussels, January 1963), p. 2.

seen in Table XLIX, German charges for electric current are higher than that of any European country. This points out an absence of ample water power to generate hydro-electric power.

³⁴German International, VIII (Zonn, 1964), 20-28

TABLE XLIX

AVERAGE PRICE OF CURRENT FOR CLASSES OF INDUSTRIAL USERS
(Excludes taxes and priced at U.S. cents per K.W.)

Country	Small	Medium	Large
Belgium	2.48	1.58	1.26
Germany	3.15	1.84	1.28
France	1.88	1.54	1.03
Italy	2.50	1.54	1.27
Luxembourg	2.64	1.71	N.A.
Netherlands	2.32	1.51	1.13

SOURCE: Unpublished material of the European Community Information Service, Summary of the Report of the Expert Working Party Studying Electricity Prices (Brussels, 1962) p. 2.

Water power generates only about eighteen percent of Germany's electric power, and approximately two-thirds of this is consumed by industry. New dams are being built in many areas, but this has more to do with drastic shortages of water for private use more than building dams for hydro-electric power. The purification and preservation of water has become a major problem. This is due to increasing industrial pollution of the water as well as the fact that seventy percent of the water supply is derived from underground supplies which have experienced a sinking level.³⁵

Present day German Public Utilities are heavily owned by the federal government. This would include electricity,

³⁵Press and Information Office of the Federal Government of Germany, Facts About Germany (Wiesbaden, 1956), pp. 83-85.

water, gas, rails, communications, and transportation. The Public Utilities area is dominated by three federal holding companies officed in Berlin, Bonn, and Hamburg. The federally owned Public Utilities pay their share of taxes, pay dividends, and co-exist with private utility enterprises. Recently there has been a movement by the German government to sell some of its Public utility holdings, but the terms are much in accord with the Volkswagen offering.³⁶ Such a sale still leaves the federal government as the ultimate controller.

Government ownership of Public Utilities is in accord with neo-liberal thinking. They feel that some items, the street light for example, are indivisible goods which cannot be distributed individually even if a person declares his willingness to pay his share. Due to this, it is the business of the state to satisfy these demands. The state's duties would be to procure and distribute the collective needs divorced from the price system and based upon the ability to pay. The companies involved should be financed out of public funds. However, neo-liberals feel that too many areas are put under the collective demand and, hence, lead to communism. The neo-liberals feel that areas such as roads and bridges should be handled by private enterprise.³⁷

³⁶Frederick A. Lavey, "West Germany Unscrambles its Socialist Omeletts," Public Utility Fortnightly, LXIX (June 7, 1962), 824-829.

³⁷Wilhelm Ropke, The Economics of a Free Society, translated by Patrick Boarman (Chicago, 1963), pp. 35-36.

Ropke expresses the neo-liberal view that public enterprises are in complete harmony with the basic laws of the market as long as it is not a case of general nationalization which completely eliminates the market economy and leads to collectivism.³⁸

The whys and wherefores of federal concentration in Public utilities can be dated back to the era of Bismarck. The Bismarck regime had the problem of coordinating thirty-five separate kingdoms. It was felt by the Bismarck government that state ownership of the Public utilities seemed necessary in order to allow the complex to function. Such an attitude was further encouraged by the Socialists in the Weimar Republic from 1919 on.³⁹ This situation has tended to stick with Germany and seems to be an intricate, as well as acceptable, part of the economic life.

Rearmament

Under the Paris Agreement of October, 1954, Germany was called upon to participate in the military defense of Western Europe. She was admitted to NATO and asked to build an army of 500,000 men as well as small air and

³⁸Ropke, The Social Crisis of Our Times, p. 190.

³⁹A. J. P. Taylor, The Course of German History (New York, 1962), pp. 115-204.

naval units.⁴⁰ In 1964, total strength had reached 405,000 men which had been assigned to NATO.⁴¹

Prior to 1954, Germany was able to divert her energies toward the production of capital and consumer goods for the domestic market as well as export market. It was reluctantly, therefore, that Germany accepted such a task in light of her economic revival. Goods diverted from the capital and consumer goods markets for the production of weapons could have a decided effect upon these two areas in the long run. However, such outlays as needed for the production of war weapons could easily be financed out of Germany's constant trade surplus.⁴²

Another interesting factor is that the 500,000 men required by NATO for German defense is a definite drain on the German labor force which is suffering from a shortage of workers. A shortage of labor could cause an upward pressure on wages and prices, and hence, call for greater capital investment to increase productivity. This could result in an overcapitalization of many German industries. Also, it could well be assumed that lumber required to build army barracks has hindered, in some respects, the

⁴⁰H. J. Dernburg, "Rearmament and the German Economy," Foreign Affairs, XXXIII (July, 1955), 648.

⁴¹Press and Information Office of the Federal Government of Germany, Germany in Brief (Wiesbaden, 1964), p. 30.

⁴²Erhard, Prosperity Through Competition, pp. 198-204.

housing programs in Germany. Arms production creates income and demand but not necessarily a supply of purchasable goods. This factor is definitely inflationary. As to date, none of the above has happened in any noticeable manner. If this could be attributed to any one factor, it would have to be that of increasing exports and large trade surpluses.

Erhard accepted this call to arms as a duty to secure social existence and freedom-loving order. Even though he felt this was a social duty, he made clear the effect rearmament could have on the German economy. He made it clear that rearmament was not accepted as an impulse to the German economy, and he reserved the right to intervene if the rearmament measures interfered with the free social market economy.⁴³

Social Insurance and Security

Due to the imbalance in the structure of income that existed after the war, the German social security system was called on to carry a considerable burden. Since the currency reform, social security benefits have received approximately forty percent of public revenue and approximately seventeen percent of national income. The major part of this flows to old people, widows, war victims, and the unemployed. In all, social security recipients total

⁴³Erhard, Prosperity Through Competition, pp. 198-204.

about twelve million people.⁴⁴ This sizeable figure was of immeasurable aid, no doubt, to the economically weak in the days immediately following the currency reform. In turn, it can be assumed that the social security tax levy is a heavy one considering that deficit budgets are politically and economically unacceptable in Germany.

Social security systems are usually evidence that society is not pleased with the distribution of income, as determined by the market, and consequently has enacted fiscal policy to correct, somewhat, the situation. Almost everyone in Germany pays taxes, and almost the entire population receives some transfer income. In fact, it is estimated that some thirty percent of all recipients receive multiple benefit payments. Transfers are financed partially by levies upon employee and employer, usually amounting to fourteen percent of wages. However, these levies are never enough to finance the social security program, and it is necessary to subsidize the program from tax revenues of the federal government.⁴⁵

Pension insurance funds, under the law, are to be held in reserve for one year for contingency purposes. After this period, the reserves can be used for investment purposes within the economy by the government. These social

⁴⁴Wallich, pp. 51-52.

⁴⁵Ruess, pp. 181-183.

TABLE I
FEDERAL SUBSIDIES IN BILLIONS OF DM

Benefits and Subsidies	1957	1958	1959	1960	1961
Social Insurance Benefits Paid	18.1	20.8	21.5	22.6	24.2
Subsidies from the Federal Government	47	5.1	5.6	6.2	6.6

SOURCE: Frederick C. Ruess, Fiscal Policy for Growth Without Inflation (Baltimore, 1963), p. 183.

security funds exert notable influence on the capital market and the majority of these funds tend to flow to government securities.⁴⁶

One possible area increases in social security payments could affect is that of savings. It is often argued that increases in levies for social security kills the incentive to save as these funds come from current incomes. However, in Germany, social security has continued to increase as well as has the propensity to save. This could only be attained by an increase in the level of income further aided by a decrease in the level of consumption. Both seem to be existing facts in Germany today. Social security levies are perhaps an inefficient means of offering protection in that the system is largely

⁴⁶Ibid., p. 185.

financed by those whom it is to protect. As a result, it seems to be a poor effector of redistributing the wealth.

TABLE LI
PROPENSITY TO SAVE AND THE LEVEL OF CONSUMPTION

Year	Savings Deposits	Private Consumption
1950	20.8	64.2
1951	14.8	61.7
1952	20.9	59.0
1953	25.1	60.2
1955	20.6	59.3
1956	19.6	58.0
1957	28.2	58.8
1958	31.8	59.0
1959	31.7	58.2
1960	27.5	56.8
1961	30.2	56.9

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), pp. 32 and 91.

Considering the fact that German social security provides a great deal of funds which are used for profitable investment, it could be argued that many inequalities are done away with. In the German system, the government creates the investment but allocates the returns from such investment largely to lower and middle income groups.⁴⁷ Thus, the primary purpose of redistributing the wealth is obtained along with the secondary accomplishment

⁴⁷Ruess, pp. 136-187.

of increasing investible funds. Or it could be said that the social security system forces consumer money into investment channels but distributes the return to lower and middle income groups. In 1957, under a pension reform, pensioners were assured that they would share in the upswings of the economy. Under this plan, pensions are related to wage levels.⁴⁸

Erhard's school of thinking, as well as Erhard himself, favored a non-compulsory program for social security. Erhard's school of thought seeks a social market economy based on the spiritual attitude that a person must accept the responsibility for his own fate. This would allow for private initiative and a maximum of freedom in social life. If an individual is given security through all hours of his life, he will not develop fully his energies for the future good of the nation. Erhard feels that this individual initiative is essential for the economic prosperity of the market economy. Also Erhard feels if economic policy is successful, less social policy will be needed. However, Erhard does realize that even in an efficient economy, economic measures will have to be aided a certain degree by social measures. This social aid must be based on an expanding national income and not cause damage to national

⁴⁸Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), p. 115.

economic productivity. A compulsory insurance system, as the Germans have, and economic freedom are not considered compatible concepts by Erhard. Compatibility can only be established if there is freedom of choice in a free economy.⁴⁹

Erhard further points out that a demand for greater security, a system which would cause people to lose freedom and responsibility, would only demand more state intervention and ultimately lead to a welfare state and collectivism.⁵⁰

An important factor, one against Erhard's wishes, is the using of social security funds for capital formation. Erhard feels that such a system is nothing but a taxation upon the people added to their current taxes. This enables the state to make private loans and was felt, by Erhard, to be immoral.⁵¹

Neo-liberals feel that a desire for security is natural but that it can become an obsession, which results in the loss of human dignity and freedom and diminishes the value of money. Under a compulsory system, it is felt, what is given to one is taken from others, and this results in the state's laying claim to someone else's

⁴⁹Erhard, Prosperity Through Competition, pp. 185-187.

⁵⁰Ibid., pp. 188-189.

⁵¹Ibid., p. 188.

earnings or savings. Thus, a vicious circle results in which people demand more and more from the state. The neo-liberals feel that the minimum social aid necessary should not lead to a general system of taking care of all citizens and should not be done under the false pretext of leveling the differences in incomes.⁵²

It can clearly be seen that neo-liberal doctrines were not adopted in the realm of social security. Why did this occur? What factors were against the adoption of neo-liberal thinking in this area?

Germany, historically, has had a tendency towards a welfare state. Immediately after the war, a high degree of poverty existed. This was right in the face of communism in the postwar days as well as today. It was necessary, as a social force, therefore, to adopt certain welfare measures in an effort to alleviate poverty which, in turn, could stem the possible tide of communism. There was also a large need for capital and capital formation due to the destruction of the war. This capital, it has been seen, could be derived from social security funds. Thus, a large degree of social security was engaged in which seemed never to cease as conditions improved. Erhard, furthermore, was powerless in his position as Minister of Economics as social security measures fell

⁵²Ropke, A Humane Economy, pp. 172-176.

under the direction of Parliament, a place in which he was never too popular or powerful.

Textiles

German textiles are granted special consideration in the industrial complex. Immediately after the war, textiles were given protection in order to build up quickly and take advantage of the world surplus of raw cotton. Of all protected industries in Germany, textiles receive the greatest benefits from protectionism. The aid granted textiles in the immediate postwar days has continued to increase over the years. German textiles receive a considerable amount of competition in the international as well as domestic market from Japan. Thus, it has been a case of protecting textiles or having this industry wiped out completely by competition.⁵³

Table LII shows that protectionism helped to a degree from 1950 to 1959, but after that period considerable trade advantage was lost. Most of this is due to low productivity in the area. The question in Germany today is what to do with the textiles. Under the free trade theory of the neo-liberals, an industry may be granted protection for a short period of time in order to adapt to its markets

⁵³Statement by Otto Hieronymi, Professor of Economics, University of Dallas, Dallas, Texas, November 21, 1964. Otto Hieronymi did research in this field while at the Geneva Institute of Higher Studies.

TABLE LII
 TEXTILES IN THE FEDERAL REPUBLIC 1950 - 1961
 (Millions of DM)

Year	Imported	Exported	Balance Lost
1950	2,629	277	-2,352
1954	3,019	1,475	-1,544
1959	3,892	2,072	-1,820
1960	4,791	2,375	-2,416
1961	4,981	2,434	-2,547

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), pp. 73-75.

or re-allocate its resources to another industry.⁵⁴ However, the period of time seems not to have been defined, as the Germans have granted fifteen years of protection to textiles without apparent success.

⁵⁴Ibid., November 21, 1954.

CHAPTER VII

RECENT GERMAN FOREIGN TRADE AND POLICY

German Trade Revival

Germany's industry is an integral part of the European economy. Industrial revival took place during a period of intense competition and Germany was forced to compete with existing postwar trade patterns between free nations. To limit German revival, as was done by Allied occupational forces, was to essentially limit the entire European revival, as only Germany could efficiently produce the heavy machinery needed for the growth of an industrial economy. More important was that Germany could manufacture heavy machinery at low prices.¹

The postwar trade patterns caused the Germans a loss of trade in their Eastern markets and forced them to develop a climate of trade in the Western nations. This loss of markets and need for transition was facilitated by American aid.²

¹Council on Foreign Relations, Germany's Contribution to European Economic Life (1949), edited by Percy W. Bidwell (Paris, 1949), pp. 133-144.

²Ludwig Erhard, Germany's Comeback in the World Market, translated by W. H. Johnson (New York, 1954), p. 40.

The fact that Germany was unable to produce in the immediate postwar days created a European dependency on imports of American industrial goods. This dependency hampered total European exports. European nations could not import the heavy machinery needed to rebuild their industrial economy because Germany was their chief source. After the currency reform in 1948, however, this situation was somewhat alleviated and German capital goods began to flow to the Western sector of Europe but played a negligible part in overseas trade.³

Actually, after the German surrender, the Allies took complete control of relations between Germany and the outside world. No direct contact was allowed, and trade transactions were completely in the hands of the occupation authorities. Trade for the American and British zones was in the hands of JEIA which was set up as an import-export monopoly. However, this agency was continually hindered by currency problems and an extensive amount of licensing.⁴

In 1948, as a member of OEEC, Germany began her first liberalized trade agreements under the close supervision of JEIA. Under OEEC and the guidance of Erhard,

³Ibid., p. 41.

⁴Office of the U. S. High Commissioner for Germany, Report on Germany, September 21, 1949 to July 31, 1952 (Washington, D. C., 1952), p. 39.

it was Germany which made the first movement to multi-lateral liberalization of European trade. The OEEC had decided that all member countries should liberalize trade to sixty percent of total exports. Germany, due to Erhard's prodding, achieved this level by September, 1950. This was within two weeks after she had signed the EPU agreement.⁵

Due to this rapid movement toward liberalization, Germany's first year in the EPU was marked by a deficit crises. Rapid liberalization of the import market was accompanied by a concurrent rapid rise in German imports due to increases in production since the currency reform. Germany's lack of international financial contacts, at this time, further aggravated the situation.⁶

In lieu of this, the EPU granted a special credit of 120 million dollars to Germany. This was secured by the Bank Deutscher Lander with the Federal Reserve Bank of New York. Also, other OEEC countries were asked to liberalize import policies as much as possible in favor of German exports. This action, however, did not offset the German deficit crisis and the Federal Republic was forced to suspend liberalization in February 1951, as well as many import licenses.⁷

⁶Erhard, pp. 106-110.

⁷Ibid., pp. 107-109.

Erhard maintained that such a deficit crises was merely a phase of Germany's recovery and not a fault of his economic theory. By mid-1952, liberalization had again reached sixty percent of total exports and by April, 1953, stood above ninety percent. By this same year, Germany had paid off her deficit with the EPU and had achieved a credit balance of 650 million dollars.⁸

This again is an example of the free market philosophy of Erhard needing the administration of the state to correct malfunctions. Under neo-liberal theory, this action by the state was desirable as long as there was expedient return to liberalized trade. In this particular instance there was an expedient return to liberalized trade but there has not been complete liberalization of both imports and exports in Germany as the neo-liberals desire.

Erhard was quick to point out in the early revival that Germany was a heavily populated economy which could not pay for raw materials by exporting raw materials, such as coal and timber, as the Allies desired. He stressed the point that the imports must be processed and exported at twenty to forty times the value of the imported raw materials.⁹ Erhard feels the more labor intensified these goods are, the better it will be for the economy.¹⁰

⁸Ibid., pp. 109-114.

⁹Ibid., p. 65.

¹⁰Ibid., p. 117.

By April 8, 1947, a JIEA directive permitted direct contacts between German exporters and foreign consumers. Along with this directive German banks were given the right to resume business with foreign banks. However, supply and payment were still regulated by the directions of JIEA.¹¹

Erhard expresses the idea that JIEA was in no position to implement a sensible foreign trade policy and made many blunders. He points out that on many occasions, the JIEA official concerned with imports of hides was a procelain expert instead. Furthermore, JIEA was unusually slow in initiating and implementing policy and was severely hindered by the worthless RM.¹²

On November 12, 1949, the Allied High Commission granted the Federal Government the right to negotiate trade and payment agreements as long as these transactions were reported immediately to the High Commission. In 1951, Germany was granted further freedom in that she became subject only to GATT and the IMF. She was still compelled, however, to make reports to the High Commission.¹³

Such organizations as OZCC and EPU played a vital part in Germany's early years of recovery. It was through

¹¹Ibid., pp. 73-74. .'

¹²Ibid., pp. 79-80.

¹³Ibid., pp. 88-89.

these organizations that Germany was able to attain such needed sources of raw materials. These organizations also provided Germany the chance to break old bilateral trade agreements established by GATT and seek multilateral agreements with other nations.

In 1949 approximately half of Germany's imports were in the form of aid from the Allies and predominately from the U. S. The bulk of German exports by 1949 was in the area of manufactured goods with the largest share being exported by the cotton-textile industry. This industry had been given special supplies of American raw cotton. By early 1950, such countries as Britain were complaining of German competition and began to suffer its effects somewhat.¹⁴ As can be seen in Table VII, Germany began to quickly close the gap in her trade balance between 1950 and 1951 and since that time has increased its favorable balance.

During the period 1949 to 1953, the European nations suffered from a persistent dollar shortage and, therefore, discriminated against imports from the dollar area. This provided Germany an excellent chance to offer her goods as substitutes and take advantage of this shift in trade.

¹⁴J. F. Caban, "The Recovery of German Exports," International Affairs, XXVI (April, 1950), 173-177.

TABLE LIII

THE FEDERAL REPUBLIC'S FOREIGN TRADE
(Millions of Dollars)

Year	Imports	Exports	Surplus
1936*	1,444	1,363	+ 219
1950**	2,708	1,991	- 717
1951	3,506	3,471	- 35
1952	3,858	4,026	+ 168
1953	3,812	4,411	+ 599
1954	4,604	5,246	+ 642
1955	5,827	6,123	+ 296
1956	5,658	7,342	+ 690
1957	7,547	8,564	+1,017
1958	7,413	8,309	+1,396
1959	8,529	9,806	+1,276
1960	10,172	11,416	+1,244
1961***	11,091	12,745	+1,654

*1936: \$1 = 2.48 RM
 **1950-61: \$1 = 4.20 DM
 ***1961: \$1 = 4.00 DM

SOURCE: Press and Information Office of the Federal Republic of Germany, Germany in Brief (Wiesbaden, 1964), p. 64.

Germany's low wages had kept her prices low at a time when other European currencies were inflating.¹⁵

From 1953 to 1954, Germany's surplus with the EPU reached 1,239.6 million dollars as her foreign trade continued its expansion. This large surplus brought pressure of other OEEC countries upon Germany to further liberalize

¹⁵R. J. Bernberg, 'Germany's External Economic Position,' American Economic Review, XLIV (September, 1954), 532-533.

her trade. Germany, in turn, granted the requests.¹⁶ By 1954, Germany was well on its way to becoming a major trade nation.

Germany's need to build its export markets required that capital be diverted to this area. As mentioned earlier, Germany, even though greatly helped by American aid, had capital formation problems in the earlier years. This need for capital was also increased because Germany was forced to grant credit to various under-developed countries which sought to do business with her.¹⁷

To aid capital formation, the Law to Favor Exports was passed in 1951. Under this law, exporters were able to create a tax-free reserve in order to obtain the necessary capital for the export business. They were also allowed to deduct a certain percentage of their profit, made in the export business, tax free.¹⁸

Also, under this law, export drafts were discounted at rates which prevailed in the countries to which exports were made whenever the then prevailing interest rates were

¹⁶Henry C. Wallich, Mainsprings of the German Revival (New Haven, 1955), pp. 235-237.

¹⁷Horst Mendershausen, Two Postwar Recoveries of the German Economy (The Netherlands, 1955), pp. 92-128.

¹⁸K. W. Roskamp, "Economic Growth, Capital Formation and Public Policy in West Germany, 1948-57," unpublished doctoral dissertation, School of Economics, Wisconsin University, Madison, Wisconsin, 1961, p. 329.

lower than the West German rate.¹⁹ This was, in effect, a hidden subsidy and no doubt of considerable help to German exporters.

The Bank deutscher Lander, under this law, granted DM 100 million for the financing of exports when the time between the receipt of the export order and delivery of the export goods was between nine months and two years. It also promised DM 600 million to the Reconstruction Loan Corporation against promissory notes for financing export orders. This law expired in 1956.²⁰

State aid in capital formation to export companies is a typical example of the state acting in emergency cases in order to clear the malfunctions of the market. According to neo-liberal theory, this move was warranted in order to facilitate capital formation as well as foreign trade. Again, the state had entered the picture to help ease conditions. When conditions were improved by 1956, the state abolished the law.

Both Erhard and the Bank deutscher Lander were against the policy of extending the long-term credits advocated by this law. At one time, due to long-term credit policies, a monthly average of 400 firms were going bankrupt in the

¹⁹Ibid., p. 252.

²⁰Ibid., pp. 252-253.

domestic realm as well as some export firms.²¹ This, of course, can be attributed, in part, to the acute shortage of capital.

By 1952, about half of Germany's increase of gold and dollar reserves were earned from the dollar area and the other half from the EPU. By 1963, this stood at sixty percent and forty percent respectively.²²

Table LIV reflects the seemingly low German import needs and the consistent favorable balance of trade. This is in face of her necessity to import due to a lack of many essential resources. This could only mean that the domestic level of consumption is unusually low allowing a low rate of imports and high rate of exports.

Actually, Germany's trade advantage has been a source of worry to other European countries. They fear that Germany has not begun to reach its export capabilities because exports are a low percentage of GNP in comparison to other European countries.²³

The necessity to export has, no doubt, increased Germany's interdependence with other countries and makes her particularly vulnerable to depressions or inflations abroad. It has already been noted that the German economy

²¹Alistair Horne, Return to Power (New York, 1956), pp. 282-283.

²²Dernberg, pp. 547-548.

²³Wallich, pp. 218-223.

TABLE LIV
FOREIGN TRADE AS A PERCENTAGE OF WORLD TRADE

Year	Imports		
	Millions of DM	Percentage of GNP	Percentage of World Trade
1950	11,400	11.7	4.7
1953	16,000	11.0	5.0
1956	28,000	14.3	6.9
1957	31,700	14.9	7.1
1958	31,100	13.7	7.5
1959	35,800	14.7	8.2
1960	42,700	15.1	8.7
1961	44,400	14.3	8.9

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963) pp. 62-63.

TABLE LIV - Continued

Exports		
Millions of DM	Percentage of GNP	Percentage of World Trade
8,400	3.6	3.6
18,500	12.9	6.0
30,900	15.7	8.0
36,000	16.9	8.7
37,000	16.3	9.4
41,200	16.9	9.7
47,900	17.0	10.2
51,000	16.4	10.7

was affected somewhat by the 1957-58 recession in the United States. Furthermore, a large dependence upon imports would tend to negate many countercyclical policies.

Germany, it is true, has undergone geographic shrinkage but her economy seems to be stronger than it has ever been. However, it would be well to remember that this has been a part of general over-all worldwide expansion and German economic integration into this expansion. Germany's progress, in part, it could be said, has been made possible because of economic expansion within the international realm.

Toward the end of 1957, the inflow of foreign currency into Germany threatened the franc, the pound, and the whole pattern of European trade. In September of 1957, Germany had a credit with the EPU of 23.6 million dollars. Most of this surplus was attributed to higher German productivity over other European nations as well as low German prices. By 1958, this influx of foreign currency had so increased the German money supply that prices tended upward. This forced the Bundesbank to adopt restrictive measures. These measures, however, caused new tensions in the capital market as booming industry was demanding more capital. This large influx of currency had a depressing effect on interest rates and, hence, short-term capital sought new markets. This

monetary situation brought about an agreement between the Bundesbank and the government to enact policies to relieve capital tensions.²⁴

The absence of an arms burden up to the mid-1950's no doubt helped the Germans in their foreign trade efforts. Due to the absence of an arms burden, Germany did not have to devote scarce materials nor industrial capacity to the manufacture of arms. At the same time, Germany was competing in the international sphere with countries which were forced to do so.

In 1961, Germany was still purchasing the major part of her goods from America, and America continued to maintain her favorable balance of trade with Germany. However, by 1961, Germany was purchasing an ever-increasing percentage of finished goods and raw materials, and purchases of agriculture products had declined. Most finished products consisted of machinery, motor cars, airplanes, and chemicals. This increase in machinery imports was due primarily to the fact that German manufacturers, because of labor shortages, were busy revamping their plants and installing labor-saving equipment. Also, by this time, Germany had eased its quantitative import restrictions on all industrial equipment.²⁵

²⁴"The German Surplus," The Economist, CLXXXVI (February 1, 1958), 382-383.

²⁵"Germany's Expanding Market Becomes Major Outlet for U. S. Goods," Foreign Commerce Weekly, LXXVI (November 27, 1961), 5-6.

TABLE LV
 IMPORTS OF THE FEDERAL REPUBLIC
 ACCORDING TO PRODUCT AND CATEGORIES
 1961

Type of Product	Millions of Dollars	Percentage of Imports	Change Since 1960
Food and Delicacies	958	8.6	+ 5.3
Non-Ferrous Metals and Alloys	812	7.3	- 4.7
Textiles	767	6.9	+ 7.4
Machine Building	682	6.1	+29.6
Chemicals	584	5.3	- 1.5
Oil and Gas	552	5.0	+15.9
Iron and Steel	551	5.0	-11.2
Iron Ore	371	3.3	- 6.1
Newsprint, Pulp, Paper, and Cardboard	327	2.9	+ 5.2
Electro-Technical	283	2.5	+27.2
Cut lumber, plywood, and other finished wood	255	2.3	+ 4.2

SOURCE: Press and Information Office of the Federal Republic of Germany, Germany in Brief, (Wiesbaden, 1964) p. 61

In 1963, Germany witnessed another sharp increase of foreign currency reserves. This foreign currency increase was in the form of purchases of securities and direct investment by Americans. This currency inflow also consisted of short-term funds because the tightness of the Germany money market had effected high

TABLE XVI

TOTAL AMOUNT OF GOLD AND FOREIGN CURRENCY HELD BY
THE GERMAN FEDERAL BANK AT THE END OF EACH YEAR
(Millions of DM)

	1950	1953	1956	1957	1958	1959	1960	1961
Total DM	1,100	8,200	17,800	22,900	26,100	23,600	31,600	28,300
Of which Gold DM	-	1,400	6,300	10,700	11,100	11,100	12,500	14,600

SOURCE: Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963)
p. 77.

interest rates. The tight money policy of the Germans in 1963 had forced German banks to increase their liquidity by withdrawing some of their investments from abroad. This tight money policy had also been aided by the central bank's elimination of the basic surplus of the balance of payments.²⁶

In his Economic Report to Parliament in 1964, Erhard expressed concern again over the possibility of the foreign trade surplus hindering Germany price stability. He felt that the continual rise of the export surplus should not be fostered but somewhat retarded. This was to be done, according to Erhard, by further liberalizing the import sector. But Erhard made specific note that this was another case where Germany wanted and needed to lower tariffs but could not because of EEC agreements.²⁷

The large German trade surplus is still an unresolved problem today and has been a source of some domestic instability. However, the trade surplus has been alleviated somewhat by a slowing of the boom and a gradual balancing of trade as well as deficits in the visible and invisible services.²⁸

²⁶"Into Germany Again," The Economist, CCVIII (July 6, 1963), 58.

²⁷The Chancellor's Economic Report for the Federal Republic of Germany to the Deutsches Bundestag, Report on Economic Trends in 1963 and Prospects for 1964 (Bonn, 1964), p. 13.

²⁸German International, VIII (January, 1964), 3.

German Foreign Aid and Policy

Given German efficiency and technology, this country is capable of competing in the international sphere with many countries and in many areas. Such emphasis is given the exportation of goods that it seems to take precedence over all other forms of economic activity.

In Germany, foreign policy is initiated by the Chancellor and agreed upon by the Cabinet. Basic law requires that the executive alone direct foreign affairs and policies. At the same time, the Minister of Economics participates in certain limited aspects of international policies but does not participate in the initiation of broad policies.²⁹ This points out the powerful position Adenauer held over Erhard in determining foreign policy. It was this very point that led to the rift between the two men. However, such a powerful position should give the now-Chancellor Erhard position to implement his policies.

To aid the exportation of goods, German industry can take advantage of the Export Credit Corporation (Ausfuhrkredit A. G.). This agency is largely subsidized by the central bank as well as other types of loans. The Export Credit Corporation will grant export credit for four years

²⁹Hans Speier and W. Phillips Davison, West German Leadership and Foreign Policy (New York, 1957), pp. 27-29.

and will also grant a one-year stand-by period. Most of these loans are made at market rate.³⁰

German export credits are covered by an extensive system of export insurance by Hermes Kreditversicherungs Aktiengesellschaft. This organization is backed by the federal government and is the only guarantee of the whole export operation. Export insurance was indispensable for German trade as many buyers felt a degree of uncertainty about Germany.³¹

Numerous tax subsidies are also granted export firms. Such tax subsidies are also granted import firms. Such tax subsidies have caused, from time to time, international concern as well as concern within the EEC because tax subsidies are clearly an aid to keeping the price of exports low. However, the Germans contend to the outsider that this is only a means of capital formation.³²

To aid the German export drive, a special government office, Foreign Trade Information, was set up. This organization publishes its own newspapers which contain valuable information for exporters. Also, there have been many joint Chambers of Commerce set up in foreign countries.³³

³⁰Wallich, pp. 245-246.

³¹Ibid., pp. 247-248.

³²Ibid., pp. 248-249.

³³Horne, p. 281.

Germany, though culturally tied to the West, has found, not only today but also in the past, that she must maintain her friendship with the East because she straddles the dividing line between the two realms.³⁴ Such a position leads to some curious outlooks on the various nations involved.

The majority of German political leaders see Russia as an ever-present threat to German independence as well as European culture. German political leaders also realize that Germany's industrial complex would make a perfect prize for the Russians. This would give Russia not only the industrial resources of Germany but also access to the Atlantic seaboard.³⁵

September 13, 1955, marked the day that Germany and Russia re-established diplomatic relations.³⁶ This year also marks the beginning of a rise in trade between the two countries. In 1954, Russia purchased thirteen million dollars in goods from Germany. By 1961, this figure amounted to 206 million dollars. In 1954, German purchases of Russian goods were only twenty-two million dollars. By 1961, this figure stood at 199 million dollars. The

³⁴ Speier and Davison, p. 58.

³⁵ Ibid., pp. 62-66.

³⁶ Great Britain Foreign Office, Selected Documents on Germany and the Question of Berlin 1944-1961 (London, 1961), p. 225.

future trade situation for these two countries looks bright.³⁷

German and American relationships have grown over the years, and American friendship is a goal of German policy. Many Germans look toward America as a leader even in areas that are basically of European concern. This relationship has led to increasing trade between the countries and also attempts to integrate the two economies more fully.³⁸

Germany's relationship with France, despite Adenauer and deGaulle's agreements, is of a shaky nature. Yet, it is generally felt that the cooperation of these two countries is necessary if there is ever to be a united Europe. Many Germans despise the French way of living and dislike the U. S. efforts to answer many French desires.³⁹

Postwar Germans have usually viewed the British with an air of indifference. Some Germans still resent the fact that Great Britain proposed the dismantling of German industry in an effort to decrease competition in Europe. However, due to German distrust of the French, they have looked more and more toward the British as friends.⁴⁰

³⁷Federal Ministry of Economics, Achievement in Figures (Wiesbaden, 1963), pp. 69-71.

³⁸Speier and Davison, pp. 66-68.

³⁹Ibid., pp. 70-75.

⁴⁰Ibid., pp. 76-79.

As early as the pre-World War II days, Germany had traded with countries under communist influence and continues to do so today.⁴¹ German dependence on foreign trade necessitates that Germany carry on trade with almost any country, and this is only prudent for a nation so situated. However, many orders from the Eastern bloc are pilot orders on machine tools and industrial products in order that they may be imitated.⁴²

Today, forty countries throughout the world benefit from German foreign aid. Furthermore, 416 million dollars have been committed to finance various agricultural and industrial training projects. Industry as well as private institutions and government contribute to the program. Approximately ten percent of total foreign aid is provided by EEC counterpart funds which are essentially repayments of the Marshall Plan loans.⁴³

Germany has established numerous trade schools in Southeast Asia, sugar factories in Iran, irrigation systems in the Sahara Desert, as well as chemical and refining

⁴¹Ibid., pp. 236-237. These countries include Albania, Bulgaria, China, Poland, Rumania, Czechoslovakia, Hungary, and Russia.

⁴²Ibid., p. 237.

⁴³Foreign Affairs Office of the Federal Republic of Germany, Germany: Partner in World Progress (Bonn, 1964), p.11.

plants in the Middle East.⁴⁴ She has also built schools and provided educational institutions within Latin America.⁴⁵

The German government also aids in inducing private investment in developing nations by granting tax reductions equal to one-third of production costs of the installation made in the developing country. If developments are desired in area of political uncertainty, the federal government will directly complement private efforts. Furthermore, Germany has spent, over the years, eighteen billion dollars aiding the various 13.5 million refugees from the Soviet bloc.⁴⁶ Germany is also engaged in pouring technical assistance funds of seventy million dollars a year predominantly into Africa, Asia, and Latin America involving over 600 projects. Since 1956, the government has put 125 million dollars into this alone.⁴⁷

In 1962, Germany's foreign aid was divided principally among six nations and in the manner depicted by Table LVIII. In 1960, it was estimated that there were 200 German firms in Brazil with direct investments amounting to 160 million

⁴⁴Ibid., pp. 3-9.

⁴⁵Erhard, p. 156.

⁴⁶Foreign Affairs Office of the Federal Republic of Germany, pp. 3-4.

⁴⁷Ibid., pp. 3-4.

TABLE LVII
GERMAN FOREIGN AID 1962

Country	Millions of Dollars
India	425,000,000
Pakistan	97,500,000
Iran	50,000,000
Afghanistan	50,000,000
Turkey	50,000,000
Brazil	50,000,000

SOURCE: Foreign Office of the Federal Republic of Germany, Germany: Partner in World Progress (Bonn, 1964), p. 4.

dollars. This amounted to 20.1 percent of total foreign direct investments in Brazil. Germany, over the years, has been a large money lender to Latin America.⁴⁸

Perhaps Erhard's interests in the under-developed countries lies in the fact that estimates for the year 2000 show that the U. S. and Canada will have only five percent of total world population, Free Europe, nine percent; and for non-Russian Asia, sixty-two percent; eight percent for Africa; and nine percent of total world population for Latin America.⁴⁹

Economic integration of the nature Erhard proposes would make possible the exploitation of large-scale

⁴⁸Albert Weisbord, Latin American Actuality (New York, 1964), p. 98.

⁴⁹V. W. Kitzinger, The Politics and Economics of European Integration (New York, 1963), p. 97.

TABLE LVIII

LATIN AMERICA: NET FLOW OF OFFICIAL CAPITAL FROM JAPAN
AND OECD MEMBER COUNTRIES EXCLUDING THE U. S.
1960 - 1962
(Millions of Dollars)

Country or Region	1960	1961	1962
Japan	9	80	--
Federal Republic	23	30	38
United Kingdom	-26	- 1	--
Other OECD Countries Excluding U. S.	6	93	--

SOURCE: Statistics from the Development Department of the Organization for Economic Cooperation and Development, cited in Albert Weisbord, Latin American Actuality (New York, 1964), p. 99.

economies by small countries as well as large countries such as Germany. The dynamic effects of an integration of an economy like Germany's with that like Latin America or any other under-developed country could provide an inducement for growth to both economies.

In 1962, the Company for Economic Cooperation was formed in Germany to promote the economic growth of developing countries. This company is financed by public authorities but functions independently of public administration. The function of the Company for Economic Cooperation is to stimulate developing countries by supporting cooperation with German businessmen by the businessmen of the various countries concerned on an equal partnership basis. The undertaking must be one which is

likely to promote economic growth of the country concerned. This is not considered a permanent investment but rather when the initial risk is overcome, the German partner sells his share outright to his foreign partner. By 1963, the Company for Economic Cooperation had undertaken eighty-five projects. The only stipulation is that aided firms will engage in trade with the free world and not trade with the Soviet bloc.⁵⁰

In 1964, the Bundesbank's established limits were DM 3.97 for buying and DM 4.03 for selling per United States one dollar. Limits on other currencies are determined by the forces within Germany and the country being considered. Premiums and discounts on forward exchange are left to the determination of the market forces. All German banks were permitted to engage in foreign transactions.⁵¹

Quantitative restrictions are not applied to imports of the majority of commodities from outside the Sino-Soviet bloc. Out of a 1964 total of 6,600 various items imported by Germany, 6,200 could be imported freely. Also, 150 import items had been liberalized from European OECD countries and their dependent territories. These

⁵⁰Atlantik-Brücke, Meet Germany, A Report to Further International Understanding (Hamburg, 1963), pp. 78-80.

⁵¹International Monetary Fund, Annual Report on Exchange Restrictions (Washington, D. C., 1964), p. 185.

imports are free from licensing and prior control but must have a Bundesbank stamp of documentation for customs and statistical purposes.⁵²

For imports which are still subject to restriction, an individual import license must be obtained. Import licenses are usually acquired on a first-come-first-serve basis to hold established quotas for specific import commodities. Also, many export activities may be carried out freely with only an export notification required for statistical purposes. German and foreign notes and coins or any other means of payment may be exported freely.⁵³

Capital may be imported or exported freely by residents and non-residents without a license. However, treasury bills and domestic fixed-interest bearing securities may not be sold to non-residents without an individual license. Securities of all classifications may be imported or exported freely.⁵⁴

Germany's divided condition makes her ineligible for membership in the United Nations although she is a member of all twelve special agencies of the United Nations and cooperates with it in many areas.⁵⁵

⁵²Ibid., p. 186.

⁵³Ibid., pp. 186-187.

⁵⁴Ibid., p. 184.

⁵⁵Press and Information Office of the Federal Government of Germany, Germany at a Glance (Wiesbaden, 1963), p. 15.

The degree of import-export liberalization achieved by Germany at this point is to Erhard a small structural step to free world-wide trade and an expansion of the European economy. Erhard's real objective was, and is, to create an interdependence between Germany, Europe, and the rest of the free world.⁵⁶

Adenauer, Erhard's Neo-liberal Ideas,
and the Future of Germany

Erhard's plans for the future of Germany in Europe were to avoid the economic division of Europe into mutually hostile trading blocs. Erhard's ideas in this realm disagreed with Adenauer's, and Erhard's plans were quickly quashed. This difference of opinion between Adenauer and Erhard as to Germany's role in European trade has been evident since the early 1950's and became highly apparent by 1959 and continued to the end of Adenauer's reign. To Erhard, the division of Europe into the EEC and EFTA would only result in two mutually hostile trading blocs.⁵⁷

Not only did Adenauer have problems with Erhard, but deGaulle also continually balked at Adenauer's particular plan for the unification of Europe. DeGaulle had a nebulous plan of his own for the association of European

⁵⁶Erhard, p. 43.

⁵⁷Charles Wighton, Adenauer (New York, 1964), pp. 298-302.

sovereign states. This was in contrast to the integrated supernational European institutions favored by Adenauer.⁵⁸

Furthermore, de Gaulle was for European unity, in the sovereign manner, only if France would be the leader of the union.⁵⁹ Actually, de Gaulle's idea of Europe is closer to Erhard's than is Adenauer's. The major difference is that de Gaulle accepted Erhard's idea of no supernational controls but rejected Erhard's idea of free world trade.

To combat Erhard's thinking, Adenauer continued to ignore the United States and devoted all of his energies to winning the friendship of France. This movement by Adenauer was of great concern to Erhard as he looked at America as a necessary trade partner in the free world. Erhard was also concerned that Franco-German relationships excluded Britain, due to de Gaulle's demand. Britain, at the time, was desiring admittance to the Common Market. Britain has not been admitted to this date, principally due to French reluctance.⁶⁰

This led, essentially, to two schools of thought in foreign policy in Germany. One school headed by Adenauer

⁵⁸Ibid., p. 364.

⁵⁹ John Lambert and Michael Shanks, The Common Market Today -- and Tomorrow (New York, 1962), pp. 169-175.

⁶⁰Wighton, pp. 364-370.

is increasingly pro-French and the other school headed by Erhard is strongly pro-American and pro-free world.

One of Erhard's deep fears about the Common Market causing hostility had a grain of realism imbedded in it. It is known that many under-developed countries look upon the Common Market as a group of rich protectionist countries which are combined in an effort to keep out the products of the poor countries.⁶¹

Germany suffered a curious blow from the formation of the Common Market. She gained the advantage of a reduction of tariffs within the Community but suffered a disadvantage in the external realm of the Community in that she was forced to raise her external tariffs to the common level of all other countries in the Community.⁶² Germany's tariffs had been, before entry, considerably below Common Market level and the forced raising of German tariffs has undoubtedly cost her trade with other nations.

The German majority look at the EEC as a good foundation for close European integration. However, they feel that this must be further supported by a policy of freedom both internally and externally. This would demand

⁶¹John Lambert and Michael Shanks, p. 238.

⁶²Atlantik - Brucke, p. 82.

extension of the EEC and economic cooperation with other areas.⁶³

This internal and external trade freedom is important to Germany because exports are her source of living. In 1963, only about one-third of her foreign trade was carried on with EEC countries and two-thirds with countries outside the EEC. It is further apparent that Germany has reached her trade capacity within the EEC and, hence, the Common Market is actually a restrictive institution.⁶⁴ This is further reason why Erhard would demand free world trade and expansion of the EEC. Erhard maintains that German industry has been aided by the reduction in tariffs because it has caused increased efficiency due to relentless world competition. Therefore, the EEC could only harm this efficiency.⁶⁵

Erhard's views on GATT are somewhat more optimistic. He feels GATT is an international organization under international law which provides for tariff reductions and international cooperation in the free world.⁶⁶ However, he was still somewhat dismayed with GATT as it also calls for Germany to maintain artificially high tariffs.⁶⁷

⁶³Ibid., pp. 70-71.

⁶⁴Atlantik-Burke, p. 72.

⁶⁵Ibid., pp. 73-74.

⁶⁶Erhard, pp. 205-206.

⁶⁷Atlantik-Burke, pp. 73-74.

To aid his idea of liberalized free world trade, Erhard looked increasingly to the U. S. His moment of hope was within the Kennedy Round. Under this plan, John F. Kennedy asked Congress for more power in the realm of tariffs to relieve some American trade disadvantages. This was not in an effort by America to join the EEC but rather to work alongside the EEC to reduce mutual trade barriers as well as barriers that would harm free world trade. A desirable plan was never achieved, however, and work in this area is progressing slowly.⁶⁸

It was during the Kennedy Administration that the United States began to realize the Common Market has serious economic implications for America. This was the realization of the effects the Community's tariffs and trade policies could have on American exports.⁶⁹ With the highly integrated economic trade that exists in the world today, it seems certain that one country's trade policies could have a definite effect on the economy of another country.

If European integration is undesirable through the EEC, and to Erhard it is, then blame must be shouldered by Adenauer, as he was overly willing to appease the French

⁶⁸William Diebold, Jr., "The Process of European Integration," Current History, XLII (March, 1962), 135.

⁶⁹John Lambert and Michael Shanks, p. 235.

in order to attain his European unity. Many Europeans, however, have suggested that an integration of Germany into the European set-up was the only manner in which it could be assured that undemocratic elements would not seize control. At the same time, this particular group feels that the EEC assured Germany a proper outlet for its dynamics.⁷⁰ Others express the opinion that Germany is too young a nation to harbor firmly-rooted traditions and public sentiment and, hence, its concepts of national interest are subject to change as circumstances change.⁷¹ On the other hand, the German Socialists have maintained that the unity of Germany should be put above all other types of unity and that this should be a prerequisite for any type of integration.⁷²

In 1957, Erhard referred to the European Community as "economic nonsense" and "European incest." He argued that German industrial forces were competent and desired competition from all countries. German prices are competitive; her tariffs could be lower and her exports

⁷⁰Hans Morgenthau, Germany and the Future of Europe (Chicago, 1951), p. 166.

⁷¹Edgar McInnis, Richard Hescocks, Robert Spencer, The Shaping of Postwar Germany (New York, 1960), p. 140.

⁷²Henry L. Mason, The European Coal and Steel Community (The Netherlands, 1955), p. 4.

larger and growth faster if there were no interventions from the Community.⁷³

To Erhard, and the neo-liberals, true European economic integration can only be a state of affairs which will permit trade relations between various national economies to be as free as trade within those national economies.⁷⁴

Neo-liberals view Europe between 1931 and 1942 as fragmented due to exchange controls and quantitative trading restrictions which resulted in the spread of national collectivism and ultimately in European disintegration. The neo-liberals feel that since national collectivism caused this disintegration, it will take a course of proper integration to correct it.⁷⁵ The neo-liberals feel that any agency, such as the EEC, is merely another policy leading to disintegration and should be removed. To Erhard, any partial integration, such as the EEC proposes, will only bring about disintegration in other economies and atomise markets if not followed by

⁷³Kitzinger, p. 125.

⁷⁴Wilhelm Kopke, International Order and Economic Integration, translated by Gwen E. Trinks, Joyce Taylor, and Cicely Kaufer (Dordrecht, 1959), p. 225.

⁷⁵Wilhelm Kopke, International Economic Disintegration (New York, 1942), pp. 219-245.

progressive integration of the economies of all countries of the free world.⁷⁶

The neo-liberals find favor in such organizations as the OEEC and EPU. They feel these organizations are against collectivism and work to move Europe toward the rest of the free world because of their non-discriminatory nature.⁷⁷

To facilitate their international order, the neo-liberals propose an international flow of credit and a genuine international monetary order with full convertibility as well as a social order based on freedom. The neo-liberals favor a gold standard like that of the nineteenth century as the basis of international monetary order.⁷⁸

In early 1963, Parliament passed Adenauer's treaty with France providing for closer Franco-German relations and a continued rejection of Britain. The treaty seemingly provided encouragement for the national state and partial rejection by the French of an Atlantic Alliance.⁷⁹ Later in 1963, when Adenauer retired, he announced he did not feel that Erhard was the man for the job of

⁷⁶Erhard, pp. 150-152.

⁷⁷Ropke, International Order and Economic Integration, pp. 261-268.

⁷⁸Ibid., pp. 248-251.

⁷⁹Wighton, pp. 279-281.

Chancellor. Instead, he backed Franz Etzel who had won distinction for his work in the ECSC. It was Adenauer's opinion that Erhard would not pursue the European path that Adenauer desired. However, late in 1963, Erhard succeeded Adenauer by popular demand.⁸⁰

There seems to be no doubt that Erhard's thoughts about the EEC will prevail. It is only possible at this time to speculate about future German attitude towards the EEC but it seems possible there could be constructive German working from within the EEC to broaden its scope to world horizons. This would be especially true since Erhard is now Chancellor.

Germany: The Future of Europe
and the Free World

German outlook toward an Atlantic Alliance since Erhard took office is that it not so important as to who holds the strongest position within the organization but that all of Western Europe is united with the United States in an adequate common front. The Germans feel that a serious interruption to this common front was the EEC rejection of Britain and the French demand for the U. S. to quit meddling in European affairs.⁸¹ It is well to note that Western Europe, as well as Germany, is stronger

⁸⁰Carl G. Anthon, "The End of the Adenauer Era," Current History, XLIV (April, 1963), 200-201.

⁸¹Atlantik-Burke, pp. 13-14.

now than ever before and has regained its position as a center of world trade. The European free countries handled two-thirds of the world trade in 1963. Today, the "dollar gap" has disappeared.⁸²

In 1962, Erhard made a plea to American people in a speech in New York to support Kennedy in his world-wide trade attempts. He pointed out that it would be seemingly impossible to ask all free countries to stand together in common defense and to agree on joint actions when at the same time their economic, personal, and social existence is separated and divided. He further expressed the view that the EEC should not be accepted as the solution but rather as a passing phase toward Atlantic integration. To aid this, he felt that Britain and the U. S. had to take an active part in the economy of Europe.⁸³

In lieu of high U. S. tariffs, Erhard has suggested that German analysis of the American markets constantly be made. He suggests that Germany can effectively carry on trade with America in the area of specialized goods and component parts to supplement American mass production. These German goods could offer low prices and superior quality.⁸⁴ German control of the American optical market

⁸²Ibid., p. 55.

⁸³Ludwig Erhard, The Economics of Success, translated by J. A. Arengo-Jones and D. J. B. Thomson (London, 1963), pp. 397-412.

⁸⁴Erhard, Germany's Comeback in the World Markets, p. 179.

would be a perfect example of this bit of Erhardian thinking.

Erhard is of the opinion that the principle of comparative advantage, within the framework of free world liberalization of trade, is the only way to promote domestic and international efficiency. From this economic viewpoint, it is essential that Europe be regarded as a function and not an organization or institution.⁸⁵

Erhard feels the lowering of tariffs by all free countries is an essential pre-condition of any intergration. He has continually expressed his desires to lower tariffs to favor U. S. goods but points out that the other countries of the EEC favor higher external tariffs. He feels that lower import tariffs would definitely help stabilize the German currency by removing some of the persistent surplus from the balance of payments. He points out that the big German price increases have occurred in areas which she could not import due to EEC commitments.⁸⁶

Why is trade with the outside so important for Germany? She is by far the largest trading nation of the EEC as well as the third largest importer and second largest

⁸⁵Ludwig Erhard, Prosperity Through Competition, translated by Edith Temple Roberts and John B. Wood (London, 1958), pp. 212-218.

⁸⁶Kurt Lachmann and Alfred Zanker, "Germany's Erhard Talks about Trade, Tariffs, the U. S. Dollar," U. S. News and World Report, LVI (June 8, 1964), 62-64.

exporter among the nations of the world. In 1962, she accounted for 10.8 percent of world exports. In 1960, 15.1 percent of domestically produced German industrial goods went abroad as well as 23.4 percent of the domestic chemical output, 29.4 percent of the domestic machine tool industry output, 48.6 percent of the domestic shipbuilding output, and 35.6 percent of the domestic automobile output. Furthermore, Germany's trade outside the EEC has remained larger than her trade within the EEC, and her trade with the EFTA has been about equal to her trade within the EEC.⁸⁷

It is plain to see that Germany could lose far too much by any "exclusivist" policy which the EEC desires. Furthermore, if Germany were to adopt the "exclusivist" policy of the EEC, this could well hinder not only the Germans but all European nations and free nations that trade with Germany. With the growth rate of Western Europe as a whole slowly declining, Germany must search for new markets or suffer a like decline.⁸⁸

A recent problem has been the British announcement of a tariff rise due to her poor domestic situation. Such a move could certainly offer EEC countries a chance to

⁸⁷ Wolfe W. Schnokel, "Germany and the Common Market," Current History, XLV (November, 1963), 285-286.

⁸⁸ Ibid., pp. 286-288.

raise their tariffs and, therefore, Germany would be forced to go along. Such moves in the past have led European countries to break into isolated protectionist states and has stimulated the rise of nationalism. The effects of such a policy could entirely isolate Western Europe and Germany from the U. S. and Canada by tariff barriers.

Reflecting upon two interesting surveys of the Twentieth Century Fund, "The New Europe and Its Economic Future"⁸⁸ and "U. S. A. and Its Economic Future,"⁸⁹ it can be seen that continuing progress toward Western European and American economic integration is a necessity because these countries are becoming more and more dependent upon each other for trade purposes. It can be seen that future attempts of integration for these two blocs are necessary for continued world economic expansion as well as aid to the developing nations. It seems the best method to achieve this would be by Erhard's plan of world liberalization of trade rather than by forming individual trading blocs which could become hostile to each other.

One cannot help but note, after studying the two Twentieth Century Fund surveys, that due to the integration of economies, our American expansion and growth is going

⁸⁸Arnold B. Barach, U. S. A. and Its Economic Future (New York, 1964).

⁸⁹Arnold B. Barach, The New Europe and Its Economic Future (New York, 1964).

to be increasingly dependent upon the expansion and growth of Western Europe as well as other areas of the free world. This is also true of other countries in relation to America.

Sensing this, it becomes imperative that the U. S. continues to negotiate and achieve a degree of liberalized economic integration with the free world as a whole as well as the Western European sector. Erhard seems to have sensed this future close interdependence of nation upon nation and, hence, this could explain his basic objection to the EEC or the formation of any other closed or discriminatory trade bloc.

Neo-liberalism Applied to German Foreign Trade

The government aid given to German export companies to aid capital formation and help German industry to compete in the international markets does not constitute a deviation from neo-liberal theory. It was only the government adapting itself to the conditions. Such aid is permitted under the neo-liberal theory if it is of temporary nature and is discontinued after the crisis has been met.⁹⁰ The problem here lies in the fact that aid was continued and is available even today in Germany even though she has had a persistent surplus in her balance of trade. It seems in this case, as in other cases, that once temporary aid was given

⁹⁰Erhard, Prosperity Through Competition, pp. 232-238.

to a particular sector, as the neo-liberal theory permits, it is hard to withdraw the aid when the crisis has been met. Or it seems temporary aid has a way of becoming permanent. True, part of the export aid was taken away in 1956, but only part.

Again, it would be well to remember that Erhard was not free to enact his policies due to the power of Adenauer. Basic law gives the Chancellor the rule in foreign policy. It is also well to note that due mainly to Erhard's work, Germany has reached a high degree of liberalization in her foreign trade, a convertible currency, and a considerable degree of international credit. In parts at least, therefore, Erhard has been able to win some victories for neo-liberalism in the realm of foreign trade.

Erhard's ideas on international economic integration, a major part of the neo-liberal theory, was stymied by higher authority and prior commitments. The text of this chapter bears this point out clearly. However, it would seem to be a safe assumption that Erhard will continue to battle for his ideas in this particular area.

CHAPTER VIII

SUMMARY

Ludwig Erhard's German neo-liberalism is a free market economic theory which originated in the 1930's. German neo-liberalism is based on classical economics with provisions for the intervention of the state. No state intervention, however, should interfere with the price mechanism. The German neo-liberals depart from the concepts of the classicists who rely on the invisible hand to assure harmony.

Erhard's free market theories extend also to the international realm. Erhard proposed that all economies of the free world should work on the law of technological comparative advantage in foreign trade. Erhard saw the EEC as a hindrance to free world wide trade and felt the EEC could only lead to a discriminatory trading bloc against other nations of the free world.

Erhard's ideas, however, were never completely tested within the German economy due to opposition by Adenauer. Adenauer had grown up in Germany when all nations of Europe were engaged in autarkic economics in an effort to attain economic power and status. Adenauer worked for the growth of the EEC and favored a united Europe under supranational controls. This European union favored by Adenauer excluded

the United States and Britain, but included the French in all agreements.

This difference in thought between Adenauer and Erhard led to two schools of economic theory within Germany. Erhard had his free market theories and Adenauer had his autarkic theories. Erhard was concerned with Germany in a future free world of free markets. Adenauer was concerned with Germany in the future of Europe and also the possibilities of gaining a power position in Europe by appeasing the French. Erhard's ideas, no doubt, had some backing or Adenauer could have readily disposed of him. Much of this backing came from the Americans. However, Erhard's policies were hindered as Adenauer commanded the respect of Parliament and therefore was in a better position than Erhard to implement his ideas.

Erhard desired to break the German ties with the BEC but such a movement would have possibly tended to cause Germany to drift towards the United States and Britain. This possible German consideration of the Americans and British would have caused trouble from de Gaulle of France and could have shattered the attempts at friendly relationship between France and Germany.

De Gaulle also grew up in an autarkic Europe and, hence, his ideas were of an autarkic nature as were Adenauer's. It seems probable, however, that both Adenauer and de Gaulle were using their autarkic policies in an effort to gain economic power within Europe.

This curious present day battle of ideas in Germany, as well as in Europe, is taking place within a European continent economically stronger and more productive than ever before. Germany, divided in itself, is stronger than ever before as well. This new found economic strength of the various European economies seems to find its basis in the European industrial complex which possess a high degree of technology. At the same time men like Adenauer, Erhard, and de Gaulle battle to decide how each country can use its new strength to achieve maximum advantage.

RECOMMENDATIONS

This conflict of ideas between Adenauer and Erhard has only been under way since 1949 and began to pick up momentum in the middle 1950's. As a result it is uncertain which theory Germany will follow in the future. Therefore, it is recommended that economists study the economic application of the ideas of Erhard and Adenauer in the future years to determine what economic policy Germany and Europe will accept.

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