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THE CONCEPT OF THE SOCIAL MARKET ECONOMY AND ECONOMIC POLICY AS THE FOUNDATIONS OF ECONOMIC GROWTH IN THE FEDERAL REPUBLIC OF GERMANY, AFTER WORLD WAR II

INTRODUCTION

World War II had an enormous impact on the condition of the Western European economies[1]. The war-time devastation brought about the disintegration of the majority of these states, however the extent of the said disintegration was not uniform and depended on the extent of ravages. In terms of the economic potential, which survived the war, the economy of Great Britain was in relatively advantageous position vis a vis those of its continental partners and competitors: West Germany[2] and France. The loses of Great Britain in WW II amounted to 5% of the value of the share capital in the year 1938[3]. The bombardments completely destroyed 210 thousand building and damaged 250 thousand. The casualties of war amounted to 357 thousand

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[1] I. T u r n e r (Ed.), *Reconstruction in Post-War Germany*, Oxford 1989.

[2] In the period 1919-1924 Great Britain was stronger in terms of the economic potential than Germany, however in the period 1925-1931 the situation changed. Later on, in the period 1932-1934 the British used their privileged position on the Empire's markets to regain primacy in the Western Europe. Later on, Germany, thanks to the competitiveness based on the war economy once again moved past Great Britain.

[3] T. B a r n o, *Investment Industry – Has Britain Legged?*, "The Banker" 4(1957), p. 227.

persons, and were two times lower than during the World War I. However, there merchant navy was profoundly destroyed, in a manner consistent with the Nazi war plans. In order to disintegrate the food provision system of the British Isles (to make Great Britain capitulate), Germany intended to completely eliminate the British fleet. The Nazis were able to meet that target to a large extent, and the tonnage of the British fleet stood at the 75% of the pre-war level.

The situation of the French and German economies was incomparably worse. The French economy suffered losses[4] which were two times higher than the country's GDP volume in 1938. During the war France lost 12% of labor force. According to the calculations of the French economists 2/5 of investment goods and about 1/5 of the share capital (at the value as of the end of 1938) was either purloined or destroyed by the German occupiers. The largest losses were observed in the communication network, ports, roads, and residential housing. Of the 12,6 million of residential houses, 455 thousand were completely destroyed and 1,72 million partially damaged. In 1944 the volume of industrial production in the liberated part of the country stood at 1/3 of the pre-war level. The largest losses were observed in the chemical industry, where the productive capacity was reduced by 45%. French merchant navy also suffered significant loses. In 1944 its 850 thousand GRT, hardly compared to 2,9 million GRT in 1938. The losses incurred by the French merchant navy made the country dependent, for the longer period, on the American and British ships for the transport of food, materials, and technical equipment. Costs of such shipments amounted annually to 600 billion francs and constituted sizeable burden on the French balance of payments.

One of the consequences of the Germany's defeat was large shrinking of the country's territory. The area of West Germany, after WW II constituted only 53% of the German territory in 1937. The country's partition into occupational zones, has cut through the hitherto traditional division of labor between eastern and western regions of the country, and consequently necessitated the creation in the West Germany of the number of manufacturing branches which were earlier located in the Eastern parts of the country. The losses incurred by the German industry, due to the war-time destruction and dismantling of assets are estimated at 18.2% of the global value of share

[4] W. C. Baum, *The French Economy and the State*, New Jersey 1957, p. 15-25.

capital. In 1946 the industrial production of the West Germany stood at 1/3 of the pre-war level. The most important industrial branches ceased to exist. Smelting of steel has declined sevenfold compared to the year of 1936, extraction of black coal declined by 2.2 times, the tonnage of merchant navy decreased sixfold. On the other hand we have to remind that, the value of productive assets located in the West Germany was – as of 1948 – significantly higher than before the outbreak of war. Intensive buildup of industry's productive capacity was taking place almost until the Third Reich's ultimate defeat. Even as late as in 1944 investments in the economy were much higher than the total amortization write-offs. As it was taking off after the war the West Germany's economy possessed not only extensive but also modern productive apparatus. Over 11% of the productive assets were younger than five years old, and 34%[5] younger than 10 years old. The Ruhr Basin became part of the West Germany and with it the entire heavy industry, which formed the foundations of the German industry. Other chief industrial centers of historic traditions and monopolistic or oligopolistic enterprises of strategic importance (of 85 largest German enterprises 61 were located in Western zones). The reforms conducted and the policies undertaken allowed to achieve dynamic growth in industrial production and in exports. When the production level observed in 1951 is set as 100, in 1995 the index amounted to 190, signifying that the production was by 90% higher than in 1936. In the same period exports of the Federal Republic of Germany grew from 67 million USD to 554 million USD[6].

I. CONDITIONS AND GENESIS OF THE SOCIAL MARKET ECONOMY IN GERMANY

Each and every debate on the Germany's development path after World War II should contain the analysis of historical conditions and opinions which were imprinted on the character of institutions created there. At the beginning of the 19th century Germany was one of the last countries to undergo early industrialization. Its was poor and chiefly agricultural land, one divided into numerous, often mutually hostile, countries. The acceleration of

[5] *Vierteljahrshefte zur Wirtschaftsforschung*, "Heft" 2(1956), p. 133.

[6] H. Giersch, K. Paque, H. Schmieding, *The Pading Miracle. Four Decades of Market. Economy in Germany*, Cambridge University Press 1992, p. 63-82.

the economic development resulted from two main factors: the espousal of certain institutions which were spearheaded by the French revolution, particularly civil law and commerical law modeled after the Napoleonic Code as well as establishment of the Customs Union, which eliminated internal duties and set uniform external duties[7].

The subsequent stage of industrialization followed the victory over France in 1871 and was tied to the growth of protectionism, strengthening of monopolies, and to the strong position of a state as the promoter of economic modernization. Following the war defeat in 1918, the weak Weimar Republic was created. Economic problems and political chaos bred conditions for the ascent of fascist party, which implemented the program of the corporationist state. Simultaneously, the economic system (particularly after 1939) took on characteristics of a war economy. Though private property was dominant, the economy was centrally managed.

After the World War II, the challenge of building modern, democratic state, arose (despite the negative experiences with the Weimar Republic and with the economic system based on market, significant power of monopolies and traditional strong position of the state). It should be also underlined that the German liberal tradition was very weak, and – few exceptions aside – the country's history was dominated by ideological currents which either had nothing to do with liberalism or were openly anti-liberal.

One of the rare attempts at adapting liberal ideas to German realities, was ordoliberalism in the 1930s[8]. This school of though was established by W. Eucken, A. Müller–Armack[9], F. Bohm, W. Ropke. They prepared some kind of "ordoliberal creed" and presented it in the publication entitled "Organization of the Economy" published in 1937 by Eucken and Bohm. According to ordoliberals[10] the free market economy functioned properly if the economic processes were taking place within the framework of established rules, which assure perfect competition. Therefore the dominant position should be-

[7] S. S w a d ź b a, *Systemy gospodarcze krajów Unii Europejskiej*, Katowice: Wyd. uczelniane Akademii Ekonomicznej im. Karola Adamieckiego w Katowicach, 1998, p. 35.

[8] This concept, which was an intellectual construct of the German liberal, school originated during the war At Freiburg University (hence Freiburg School).

[9] Alfred Müller-Armack (1901-1978) – German economist regarded as a member of the Freiburg School and ordoliberal. Cooperated with universities in Cologne and Munster. In the period 1952-1963 he worked in the Ministry of Economy of the Federal Republic of Germany.

[10] Ordoliberals, the German circles of neoliberals, who hail from the Freiburg Schoo. The term derives from their annual publication "Ordo".

long to "constructed orders" in which state delineates the framework of market activities and takes care of the effective functioning of the market[11]. Among the fundamental principles constituting the market order Eucken enumerated:

1. Existence of functional price mechanism, which implies lack of administrative involvement of the state in the process of setting prices,
2. Lack of inflationary price movements, coupled with monetary policy which stabilizes the value of money,
3. Guaranteeing all entities' access to the market,
4. Private property of means of production and of consumer goods,
5. Full control over and full responsibility of owners for their property,
6. Freedom to conclude contracts,
7. Stability of economic policy, in other words, avoidance of sharp changes in the conduct of economic policy[12].

In addition to the above-mentioned principles, which are conducive to establishing the system of competition, ordoliberals proposed four principles of regulations of economic policy:

1. Consistent control of state over monopolies,
2. Income policy,
3. Minimum-prices policy,
4. Consistent economic calculus (protection of scarce natural resources).

To say the least the fascists' coming to power wasn't coherent with the application of the ordoliberal principles in the economic policy. Therefore economic liberalism was able to develop in the West Germany not sooner than after the World War II. Such an orientation begot in turn the concept of the socio-economic order known as social market economy.

It should be noted that, during the first post-war years, the programs of political parties were dominated by the prevalence of socialist ideas. However, Americans firmly opposed the institutions of a planned economy, as Ludwig Erhard also did[13]. According to W. Sartorius[14] the decision to

[11] S w a d ź b a, *Systemy gospodarcze krajów*, p. 36.

[12] Th. H. Jorg, *Społeczna gospodarka rynkowa*, Warszawa: C.H. Beck 1995, p. 17-19.

[13] Ludwig Erhard was a chief of the West Germany's economic team, and subsequently on one of the Federal Republic, altogether for 15 years. After World War II he became an economic advisor of the American occupational forces in Bavaria. In the period 1949-1963 he served as the Minister of Economy, and subsequently as a deputy Chancellor and Chancellor of the Federal Republic of Germany.

[14] W. S a r t o r i u s (red.), *Socjalna gospodarka rynkowa; jak to robią Niemcy*, Warszawa: Fundacja im. Friedricha Eberta 1992, p. 29.

espouse economic system known as the social market economy was arrived at with the conviction that the market economy is more effective than the centrally planned one. The past experiences attested to the fact that excessive reliance on economic liberalism leads to outcomes that are detrimental to the common good, not only from the social perspective but also from the economic one. Therefore, the both extreme solutions were rejected (laisse faire capitalism as well as central management). Simultaneously, Müller-Armack presented the concept of social market economy, one which combines free market with the principle of social welfare[15]. He also introduced the very term "social market economy" to describe the economic system, which – on one hand – accepts the principles of the economic liberalism and of the market economy, while on the other attaches particular significance to social objectives.

– The fundamental principles of the social market economy were formulated by Alfred Armack-Müller in so-called Duesseldorf Theses, published shortly before the currency reform of 1948. Author raised objections to the model of centrally-administered economy, simultaneously underlining that its alternative should be "modern market economy which performs social functions". In order to establish such a system, state has to undertake actions which assure "social welfare". This general principle has been expanded by:

– Creation of such an organizational structure which the dignity of employer is respected, and as a co-worker (contributor) he is entitled to co-deciding, while entrepreneur's initiative and responsibility is not curtailed.

– Creation of such a competitive mechanism, as to make the profit maximization motive congruent with the common good.

– Full-employment policy, which should be tied to a growth promotion policy as to insulate employers from the downturns of the business cycle. The state should use, both loans and fiscal measures as well as engage in direct investment actions.

– Combining respect for the market principles with the policy of bridging the gap in income in order to avoid "unhealthy" differences in incomes and wealth. This objectives should be met by progressive taxation, family benefits, child benefits and housing benefits for those in need. The wage policy

[15] The concept in question opted for the free market as the most effective economic system, while at the same time accentuated the role of state as of an organ which consciously creates rules of the market game, but at the same time avoids intervening in the market processes.

should be based on collective agreements, with the state guaranteeing minimum wages.

– The government should support inexpensive housing construction, which goes hand in hand with stimulating social thrift.

– The structural policy should espouse promotion and support of small and medium enterprises and create opportunities for social advancement.

Armack-Müller underlined also the fact, that although economic problems come from excessive interventionism, the latter should be counteracted by new, perfected methods of "steering" the economy as opposed to the outright abandonment of the steering itself. He postulated that the state be as strong as possible in the spheres of its operations, while outside of these spheres it exert the lowest possible impact. He also called for constitutional separation of the state competences and of the economic liberty. This was the concept which implied the confluence of competitive economy with sound, but nevertheless extensive (particularly in the social sphere) state interventionism. The program presented by Müller-Armack boiled down to the postulate of "combining the principle of the market freedom with the social cohesion/equity. The Müller-Armack program is regarded as the continuation of W. Eucken's ideas on the optimal economic order. In addition to the liberal tradition it takes into account certain elements which are characteristic of the programs of Christian-Democratic parties (based on the Roman-Catcholic social teachings) as well as extensive program of social protection. From the Church'es teachings Müller-Armack took, among others, the principles of justice, solidarity, and subsidiarity, (which stipulates that actions of individuals, local communities and social organizations take precedence over the activities of states)[16].

The program of social market economy contained numerous detailed actions which aimed at assuring participation of all citizens in the future economic growth and consistently upheld guaranties of social welfare, among others: creation of social structure of enterprises, employment policy based on market principles, equalization of incomes by taxation and family benefits, housing policy and social housing, promotion of small and medium enterprises, spatial planning[17]. The state's actions in the scope of social policy must

[16] Papal encyclicals had impact on the elaboration of the social market economy – *Rerum novarum* and *Quadrogesimo anno*.

[17] T. T. K a c z m a r e k, [and others], *Ludwig Erhard and Social Market Economy*, Warsaw: PAN 2004, p. 56.

be congruent with the “market” principles. The model of social market economy can be presented synthetically as a simplified chart. It’s the core of the social economy in which both spheres – economic and social – are equal to each other.

The role of Erhard in the elaboration and development of the social market economy deserves attention. Similarly to W. Eucken and Müller-Armack, Erhard laid the foundations of his concept of the social market economy, prior to the end of World War II. Subsequently, as a minister of economy, he combined his own ideas with the program of Müller-Armack and started to implement the principles of social market economy in practice.

The program of social market economy was probably one of the strongest factors which had impact on the characteristics of the economic framework of the post-war Germany. Other factors, involved, historical context and existing informal institutions[18]. Among the said institutions we should stress the impact of religion on the economic life and German tradition of strong-often paternalistic – state. The remnants of this tradition entailed common acceptance of extensive state regulations and of sizeable role of the state administration. All this took place amidst pervasive spirit of legalism and trust towards the state as the entity able to assure order and security.
Among other institutions which had impact on the economy, were:

– work ethos and educational ethos, which had beneficial impact on the universal access to education and quality of scientific research;

– traditions in the field of social security (insurance), which facilitated the creation of systemic solutions in this area;

– aversion to inflation, with its significant impact on the monetary policy[19].

In addition to historic and institutional sources of the concept of the social market economy, the said policy was on one hand, reaction to fascism and

[18] Insitutions are understood here in the context of New institutional order. According to definitions created within such a framework, institutions are tantamount here to relatively durable rules. The majority of such definitions stresses the fact that institutions establish framework within which people interact. Institutions consist of informal limitations, formal rules and perception of the two (P. C h m i e l e w s k i, *Nowa analiza instytucjonalna*, „Studia Socjologiczne” 1994, nr 3-4, p. 240).

[19] Stability of the value of money constituted the core objective of the monetary Policy form 1947 on, while in the majority of states governments and central banks espoused more Keynesian approach.

its “war economy”, and on the other to bureaucratic central planning of the totalitarian Soviet Union.

II. ECONOMIC SITUATION OF THE WEST GERMANY AFTER WORLD WAR II

The German economy after 1945 consisted of individual regional economies. There was no single, uniform economic administration. The political and economic uncertainty stemmed from[20]:

– Uncertainty as to the proper state of post-war Germany;

– Creation of four politically and administratively independent occupational zones;

– Quite regular conflicts between military authorities and German administrative agencies;

– Creation of “single economic area” in the American and British zones;

– The effects of de-nazification campaign on the economy, administration and cultural life;

– Legalization of new political parties.

As it was already mentioned, during the first few years following the World War II, the programs of political parties were dominated by socialist motifs. Americans and Erhard (who at that time acted as an economic commissioner of the, initially, American and later also British occupational zone) strongly objected, however, to the institutions of the planned economy.

The rebuilding of the administration in all occupational zones took place in the bottom-up fashion. The Control Council composed of all four occupational powers served as a coordinating body. In 1946 the Common German Financial Council was called into life in Frankfurt a Main, which was the first public institution in so called Bizone (its competences were expanded one year later). Subsequently, Economic Council (legislative body) was established and Executive Council. In 1947 the first common budget was prepared for the Single Economic Area[21].

J. H. Thiele asserts that following the military and political defeat in the World War II, Germany had hardly any conditions for developing the econo-

[20] K. G r i m m, *Socjalna gospodarka rynkowa w RFN: koncepcja, rozwój, problematyka, FFE w Polsce*, Warszawa 1992, p. 21.

[21] S w a d ź b a, *Systemy gospodarcze krajów*, p. 36.

mic processes based on the division of labor. Enormous destruction and decline in the number of qualified employers, made it impossible for Germany to regain its position in the world in the absence of profound reforms.

> […] Germany was consumed by economic and social chaos. War brought about the destruction of housing, industrial and commercial objects, livestock, and almost half of the communication paths. Consequently, the productive potential was reduced, as well as were capabilities in the fields of transport and trade. Situation was further worsened by the initial Allies' policy of dismantling and destruction of key industrial branches as well as numerous restrictions (i.e. on gasoline, oil, gum, mechanical tools) and production quotas (e.g. steel, chemical products, means of transport, textiles). Existing productive capacities were, to certain extent, technically outdated and worn-out[22].

According to other authors the volume of production and the capabilities of modern productive assets in Germany were very low (in the area of American and British zone the production in 1947 was lower than 40% of its volume in 1936)[23]. Dismantling and war reparations contributed to the decline in the productive capacities, as the said reparations involved confiscation of industrial equipment (not to mention the production quota set by occupational authorities). Therefore, in the period 1945-1948 the productive potential of the German industry was utilized to a small extent. In the first half of 1948 the industry producing investment goods utilized its potential in 27.9%. In the resources and extractive industries situation was slightly better, as these sectors worked to meet the orders of occupational authorities, but even there the utilization did not exceed 35,8%[24].

O. Gedymin[25] states that Allies have also demanded that all the patents (about 200 thousand) be handed to them, and expropriated German enterprises from other non-tangible assets (trademarks, licenses). It was the initial objective of the Allies' policy to reduce Germany's industrial production to one half of its 1938 volume. However, the plans to dismantle 1500 factories, were realized on a much modest scale (683 factories were actually dismantled)[26]. H. Bottiger[27] estimates the number of such factories at 918.

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[22] T h i e m e, *Społeczna gospodarka rynkowa*, p. 24.

[23] S. G o l i n o w s k a, *Liberalna reforma w Niemczech zachodnich po II wojnie światowej – wzór dla krajów Europy Wschodniej i Środkowej*, „Gospodarka Narodowa" 1990, nr 12.

[24] The bottom of the post-war recession was significantly below the level observed in 1933, when productive capacities were utilized in 48,9%.

[25] O. G e d y m i n, *Strategie gospodarcze i drogi rozwoju, II Rzeczpospolita, powojenne Niemcy, Tajwan i Chile*, Białystok 1999, p. 62.

[26] O. G e d y m i n, *Kapitalizm niemiecki, szkice o genezie, rozwoju i teraźniejszości*, Białystok 2002, p. 266.

Z. Nowak expresses the opinion that dismantling and industrial restrictions imposed by the Allies were less burdensome than it can be inferred from the debate about them, particularly one presented in the German literature[28].

In the initial, post-war years the burdensome fact of life for Germany was the exports quotas on coal. Germany was forced to sell coal at the price of 11 dollars per tone. At the same time shortages of coals necessitated its imports at the prices which were two times higher. Yet another source indicates that the import prices were three times higher than those in exports, and the losses incurred by Germany due to this price differentials amounted – in the period 1948-1957 – to 6 billion dollars. The positive side of the coal quotas was the need to transport this resource which led to rebuilding of bridges, roads, and most of all railways.

It should be also mentioned that restrictive policy of occupational authorities was soon to be discontinued, with the Allies concluding that the economic stabilization of Europe, to large extent hinged on the reconstruction of Germany. This shift was also effected by the political situation, as the West Germany appeared to be a protective barrier against the Soviet influence.

Certain authors point out to the fact that, despite the war destruction and dismantling West Germany commenced the reconstruction of its economy, with the significantly higher potential than the pre-war one. They said difference is attributed to the changes in the economic potential and structure of Germany's economy which resulted from the war preparations and from the war itself.

As Nowak states "the value of gross capital assets in industry climbed from 51.18 billion DM in 1936 to 71.66 billion DM in the peak of 1943 (at the prices of 1950). The growth in capital assets amounted to 40%. In 1948 the said assets declined to 57.78 billion DM, and were approximately, at the level observed in 1939[29]. The above-mentioned figures reveal that the war destruction and results of dismantling caused the capital assets to shrink by about 13% compared to its value in 1936. M. Tomala presents different data. On the basis of his own calculations based on available sources, he asserts

[27] H. B o t t i g e r, *Die Finanzpolitik wahrend des deutschen "Wirtschaftswunders"*, ERINA-Studie Oktober 1992.

[28] Z. N o w a k, *Zarys czynników rozwoju gospodarczego Niemiec Zachodnich*, Poznań: Instytut Zachodni 1960, p. 36.

[29] N o w a k, *Zarys czynników rozwoju*, p. 46.

that the maximum loses of the German industry in the West Germany amounted to 15% of the value observed in the final years of war. Consequently, as he states, in 1948 the potential of industry in West Germany was 40% higher than that in 1939[30].

The inflow of refuges (about 10 million people) from the neighboring areas constituted large burden on the western occupational zones, as did the obligation to support the occupational authorities. Both these factors led to profound scarcity of foodstuffs. Agricultural production stood at 66-75% of its pre-war equivalent. Malnutrition, sickness, separation of families and general uncertainty as to the further course of developments had profound impact on psychical and mental condition of the population. Poverty had forced individuals to go back to self-sufficiency (subsistence) when it came to producing the goods necessary for survival.

The system of command economy introduced in 1938 brought about serious deformations of the market system, while the development of the military sector seriously changed the structure of productive assets. The continuation of the command-economy constituted also the chief reason of continued stagnation of the German economy during the first post-war years. This system boiled down to rationing of production inputs, commands related to assortment and volume of production as well as setting regulated prices. Allies decided, due to the strong inflationary pressures, to keep prices constant (unchanged).

The fixed prices policy, was coupled with fixed wage-policy, however the purchasing power of wages was low. Moreover, certain goods were available only on the black market, where they were sold at very high prices (for example 1 kg of sugar – 140 marks, 1 kg of flour – 60 marks, pair of shoes – 750 marks), while the average weekly salary stood at 35 marks (or 0.74 mark hourly rate)[31]. Barter and black-market exchange covered almost 50% of transactions in industrial goods. Consequently, wages were oftentimes paid in products. Entire German industry was teeming with barter exchanges. Such a solution allowed enterprises to avoid inflationary threats, and allowed – in spite of the rationing system – to obtain supplies of resources, or even investment goods. Such a behavior led to pervasive hoarding of goods (Warenhortung), which in turn caused the rebuilding of stocks and sustaining of

[30] M. T o m a l a, *Gospodarka RFN: wczoraj, dziś i jutro*, Warszawa: PWE 1979, p. 67.
[31] B o t t i g e r, *Die Finanzpolitik wahrend des deutschen.*

fixed assets was taking place in the form of "signing for goods", and translated into the "sell as few as possible, buy as much as possible"[32]. Fast diffusion of such natural forms of exchange had led, first to the breakdown of the rationing system, and than turned the price policy into fiction, as no goods could be purchased the regulated prices. "It was impossible to increase production, as long as – first of all – workers who received their remuneration in money, were worse off than those who were unemployed, and consequently had time to engage into exchange deals, and secondly as people dependant on current income were crowded out of the market by those who possessed accumulated wealth and material goods. There was also no chance to expand exports, as long export transactions, based in the regulated prices, as opposed to black market or barter exchanges, led to losses.

All this were consequences of delayed inflation caused by the previously introduced freezing of prices and wages, which in turn resulted from the so called "tacit" financing of war preparations by the Nazi authorities. Consequently, such a policy led to gigantic inflationary overhang, evident in the following phenomena:

– gargantuan state debt, public debt of the Third Reich as of 1944 was estimated at 400 billion marks;

– higher than proportional share of households and enterprises in the money supply.

Accumulation of these monetary resources, mostly in the form of bank deposits, with the only guarantee given by the Reich's government. Regulation of production, obligatory supplies, rationalization met with every possible way of overcoming them. Black market, illegal trade, hoarding of goods and corruption, which were becoming increasingly prevalent made the distribution of deficit production inputs and supply goods by the instruments of central planning impossible.

According to Golinowska, the situation in Germany in the end of 1947 was catastrophic. The division of labor was non-existent, money had no importance, laws were generally contravened and there was no motivation for efficient work. Under such circumstances German and occupational authorities decided to implement radical solutions aimed at bringing an end to the chaos.

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[32] H. Osthues, *Einkommensverhaltnisse und private Gelgkapitalbildung in Westdeutchland 1925-1953*, Berlin 1957, p. 10.

In 1946 American and British occupational zones were combined into one organism, called Bizone. In Bizone the local organ of authority was called Economic Council headed by Ludwig Erhard, while political power continued to rest with the Allies.

ECONOMIC REFORMS AFTER 1948

In the German economy the period 1948-1966 is known as "economic miracle". The obvious objective of reform was to replace the war economy with the peace time market economy[33]. There was an obvious need of profound reforms and of the stabilization of the entire economy. According to Erhard "The great chance was embedded in the ability to link the monetary reform with such actions, that could – deservedly – bring an end to the administrative economy and terminate unreasonable pursuit of it in the future[34].

CURRENCY REFORM

The first and most important step towards the recovery of the economy was the currency reform prepared by the occupational authorities in 1948[35] It restored conditions for circuitous movement of social capital, launched production and of investments as well as supplies on the efficiently functioning markets. It freed German enterprises from the administrative controls, which had been developed in the Nazi period, and subsequently maintained and expanded by the occupational authorities.

The starting point was the annulment (write off) of public debt and elimination of inflationary overhang by invalidation of Reichsmark (RM) and introduction of new German mark (DM)[36]. The principles of exchange were as follows:

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[33] T. K o w a l i k, *Współczesne systemy ekonomiczne. Powstanie, ewolucja, kryzys*, Warszawa: Wyd. Wyższej Szkoły Przedsiębiorczości i Zarządzania im. L. Koźmińskiego 2000, p. 68.

[34] L. E r h a r d, *Wohlstand für Alle*, Dusseldorf 1957, p. 21.

[35] B o t t i g e r, *Die Finanzpolitik wahrend des deutschen*, writes that the plan of the reform was prepared as early as in 1945 by Adolf Weber, and the delay in its implementation cost Germany at least 10 billion dollars.

[36] G e d y m i n, *Kapitalizm niemiecki*, p. 263.

– Initial 40 marks were exchanged 1:1, and after two months the quota was expanded by additional 20 marks;

– Employers were, in addition, allowed to exchange – at the 1:1 ratio – 60 marks per employed;

– Public authorities could exchange an equivalent of monthly current expenditures at 1:1 rate, savings and not “apportioned” resources were annulled;

– The excess of money (over 60 marks) was exchanged at 10:1 and later at 15:1 rate;

– Debt and other liabilities were reduced to 10% of their previous value. Bank deposits and cash in circulation (in general) were exchanged at the rate 100 RM = 6.5 DM.

The currency reform came as a shock to the population, as extensive financial resources were taken away from the people (about 90% of money were withdrawn from the market). The best off were these segments of the population who possessed stockpiled goods or material assets and debtors were the winners. The situation of the poorer people was alleviated by extensive social protection system, which distributed 15% of national product.

In the view of Bottiger the currency reform was deeply unjust, as it focused on the money of consumers. All state debts were written off. Numerous companies were closed. Assets, mortgages, bonds, letters of hypothecation, etc. were subject to devaluation. The value of companies shrank by 90%. Citizens lost trust in the national currency. Nobody wanted to entrust money to banks. Reform led to the wave of capital exports, as those who could exchange marks into dollars or Swiss francs took that opportunity. Thanks to the currency reform, shelves in stores were stocked with goods; however, people were unable to purchased those goods. About 50 thousand companies did not survive and unemployment climbed – within the year – from 439 thousand to 1.96 million people[37].

“Public authorities managed – through the currency reform – to eliminate public debt resulting from the inflationary overhang of war financing, and by

[37] H. Bottiger writes that the fact that financial catastrophe was avoided hinged on Fritz Schaffer’s arrival on the political scene (Fritz Schaffer, scientist market researcher in an institute of market research, Minister of finance in the government of the Federal Republic of Germany). According to this author “the reform was not the achievement of L. Erhard, whose merits s were lionized by the Allied propaganda which followed the currency reform” – in: B o t t i g e r, *Die Finanzpolitik wahrend des deutschen*.

placing the burden on the shoulders of those who owned money. The Third Reich's debt increased from 5 billion RM in 1933, to almost 390 billion RM in 1945 (which was five times the value of the pre-war domestic product). Elimination of these obligations enormously strengthened the position of the state in the economic life, and was reflected in progressively growing budgetary surpluses[38].

Unexpectedly high prices (growth by 15%) in the aftermath of the currency reform contributed to quick recovery, as the sellers of goods were able to record unusually high profits. Another source of enterprises' high profits was the Act[39] on opening the balance sheets of enterprises after the currency reform. This regulation allowed for re-estimation of all economic goods, and also created conditions for amortization of current profits of also these assets which were completely depreciated previously. The assets revealed and recalculated at prices of the balance sheets opening day were – regardless of their origin – not subjected to taxation. Enterprises were interested in reporting the real value of assets, or even values higher than that, due to the possible repeated depreciation of old equipment. The Act in question led to radical transformation of the structure of capital of enterprises, most of all to the change in the ratio of fixed assets to working capital, and the ratio of own capital and outside capital (from 1:1 to 4:1 in favor of the own capital).

MAKING PRICES REAL AND THEIR PARTIAL FREEING

The second pillar of the reform involved making the prices of numerous goods and services "real" and partially free. This was an achievement of Erhard who – contrary to American and German politicians, brought about immediate, simultaneous with the money exchange, introduction of the *Act on the economy and price policy*. The Act in question launched Germany's transition to a free market economy. The rationing system was abolished, as far as the majority of goods was concerned, and prices were partially freed (with the exception of basic foodstuffs, textile and resources) and wages were freed as well. It has to be underlined that administrative setting of prices, or

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[38] N o w a k, *Zarys czynników rozwoju*, p. 54.

[39] DM-Bilanzgestez of August 21, 1948.

so called regulatory administration, were maintained in numerous spheres. There was public control of rents, prices of public services, railway fares, prices of steel, coal, oil, The capital market was subject to administration, and the foreign trade was regulated by the state. Price regulation boiled down to administrative establishment of maximum prices. The above-mentioned actions were aimed at protecting stability and conditions for the development of private enterprises as well as protecting the budgets of workers. As, K. Grimm asserts, it is little known that, as late as 1950-1970 the share of prices set (directly or indirectly) administratively and of regulated prices in the official price index of Federal Republic of Germany fluctuated between 60% and 52%.

FISCAL POLICY

The currency reform was conducted in conjunction with other economic reforms, e.g. liberalization of tax regulations, which became fundamental instrument of the investment planning, as well as of shaping the economic processes[40]. In June of 1948 the new regulation was introduced which established temporary tax codes. The tax reform envisaged the reduction of tax burdens on numerous taxes, such as individual and corporate income taxes, tax on productive assets and inheritance tax, as well as excise taxes on tobacco. The tax policy constituted an important instrument of restructuring policy in the German economy. The eminent feature of the existing tax system were inducements for self-financing and development of companies. If enterprises did not earmark profits for own development or for development of the branches indicated by the state, they had to pay large taxes. Such a construction of the tax system led to large investment pressure on the part of enterprises. Subsequent changes were introduced into the tax policy after 1950.

In 1951 the government withdrew most of the tax breaks, which till then encouraged self-financing of investments, and in 1953 higher tax rate was introduced on retained earnings (the maximum rate amounted to 60%), while dividends were taxed at 30%. This in turn, led to high growth in dividends and increased inducements to purchase shares, and therefore to the growth of

[40] F. Neumark, *Grundsatze der Besteuerung In Vergangenheit and Gegenwart*, Wiesbaden 1965, p. 40-50.

the capital market. The capital market's development was further stimulated by the "Act on support for the capital market".

In addition to all those changes in the taxation of enterprises, the government introduced fiscal regulations that aimed at inducing households to engage in short-term savings. The deposits in banks and insurance companies (up to certain level) were freed from income tax, if they were made for more than three years, with partial breaks on the sums in excess of the ceiling quota). Investments in construction were particularly encouraged, as people with low incomes were granted special government premiums equivalent to 25% of the value of savings for the construction of own apartments. Moreover, tax deductions were introduced for the life insurance premiums.

Above-mentioned fiscal moves, coupled with monetary stability, contributed to significant growth in savings deposits (including long-term ones), which in turn resulted in almost ten-times increase in the value of mid-term and long-term loans.

FINANCIAL SYSTEM AND MONETARY POLICY

The shape of Germany's new financial system after World War II, was to significant extent delineated by the occupational authorities. Most of all they aimed at assuring dispersion of ownership and wealth in the banking sector. Allies decided to divide three large banks into dozens of local institutions. Such an objective was achieved by introduction of regulations which prohibited creation of banks which acted in more than one land. However, such system was in effect only until 1952, when the Allied regulations were replaced with the German ones. The process of concentration has finished in 1958 with the creation of three large banks.

After the war, the role of the central bank was performed by the system of lands' central banks and Bank of German Lands. Monetary policy was set by the Central Council of Banks, initially supervised by the allied banking commission. Central Bank was, to a large extent, independent of the government. Bank of German Lands extended loans, i.e. in exchange for commercial paper and lombard loans to the extent consistent with internal and external monetary stability. Bank resorted also to rediscount rate and to setting obligatory reserves[41].

[41] *Fünf Jahre Deutsche Mark – Der Wiederaufbau der westdeutschen Wirtschaft seit der Währungsreform*, München 1954, p. 82-134.

In cases of strong inflationary pressures Central Bank resorted to the instruments of direct control of money supply (issuing directives on the size and structure of loans, rationing of foreign currency transactions). It also extended, to a certain ceiling; commercial loans to the government, however the financing of the public sector deficit with additional creation of money was prohibited.

Since the currency reform of 1948, due to write-off of public debt, signified uneven treatment of various kinds of bank assets, in it of the lands central banks. By the authorities decision so called compensatory liabilities were established which represented either the liabilities of lands' governments towards regional institutions, or of the federal government towards supraregional institutions. These bonds were characterized by low liquidity, and for many years following the reform constituted sizeable share of assets of all banks.

Central bank extended loans to commercial banks in exchange for certain value of compensatory liabilities, under the conditions of their buyout at its every request. This constituted a form of credit rationing, which set in motion additional money creation for these commercial banks which did not posses sufficient assets, rediscount or collateral in the central bank. Loans extended on collateral or in exchange for compensatory liabilities, were of transitory nature. They served to finance projects (housing construction, new jobs) which were to be implemented on the basis of long-term funds derived from the public sector. In 1957 German Federal Bank was established, with the organizational framework resembling that of typical European central banks. Deutsche Bundesbank, contrary to almost all central banks on the planet, was awarded far reaching autonomy and specifically formulated objectives (maintaining the value of Deutchsmark). Germany's central banks autonomy was evident among others in their large discretion in shaping monetary policy.

EXCHANGE RATE POLICY

Immediately after the war the mark's exchange rate vis-à-vis dollar was set at the level of 10 cents per 1 Reichsmark (RM). Even the allies themselves regarded this rate as the punitive one, since it did not reflect relations of domestic prices to global ones. Immediately before the currency reform Americans introduced the exchange rate of 30 cents per Reichsmark, and this rate was sustained also against Deutche Mark, though "special" exchange rates were applied in the case of trade in certain natural resources. Independent rates were established vis-à-vis the American and British currency, however when the Federal Republic of Germany was established the exchange rate of DM was aligned vis-a-vis the cross exchange rates of the three Allied countries. Hence, the Deutche Mark was devalued by 20% and British Pound was devalued by 30%, Exchange rate was set at the level of 0.238 of dollar per 1 Deutche Mark. The lower depreciation of Mark than that of the Pound resulted from the conviction expressed by L. Erhard that the weakened German economy should not be exposed to excessive competition from the global economy. Subsequent business cycle developments corroborated the wisdom of such reasoning. The full convertibility was introduced no sooner than in 1957.

ATTEMPTS AT DE-MONOPOLIZATION

Founding fathers of the post-war economic system of the Federal Republic, underlined that the market economy could function properly only when the proper degree of competition was assured. They also stressed, that competition not only allowed to achieve economic objectives, but also created foundations for the attainment of social and political ones.

"Initial decisions on de-monopolization were taken not only because of the creation of the market mechanism but due to the strength and importance of the German conglomerates, during the war effort. De-monopolization started with the dissolution of three largest German concerns (so called special cases): IG-Farben, coal and steel complex Montana, and the banking system"[42]. Three large banks of the Third Reich period were divided into 32 regional banks. It should be further stressed here, that as early as 1952 three former German banks reestablished their operations in the West Germany: Deutsche Bank, Dresdner Bank and Commerzbank.

In 1947 American authorities introduced *Act on the continuation of dissolutions of concerns, and on the de-cartelization of the German economy.* In 1948, 1100 cartel agreements were dissolved and penal proceedings were introduced against any attempts at forming cartels. Americans aimed at also at removing limitations on the conduct of economic activity by introducing – in their occupational zone – regulations on economic freedom. However, in the face of the pressures from the small entrepreneurs, the governing body

[42] G o l i n o w s k a, *Liberalna reforma w Niemczech*, p. 44.

continued to maintain certain restrictions in this field. Few years later, there were real few traces of the de-concentration and decartelization attempted by the Allied states. Following protracted waiting period (so-called 7-year war on the antimonopoly act), the *Law on counteracting the limitations of competition* was introduced in 1957. At the time of introduction, this Law was referred to as "social constitution of the market economy" because of the role ascribed to proper protection of competition.

The said Law has abrogated the de-cartelization regulations, introduced by the occupational authorities. On the other hand the Law has introduced numerous exceptions and possibilities of obtaining licenses for the creation of cartels. Only benign supervision was envisioned to be applied to enterprises which had dominant position on the market. According to K. Grimm, different sectors of the West Germany's economy were not exposed, or exposed only to a limited degree to competition: transports, credit institutions, insurance sector, agriculture, energy sector. Export cartels were particularly privileged, as they had only to register with the Cartel Office to start operations. Enterprises owned by the public institutions were quite regular occurrence in the Federal Republic's economic landscape. State-owned enterprises were at that time as monopolies or quasi monopolies. The presence of other monopolies was justified on the ground of avoiding the danger of devastating competition, improper utilization of resources or by the need to pursue "overarching" objectives. Under such circumstances, almost every cartel stood the chance of being registered/licensed[43].

"The apparent contradiction, endemic to the discussed regulation, between the need to counteract the excessive concentration of economic power on one hand and willingness to accept it in the name of economic efficiency, higher rate of growth and free entrepreneurship on the other, wasn't ultimately eliminated"[44]. The quick process of concentration was also accompanied by the rapid growth in the strength of joint-stock companies. All the major industrial branches were captured by monopolies.

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[43] G r i m m, *Socjalna gospodarka rynkowa w RFN*, p. 246.

[44] *Wirtschaftspolitisches Wirkungen des Kartellgesetzes*, "Wirtschaftsdienst", August 1958, p. 426.

FOREIGN TRADE POLICY

Imports: Immediately after the war, foreign trade policy in Germany was a sole responsibility of Americans. They set limits on import and export prices, while all the transactions were calculated in dollars. Because of the lower competitiveness of German goods vis-à-vis their American counterparts, German exports were discriminated. Import quotas served to protect domestic production, not to balance the balance of payments.

After the currency reform, German administration attempted to liberalize imports in order to upgrade the competitiveness of German goods. In 1949 import restrictions were lifted in case of goods (about 60%) and licenses. However at the beginning of 1951 these steps were reversed thanks to the recovery of the foreign trade caused by the Korean War. It was only after 2-3 years, when the German economy had improved, that the liberalization of exports was reinstituted.

Exports: At the same time Germany was engaged in the active export-promotion policy. Numerous instruments of intervention were applied, such as: export loans, guarantees for export loans, tax breaks for exporters, foreign currency denominated “bills”, Bilateral agreements.

Tax breaks and tax exemptions were extended, in various forms, to producers of export goods and services, as well as to trade firms engaged in exports. Tax exemptions were applied in the case of turnover tax (and insurance tax, while tax breaks involved reduction of the exporters taxable profits, and the creation of reserves wasn’t required.

The credit insurance, offered by the Hermes insurance society on the private market (but covered by the governmental guarantees), constituted an important export promotion instrument, which had significant impact on the growth of German exports.

According to Tomala[45] another important instrument which contributed to the stimulation of the external demand was competitiveness of West Germany’s products resulting from low wages. Trade unions cooperated in this sphere with employers, recognizing that low price of goods constituted a condition of successful export expansion. The said expansion was further facilitated by the West DM position on the currency market (low exchange rate vis-à-vis dollar).

[45] T o m a l a, *Gospodarka RFN*, p. 67.

The structure of the West Germany's industry inherited after the World War II was also highly conducive to exports' success. In the years 1933-1945 productive assets in the "resources and extractive industries increased by 60.8%, in the branches producing investment goods by 42,8% an in the consumer goods branches by mere 14-18%. The regional structure of the West Germany's industry, resulting from the border shifts, turned out to be highly beneficial for the economic expansion. Rhine has become the main waterway of the Federal Republic of Germany, and the country's industrial centers were localized closely to their French, Belgian and Dutch counterparts. It was also very important for the expansion of exports that at that time West Germany possessed excess productive capacities compared to the domestic demand, particularly in the production of investment goods, which encountered at that time highly conducive business trends in the world markets[46]. Another welcome development came from the sharp increase in the demand for exports caused by the outbreak of the Korean War.

INVESTMENTS

Investments were among the factors, which contributed after the war to the strengthening of the production potential, and consequently to the swift reconstruction and growth of the Federal Republic's of Germany economy. Compared to the other countries of Western Europe, Germany posted the highest investment rate (share of investment outlays in GDP), and the lowest share of consumption in GDP. While the investment rate in the Great Britain hovered around 11-13%, in France stood at the level of 17% in Germany it amounted to 24%[47].

Internal financing of enterprises played an important role in financing of Investments, and was linked to extensive privileges for investors and savers (loans for housing construction, tax exemptions and tax breaks). This form of financing contributed to annual investment expenditures of 13 billion DM (or 40-60 % of net investments). In addition to internal financing, short term loans based on the issuance of money played – at the beginning of the currency reform. According to Nowak, capital market was a secondary source of financing of investments in the Federal Republic of Germany, and its role

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[46] N o w a k, *Zarys czynników rozwoju*, p. 80.
[47] General Statistics OEEC, „Statistical Bulletin" (Paris) VII, 1958.

has been taken over by the government's tax policy. "Therefore the contradiction aroused between investments-wise economic policy on one hand and the doctrine of social market economy on the other, causing the German economy to reveal the characteristics typical of the centrally commanded economy not of the market-based competitive one"[48].

Public funds constituted yet another important source of investment financing. In the period 1950-1956 between 6 and 15 billion DM from the budgetary surpluses were earmarked annually for the investment expenditures. This amounted, annually, to 25-40% of the total net investments. What was typical of the public investments in the Federal Republic, was the fact that only their small share was observed in typical state investment activity (public construction, development of communication). Sizeable part of the money in question was located – in the form of financial assets in various credit institutions. Public funds consisted of expenditures of federal budget, budgets of lands and of specialized credit institutions (with combined capital, foreign aid and private funds).

In the period 1950-1956 the share of private savings oscillated between 2.5 – 6.5 billion DM annually, and did not exceed 20% of total investments. The following table depicts the sources of investments funds in the West Germany:

Table 1. Sources of investments financing (net) in West Germany in the period 1951-1956 (in DM)

	1951	1952	1953	1954	1955	1956
Budgetary funds	5.8	6.9	9.7	10.6	12.9	15.8
Internal financing	12.9	10.9	9.6	9.4	12.1	12.6
Private savings plus capital market	2.7	4.5	5.8	6.9	6.8	6.6

Source: N o w a k, *Zarys czynników rozwoju*, p. 116.

[48] Tamże, p. 121.

Compared to the pre-war period not only the volume of investments changed but also their structure. The focal point shifted mostly towards industrial investment. Gross investments were growing from period to period, and in 1957 were 2.7 times higher than in 1950. However, not every industrial branch participated to the same extent. The non-ferric metal industry and automobile industry in 1956 posted investment volumes over 5-times higher than in 1959, the growth in steel, petrochemical (oil), iron products and tin products observed four-fold growth, while the growth of 300-400% was observed in chemical, steel constructions, shipbuilding and electrotechnical. In the apparel industry growth reached only 209%, in the foodstuffs industry 150%, while in textiles and processing of wood it was even lower than that. In the industrial investments structure of West Germany, similarly as in the case of Great Britain and France, the share of outlays on equipment and machinery has increased, while relative decline was observed in the share of productive establishments, which led to reduced capital efficiency of production and increased efficiency of investments. In spite of sizeable war destruction, technological structure of investments in the West Germany only slightly differed from the one in other countries. It stemmed, to large extent, from the fact than in main industrial branches, only relatively few new productive objects had to be constructed in order to achieve noticeable growth in productive capacities. For example, majority of the chemical industry used the floor space of old military chemical factories. To a large extent the same was true in the case of machinery building industry. Significant role in investments (as it was in the Great Britain) was espoused by such branches which quite recently were at the stage of scientific experiment. Among those were: chemical, electronics, and electro-technology industries. An array of profound structural changes in the West Germany's industry, which later on proved to have significant impact on the development of individual branches, had been commenced during the war-preparation period and during the war. The newest achievements in the sphere of science and technology, and their practical application in production turned out to have serious impact on the post-war process of reconstruction of capital in the West Germany's economy. For producers application of the most recent technological solutions was tied to the issue of increasing competitiveness of their products, to the opportunity of reducing production costs and to the struggle aimed at reclaiming the market shares lost during the war.

High investment rate and an array of investment projects created foundations for notable growth in industrial production. Particularly high growth was observed in investment goods industry, and in the production of electricity[49]. The German investment goods industry constituted a foundation of the economic recovery as well as of Germany's expansion on foreign markets. The dilemmas which permeated the policy of investment financing are best depicted in the opinion of W. Roepke, "[…] the following possibilities were present: a) to use inflationary financing of investments and resultant growth of prices to cause the rise of "compulsory" savings on the part of population. b) to apply fiscal measures (taxes) aimed at achieving "compulsory" growth of savings and earmark these savings for investments. c) to assure growth of self-financing d) to cause investments to be financed from voluntary savings. Federal government decided to focus on the b and choices. The a) option, which was deemed the most dangerous for the economy was rejected, while these placed under the d) heading were to develop in the future[50].

FOREIGN ASSISTANCE

There is an opinion that differences between German and American sources (chiefly on the scale and significance of assistance) make the evaluation of the post-war external assistance for the German economy difficult. However, the most fundamental facts related to the Allies policy vis-à-vis Germany are quite evident. Economic assistance started as early as in 1945[51]. In 1947 American government offered assistance to the Tri-zone within the framework of Government Appropriations for Relief in Occupied Areas (GARIOA) financed from the federal budget. This assistance amounted to 1.7 billion dollars. The GARIOA'a assistance was most of all earmarked for improving the provisions for population in three occupational zones and took shape of supplies of goods. It was used mostly for purchases of foodstuffs, and partially for agricultural supplies (seeds, fertilizers and oil products). This was the period in which Allies' policy was dominated by the principles defined

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[49] M. B e a u d, *La croissance economique de l'Allemagne de l'ouest (1949-1962)*, Paris 1965, p. 47-67.

[50] W. R o e p k e, *Ein Jahrzent sozialer Marktwirtschaft in Deutschland und seine Lehrem*, Kolonia 1958, p. 15-16.

[51] N o w a k, *Zarys czynników rozwoju*, p. 125; G o l i m o w s k a, *Liberalna reforma w Niemczech*, p. 46; H. C. W a l l a c h, *The Mainsprings of the German Revival*, Yale University Press 1955, p. 335.

by Morgenthau, therefore the assistance did not cover resources and industrial equipment.

Additional assistance (chiefly in the form of foodstuffs) arrived from British institution – United Kingdom Contribution. According to Gedymin the total value of assistance from the said institution reached 2.5 billion dollars and continued until 1952.

The character of the assistance offered changed concurrently with the modification of American policy towards the future of the German economy, in response to the conflict with the Soviet Union (which appeared to surface as early as in 1946). The focal point shifted from the food assistance to the one aimed at economic reconstruction.

The United States entrusted to the West Germany the key political role in the system of West European States. From an economic point of view, this choice was founded on the enormous – despite the war destruction and dismantling – economic potential. Rapid activation of this potential would translate into equally fast strengthening of the Western bloc. The materialization of such plans took place within the framework of the Marshall Plan proclaimed in 1947 (officially European Recovery Program – ERP). The said plan started on April 3 1948 and was completed on June 30, 1952.

Literary sources differ when it comes to estimating the scale of assistance offered to West Germany within the framework of Marshal Plan (1.5-2 billion dollars)[52]. The bulk of assistance was offered in the shape of supplies of deficit goods and resources sold on long-term credit. Another part of supplies came in the form non-returnable loans.

Assistance, extended within the framework of the plan discussed here, was directed chiefly there when there was a danger of the stalling of recovery process. The issue of balance of payments was deemed particularly sensitive. Germany couldn't on its own secure minimum supplies of resources required to set the industry in motion – since immediately after the currency reform exports were not sufficient to finance imports necessary to jump – start production. In order to use the ERP for financing production and investments

[52] Golinowska writes about 2 billion dollars, informing however that R. Klumper estimates it at the level of 1.4 billion dollars (in: *Wirtschaftgesichte der Bundes Republik Deutschland*, Stuttgart 1985), and G. Hardach – 1.6 billion dollars (in: *Internationale Wirtchaftspolitik: Der Marshall-Plan in Deutschland 1947-1952*, *Schriften des Vereins fur Sozialpolitik*, red. D. Petzina, Berlin 1990). E. Dworak refers to over 1.5 billion dollars (quotingn) – G. Hardach, *Der Marshall-Plan, Auslandshile und Wiederaufbau in Westdeutchland 1948-1952*, München: DTV 1994).

the following mechanism was used: import of supplies paid with dollars was sold to domestic enterprises, which were located on governmental accounts in banks. In such a way the so-called fund of equivalent ERP, which was used to finance investments in the most important branches of resources and supplies producing industries, as well as coal and energy sector. This allowed to eliminate so-called bottlenecks in the whole economy. As Z. Nowak points out – the situation was paradoxical, since the branches that earlier were grappling with the dismantling of equipment, suddenly witnessed western money being used for purchasing modern, more economically effective factories[53].

The total volume of long-term loans extended from the "fund of equivalent resources" in the period 1948-1954 reached about 4.4 billion dollars. They allowed to finance only few percent of gross investments (in the record high year of 1950 – 9%), but the concentration of these resources on selected projects allowed to achieve significant qualitative effect. Since the capital and interest repayments served as a base for next rounds of credits, the assets of ERP continued for many years to play an important role in financing of investments.

In addition to the already mentioned GARIOA and ERP, the U.S assistance to West Germany involved also access of the Federal Republic of Germany to all technical and scientific advancements of the western industry. To that purpose American side created special assistance fund – Technical Assistance Program.

The value of entire assistance offered by the three Allied countries is estimated at about 4.4 billion dollars (in it 3.6 billion dollars from the United States). At the same time Germany was burdened with: reparations, repayment of the pre-war debt, damages for the nationalities which suffered from the war and also participation in mutual economic assistance of Western Europe.

Golinowska, in an attempt to evaluate external assistance for Germany, asserts that – if we look at it from the purely accounting perspective – burdens placed on Germany were higher than the value of incoming assistance. "However closer look at the economic and political facts in the post-war 10-15 years in the West Germany allows us to risk an assertion that foreign

[53] N o w a k, *Zarys czynników rozwoju*, p. 127.

assistance to West Germany had sizeable importance as an important qualitative factor for the economic reconstruction of the country[54].

According to Nowak the provisions of basic goods on the critical juncture cause – via the multiplier effect – it allowed for the economic growth to exceed the value of this assistance by many times. Its fundamental role was to eliminate week links in the economic chain, which – in the absence of assistance – could have constituted obstacles for the reconstruction process.

Grimm, on the other hand, points out to the not only economic but also political and psychological value of foreign assistance for Germany. ERP plan has also contributed to promoting the awareness of the neighboring countries that supporting or even strengthening of the German economy was in line with their interest. W. Sartorius adds "foreign assistance, particularly one from the United States, contributed to the currency reform's achieving its proper objectives, or to the fast economic recovery[55].

REGULATIONS OF THE SOCIAL SPHERE

Even before the creation, in 1949, of the Federal Republic of Germany, certain social safeguards had been reinstituted – out of necessity – such as: pension benefits, communication insurance, sick-benefits partially on the basis of the Weimar Republic's regulations. Another move entailed establishment of so-called compensatory fund, which served to finance part of losses in wealth incurred by the people resettled from the areas of the former Third Reich. Benefits were also granted to the victims/casualties of war. In addition to that, in August 1948, the regulation on temporary relief was introduced, which was used to pay out first compensations for the resettled, refugees, and people who suffered from the currency reform. The concept of the social market economy implied that the best way to improve the fate of the population was to assure rapid economic growth.

In the 1950s the social protection system was expanded even further. In 1951 the self-government principle was reintroduced into the insurance mechanism, (it was eliminated by the Third Reich). This was a compulsory system based on the employees' and employers' contributions. It offered protection from three types of risk: old-age, work accidents and sickness. The

[54] Golinowska, *Liberalna reforma w Niemczech*, p. 46.

[55] Sartorius (red.), *Socjalna gospodarka rynkowa*, p. 11.

system was operated by insurance companies. In 1957, so called “dynamic pension” was introduced, which signified adjustment of benefits to the decreasing level of incomes. At the same time insurance was extended to cover farmers, equalized insurance benefits of industrial workers and white collar workers. Under the pressure of industrial workers’ strikes sickness benefits were introduced. This juncture points out to the contradictions of interests between expanding social state and liberal market economy.

While discussing social moves of the Federal Republic of Germany, one cannot overlook the support extended to housing construction. In 1991 the Act on housing construction was introduced, and in 1952 Act on promoting housing construction. These regulations created framework for the sizeable assistance of state in this field, inter alia, via supporting savings for housing, extending cheap housing credits, applying exemptions and tax breaks on all housing-related expenditures (rents, furnishing). Moreover, the social housing construction financed from budgetary surpluses was pursued in Germany, thanks to which about 1.5 million appartments were built in the period 1950-1953.

MANIFESTATIONS AND CHARACTERISTICS OF THE “GERMAN ECONOMIC MIRACLE”

1950s, particularly the period 1953-1958, were subsequently recognized as “golden years of the post-war period’. Towards the end of that period the majority of the war destruction was removed and economy was undergoing unprecedented boom. In the period 1949-1959 average real GPP growth amounted to 7.4%, with the average investment rate standing at 24.2% (in current prices). In the period 1950-1953 the extensive housing construction program was completed, in half financed from the public coffers. In the 1960s, the dynamic growth slowed down, to 4% yearly average in the period 1960-1971. The signs of recession surfaced in the economy, which constituted the reason of the Erhard’s government collapse, and taking power (1966) so-called great coalition (SPD and FDP). The economic indicators for the period 1950-1975 are presented in the table 2.

Table 2. Main macroeconomic indicators (1950-1975)

Year/ Period	Real Gross Social Product (billions of DM)	Real GDP growth rate	Net invest-ments	Population (in thou-sand)	Employ-ment (in thou-sands)	Unem-ployment rater	Real yearly wage per employee (in DM)
1950 1950-1955	143.6 –	– 9,5	13.4 –	46908 –	19997 –	10.4 –	
1955 1955-60	224.9 –	– 6.5	18.2 –	49203 –	22830 –	5.2 –	
1960	429.5	–	17.6	55433	26247	1.3	
1960-65	–	5.1	–	–	–	–	
1965	545.0	–	18.5	58619	26887	0.7	
1965-1970	–	4.7	–	–	–	–	
1970	679.0	–	17.1	60651	26668	0.7	
1970-75	–	1.7	–	–	–	–	
1975	750.7	–	10.7		61832	25350	4.8

* Until 1955 in prices of 1962, since 1960 in the prices of the year 1970; ** in the prices of the year 1970; source: G r i m m, *Socjalna gospodarka rynkowa*, p. 33.

The table presented above indicates that in the period 1950-1975 FRG posted high (though declining in the long-run) rate of growth. Real Gross National Product grew five-fold, from 143.6 billion DM to 750.7 billion DM.

Average real net income per employed person tripled in the analyzed period, from 3960 DM to 12 138 DM. Population grew from 47 million in 1950 to 62 million in 1975. Real gross social product per capita increased at the same time by 2.8 times – roughly the same magnitude as from the mid 19th century to the World War I (1850-1913). Despite population growth almost full employment was achieved as early as in 1955 (with the unemployment rate of 2.6%)[56]. Data presented in the table 2 reveal, that in spite of improved economic situation thanks to the currency reform and price and wage liberalization, the full stabilization of the national economy wasn't achie-

[56] G r i m m, *Socjalna gospodarka rynkowa*, p. 32.

ved in the period 1948-1951. Average yearly growth in prices amounted to 10%, while unemployment rate stood, as of the year 1950 at the level of 11%[57].

The years 1952-1960, or so called consolidation phase were characterized by high rate of growth in national income (7.7% annual average growth), decline in unemployment (from 8.5% in 1952 to 13% in 1960) as well as stabilization of prices of goods and services.

Stable value of money constituted, from the beginning, an important element of both the Social Market Economy program, and of the economic policy pursued from 1948 on. Its "founding fathers" recognized the stability of the general level of prices as one of the fundamental conditions of proper functioning of the economic system, and perceived persistent inflation as a threat to economic growth.

Characteristic features of the period of intensive modernization of the Federal Republic in the dozen, or so years, following the currency and price reform, according to Gedymin[58] were as follows:

– Fast and stable GDP growth, coupled with constantly declining unemployment rate and very low inflation;

– At least balanced (and in certain period surplus) budget of the public sector;

– Generally undervalued DM, which was conducive to export expansion;

– Intensive investments in human capital on the part of enterprises and public institutions, with particular stress laid on professional training of already employed persons;

– Exports' expansion coupled with strong protectionist efforts;

– High average savings rate and investment rate in the long period;

– Generally- surpluses on the current account;

– Sizeable subsidies from the public funds, on research work and on sectoral policy;

– Rigorous adherence to the macroeconomic stabilization principles and independence of the Central Bank from the government;

– "Corporationist" structures acting as a factor supplementing the activity of institution of parliamentary democracy.

[57] E. D w o r a k, W. K a s p e r k i e w i c z, *Społeczna gospodarka rynkowa w RFN: koncepcja, zasady działania, polityki gospodarcza i społeczna*, Łódź: Omega-Praksis 1995, p. 20.

[58] G e d y m i n, *Strategie gospodarcze i drogi rozwoju*, p. 240.

The scale of state's involvement in the economy, both via income redistribution and the scope of the public domain, was relatively large and dependent mostly on the political factors.

The concept of the social market economy espoused since 1948 by the Erhard's team established foundations of German institutions of widely interpreted modern corporationism, where contradictions between various interest groups were solved or mitigated by negotiations (conducted by representatives of such opposing groups, and aimed at achieving consensus).

The principle of participation was in force, covering different levels of the economy and coherent with the institutions of the parliamentary democracy. Important role in arriving at economic decision was played by the principle of worker's co-decisions "Mitbestimmung"[59].

KONCEPCJA SPOŁECZNEJ GOSPODARKI RYNKOWEJ A POLITYKA GOSPODARCZA JAKO PODSTAWY WZROSTU GOSPODARCZEGO W REPUBLICE FEDERALNEJ NIEMIEC PO II WOJNIE ŚWIATOWEJ

S t r e s z c z e n i e

Początek lat 50. zamyka okres odbudowy gospodarek państw Europy Zachodniej zniszczonych na skutek działań wojennych. W większości krajów został już osiągnięty lub nieco przekroczony poziom rozwoju z okresu międzywojennego. Pod względem tempa produkcji RFN znacznie wyprzedziła swoich dotychczasowych głównych rywali ekonomicznych w Europie Zachodniej – Wielką Brytanię oraz Francję. W okresie 1950-1958 średnioroczne tempo wzrostu produkcji wynosiło w RFN 11%, podczas gdy w Wielkiej Brytanii – 2,6, a we Francji – 6,7%. Powojenny wzrost produkcji przemysłowej RFN, umożliwiający osiągnięcie już po kilku latach wyższego niż przed wojną poziomu rozwoju gospodarczego, nie był zjawiskiem nowym w historii gospodarczej Niemiec. Podobna tendencja wystąpiła w gospodarce niemieckiej w latach 20. XX wieku. Procesy te w literaturze ekonomicznej są określane jako „niemiecki cud gospodarczy" i są związane z koncepcją społecznej gospodarki

[59] The co-decision principle was espoused in the institutional forms based on the serie sof acts and regulations introduced in few years starting from 1951, The act of 1951 related, among others, to the shape of the supervisory boards of enterprises and concerns in the sector of mining and metallurgy. The parities were introduced stipulating that the members of such boards were representing – equally – employers and employees. In 1952 the act on the system of enterprises was introduced, in which the representation of employees in small enterprises was also defined.

rynkowej (SGR). Teoretyczne podstawy SGR stworzyła Szkoła Fryburska, zwana inaczej ordoliberalną.

Słowa kluczowe: Niemcy, społeczna gospodarka rynkowa, wzrost gospodarczy, „niemiecki cud gospodarczy", reforma monetarna, polityka fiskalna, system finansowy i polityka pieniężna, polityka handlu zagranicznego.

Key words: Germany, Social Market Economy, Economic Growth, "German economic miracle", currency reform, fiscal policy, financial system and monetary policy, foreign trade policy.