



Rebuilding Germany

The Creation of the
Social Market Economy,
1945–1957

James C. Van Hook

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JAMES C. VAN HOOK

U.S. Department of State



CAMBRIDGE
UNIVERSITY PRESS

CAMBRIDGE UNIVERSITY PRESS

Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo

Cambridge University Press

The Edinburgh Building, Cambridge CB2 2RU, UK

Published in the United States of America by Cambridge University Press, New York

www.cambridge.org

Information on this title: www.cambridge.org/9780521833622

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First published in print format 2004

ISBN-13 978-0-521-19466-5 eBook (EBL)

ISBN-10 0-521-19466-8 eBook (EBL)

ISBN-13 978-0-521-83362-2 hardback

ISBN-10 0-521-83362-0 hardback

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To Laurie

Contents

Preface	<i>page</i> ix
List of Abbreviations	xiii
Introduction	1
1. Planning for Reconstruction	19
2. The Future of the Ruhr: Socialization, Decartelization, Restoration, 1945–48	53
3. High Hopes and Disappointment: The SPD and the Planning Regime 1945–47	95
4. Ludwig Erhard, the CDU, and the Free Market	139
5. Free Markets, Investment, and the Ruhr: The Korean War Crisis	189
6. The Social Market Economy and Competition	233
Conclusion	291
Bibliography	297
Index	303

Preface

In early 1973, Deere and Company of Moline, Illinois, transferred my father to its European headquarters in Mannheim, West Germany. My parents, with two daughters, aged 7 and 1, and one son, aged 4, decided to live in a relatively remote village in the hills of the Odenwald forest, a village called Wilhelmsfeld, instead of settling among many of the American expatriates in nearby Heidelberg. Without having ever studied the language, without any near relatives who had even so much as been to Europe, and with the experience of only one brief trip outside of the United States, my mother and father resolved to “plunge” into Germany. They deliberately sought out German friends, rapidly learned the German language, and sent my sisters and me to German schools. We returned to Illinois during the summer of 1976, but our experiences in Germany made an indelible impression upon all of us. Unlike my parents, I have grown up with a relatively privileged access to Germany and Europe, a plethora of German friends, and the opportunities to indulge my interest in German history that so many have not had, and that neither of my parents had had at the same age. From the outset, then, I wish to express my appreciation for our experiences in Germany from 1973 to 1976, which greatly shaped my intellectual interests, and perhaps even more important, my intellectual opportunities in the years to come.

My family’s experiences in West Germany had an additional and more specific importance as well. As an American manager from the Midwest sent, in part, to Europe to make “management changes,” my father’s professional experiences nurtured a growing interest in the variants of the free-market capitalist systems of the United States and Western Europe. The West Germans, of course, celebrated their economic model as the “social market economy.” The social market economy combined an overall free market system with generous social provisions and a relatively highly regulated

labor market. My parents' memories of having operated in a different, yet "capitalist," economic system had a great impact on me during my teenage years, as I began to develop an interest in twentieth-century politics and history. The era of "Reaganomics" had seemed to suggest that there could be no real alternative to deregulation and the reduction of the welfare state if Western economies were to relive another period of growth and prosperity. I therefore wished to compare different free-market systems by looking at Europe.

This book examines the development of this West German social market economy. Unlike the social market economy that we have come to know in the late twentieth century, however, during the 1940s these economic policies represented *the* free market model. At a time when most Western economies had turned to Keynesianism, the social market theorists, led by West German Economics Minister Ludwig Erhard, sought to reestablish the legitimacy of the free market. Initially, the social market reforms introduced by Erhard in 1948 worked to dismantle the National Socialist command economy built up gradually since 1936. But eventually, the social market economy extended a "social" free market by nurturing a private capital market, institutionalizing social peace through management-labor codetermination, and introducing an unprecedented anticartel law. Despite several compromises, or perhaps because of them, the social market economy created and sustained the successful postwar boom evident by the mid-1950s.

Many individuals and institutions deserve recognition for having made this study possible. I would like to thank the German Academic Exchange Service (DAAD), the Bankard Fund for Political Economy, and the Albert Gallatin Fund at the University of Virginia for providing the funding for this project. The staffs of the Bundesarchiv in Koblenz, the Friedrich Ebert Foundation in Bonn, the Konrad Adenauer Foundation in St. Augustin, the Chancellor Konrad Adenauer House in Rhöndorf, the Rheinisch-Westfälisches-Wirtschaftsarchiv in Cologne, the Institut der deutschen Wirtschaft in Bonn, the Ludwig Erhard Foundation, also in Bonn, as well as the Public Record Office in Kew, the Churchill Archives in Cambridge, England, the London School of Economics, the Hoover Institution in Palo Alto, California, the U.S. National Archives in College Park, Maryland, and the library at the University of Virginia deserve my special thanks. Mrs. Ann Liese Henle kindly allowed me to use the papers of her husband, Günther Henle. Mr. Ulrich Weisser extended the same kind permission for the use of the papers of his father, Gerhard Weisser. During my stay in Germany, I enjoyed the hospitality of the Anglo-Amerikanisches Institut at the University of Cologne, led by the late Jürgen Heideking and the present

director of the German Historical Institute, Christoph Mauch. I would like to thank the members of my dissertation committee at the University of Virginia, Philip Zelikow, Alon Confino, and Kenneth Thompson, for their excellent advice. I would especially like to thank my dissertation advisor and friend, Stephen A. Schuker who, in every sense of the word, has been a true *Doktorvater*.

While revising what had been a dissertation, I benefited from the support of the British Studies Seminar and Program, under William Roger Louis's direction at the University of Texas, and the German-American Center for Visiting Scholars, in Washington, D.C. Living now in Washington D.C., I have enjoyed access to the German Historical Institute and the surprising collections at the library of the U.S. Department of State.

Portions of this book have been presented at various conferences, such as the conference of the Society for Historians of American Foreign Relations, the Southern Historical Society, the Eastern Economic Association, the German Studies Association annual meeting, and a workshop held at the German Historical Institute in Washington, D.C. during the late summer of 2000. At these conferences, I have profited from the criticism and advice of Volker Berghahn, Rebecca Boehling, Peter Kenen, Georg Schild, Karen Reichert, and countless others. I should also like to thank certain individuals for their friendly insights into the topic of this book, especially Mark Ruff, Jonathan Zaitlin, Lenard Berlanstein, and Alon Confino. I spent two enjoyable years as a visiting assistant professor at Trinity University in San Antonio, Texas, while making revisions. I thank John McCusker for acting as a mentor, providing publishing advice, and for pointing the way to Cambridge University Press. At Cambridge, Frank Smith has been an invaluable editor, and the two anonymous readers provided excellent and much welcomed criticism. I should also like to thank Eric Crahan for helping to guide the process at Cambridge University Press, Ken Karpinski, of TechBooks, for managing the production process, and Chris Thornton, for excellent copyediting. My colleague at the State Department, David Nickles, provided excellent advice very late in the game. Last, but not least, I should like to thank all of my colleagues at the Historian's Office of the Department of State and the Center for the Study of Intelligence for providing such a pleasant and intellectually stimulating setting in which to work.

The arguments set forth about public ownership in the Ruhr in Chapters 2 and 6 first appeared in the article "From Socialization to Co-Determination: The U.S., Britain, Germany, and Public Ownership in the Ruhr, 1945–1951" in *The Historical Journal*, (volume 45, number 1, pp. 153–178).

I should also like to extend my special thanks to the Bundesarchiv for permission to print the tables found in Chapters 4 and 5.

Finally, my parents provided unstinting support all the years I worked on this project and throughout graduate school. My two children, Donny and Sarah, did more than they will ever realize to advance this project, through their good disposition and ability to sleep through the night at very early ages. My wife Laurie, a historian in her own right, has provided both the moral and intellectual support that not only sustained me through the several years it took to research and write a book, but made it fun as well. She has also read through more drafts of this book than I would care to admit. This book is dedicated to her.

The views expressed in this book are the author's and do not necessarily represent those of the U.S. State Department or the Central Intelligence Agency.

List of Abbreviations

ACC	Allied Control Council
ACDP	Archiv für Christlich-Democratische Politik
BA	Bundesarchiv
BDA	Bundesvereinigung der deutschen Arbeitgeber
BDI	Bundesverband der deutschen Industrie
BdL	Bank deutscher Länder
CDU	Christlich-Demokratische Union (Christian Democratic Union)
DGB	Deutsche Gewerkschaftsbund
DIHT	Deutscher Industrie- und Handelstag
FDP	Freie Demokratische Partei (Free Democratic Party)
FES	Friedrich-Ebert-Stiftung
GEAB	German Economic Advisory Board
IHK	Industrie- und Handelskammer
KPD	Kommunistische Partei Deutschlands (Communist Party of Germany)
LES	Ludwig-Erhard-Stiftung
LSE	London School of Economics
NARA	National Archives and Records Administration
OMGUS	Office of Military Government United States
PRO	Public Record Office
RWWA	Rheinisch-Westfälisches-Wirtschaftsarchiv
SED	Sozialistische Einheitspartei Deutschlands (Socialist Unity Party of Germany)
SPD	Sozialdemokratische Partei Deutschlands (Social Democratic Party of Germany)
StBKAH	Stiftung-Bundeskanzler-Adenauerhaus

SWNCC	State-War-Navy Coordinating Committee
VAW	Verwaltungsamt für Wirtschaft
VfW	Verwaltung für Wirtschaft
WSC	Working Security Committee
ZAW	Zentralamt für Wirtschaft

Rebuilding Germany

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Introduction

With the possible exception of Japan, no society has become more associated with its economic system than postwar Germany. The social market economy, introduced by Economics Minister Ludwig Erhard in 1948, ended Nazi-era economic controls, ushered in West Germany's "economic miracle," and offered a socially conscious model of market capitalism. In a society in which national identity had been discredited, the social market economy gradually assumed a political and cultural significance in West Germany that transcended its ostensible purpose as a set of economic policies. Along with serving as an explanation for West Germany's remarkable economic and social success in the decades following World War II, the social market economy became a metaphor for social justice itself.

During the last several years, united Germany's social market economy has come under attack. Now well-nigh synonymous with the western European welfare state, the social market model is blamed for sclerotic rates of economic growth, a regulatory regime that inhibits innovation, and frustratingly persistent high levels of unemployment. After acquiring a well-deserved reputation for fiscal stability over fifty years, Germany now struggles with chronic budget deficits. Indeed, it appears unlikely that the Germans will meet the terms of the "stability pact" (that is, no budget deficit over 3 percent of gross domestic product [GDP] and no overall public debt exceeding 60 percent of GDP) that it forced upon its neighbors as a condition for entry into the European Monetary Union. As Chancellor Gerhard Schröder attempts to implement a set of reforms grandly termed Agenda 2010, it remains to be seen whether the social market economy, as such, will survive. What is certain is that the period in which the social market economy represented an almost unambiguously celebrated model of modern capitalism is past.

Whatever the future may hold for the social market economy, it is clear that it represented a fundamental moment in postwar German history. As such, it has enjoyed a place in the historiographic, political science, and economics literature that point to its larger significance to German society than would ordinarily be the case with economic policy. This is because it has always been invested with a greater meaning and significance. The question has never simply been, was the social market economy an economic success? Rather, the question has always been, did the social market economy represent an adequate response to the overriding imperative of Germans to embark on an economic, social, political, and even cultural renewal in the wake of the moral disgrace of Nazism? This larger question thence served as background to a variety of secondary questions such as, did the social market economy owe its success to the presence after 1945 of the antisocialist Americans? Indeed, did postwar Germany undergo a process of “Americanization”? Or did the social market economy simply represent a return to the “corporatist” arrangements that had characterized traditional German capitalism? In short, how can one situate the phenomenon of the social market economy within the larger context of German history?

One of the great ironies of postwar economic history is how the definition of the social market economy changed over time. Today, it is associated with the European welfare state. In 1950, it represented the opposite. At the end of World War II, most Western societies entered a period in which the state played a greater role in the economy. With a landslide victory in the July 1945 parliamentary elections, for example, the Labour Party in Great Britain nationalized key industries, institutionalized the power of the trade union movement, and provided “cradle to grave” care in the form of the National Health Service.¹ Under the Monnet Plan, adopted by Charles De Gaulle in early 1946, France turned away from its traditional, small-capitalist industrial culture to embrace “indicative planning,” guided by the state, which would transform France into a modern industrialized society able once again to assert power in global politics.² Even in America, the

1. For an excellent survey of Britain under the Labour government between 1945 and 1951, see Kenneth O. Morgan, *Labour in Power, 1945–1951* (Oxford: Oxford University Press 1984); see also Nigel Harris, *Competition and the Corporate Society. British Conservatives, the State and Industry, 1945–1964* (London: Methuen 1972).
2. On French economic policy during the twentieth century in general, see Richard Kuisel, *Capitalism and the State in Modern France: Renovation and Economic Management in the Twentieth Century*, (New York: Cambridge University Press 1981). See also the important biography of Monnet by François Duchêne, *Jean Monnet, the First Statesman of Interdependence* (New York: Norton 1994), especially pp. 147–180. For an excellent analysis of the geopolitical significance of the Monnet Plan, see William I. Hitchcock, *France Restored: Cold War Diplomacy and the Quest for Leadership in Europe, 1944–1954* (Chapel Hill: University of North Carolina Press 1998), pp. 29–98. See also Irwin Wall,

experiences of the New Deal and the war produced a consensus that accorded legitimacy to government intervention in the economy to ameliorate the excesses of capitalism, whether through social security, the GI bill, or a new respect for organized labor.³ After the traumatic experiences of the interwar period, the growing role of the state in Western economies represented an attempt to address the “crisis of capitalism,” seen in the Great Depression, by constructing what Andrew Shonfield would later call “modern capitalism.”⁴ But with the adoption of the social market economy in mid-1948, the West Germans chose another path. Reacting against a statist economic tradition that had reached grotesque forms during Nazism, the social market economy celebrated the market, competition, and free trade. Indeed, economists who supported the social market economy argued that creeping intervention by the state had produced an “organized capitalism” that had paved the way to Nazism. Thus, whereas the rest of Western Europe read Keynes, many West Germans read Friedrich von Hayek.

As West Germany experienced an unexpectedly rapid and prosperous recovery during the 1950s, advocates of the social market economy, such as Economics Minister Erhard, his supporters among neoliberal economists, and much of industry, constructed a founding myth about the social market economy that connected it directly to Germany’s recovery and legitimated it as a fundamental bedrock of West Germany’s postwar democracy. This founding myth, which like most myths contained important elements of the truth, consisted of four basic premises. First, the social market reforms of 1948 represented a radical break with Germany’s authoritarian past. Second, the “economic miracle” was not a miracle at all, but rather the natural and scientific result of the free market, free international trade, competition, and monetary stability. Third, rising productivity, caused by the introduction of free-market relationships, had resulted in rising real wages and thus raised the living standards of average West Germans. Finally, from 1945 to 1948, the opposition Social Democrats had wished to preserve the hated *Zwangswirtschaft* against Erhard’s and Chancellor Konrad Adenauer’s wishes.⁵

The United States and the Making of Postwar France, 1945–1954 (New York: Cambridge University Press 1991).

3. See Thomas K. McCraw, *Prophets of Regulation: Charles Francis Adams, Louis D. Brandeis, James M. Landis, Alfred E. Kahn* (Cambridge, MA: Harvard University Press 1984); Jennifer Klein, *For All These Rights: Business, Labor, and the Shaping of America’s Public–Private Welfare State* (Princeton: Princeton University Press 2003). See also Georg Schild, *Zwischen Freiheit des Einzelnen und Wohlfahrtsstaat: Amerikanische Sozialpolitik im 20. Jahrhundert* (Paderborn: Ferdinand Schöningh 2003).
4. Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (London: Oxford University Press 1965).
5. The clearest statement of this founding myth can be found in three books authored by Erhard himself. See his *Deutschlands Rückkehr zum Weltmarkt* (Düsseldorf: Econ Verlag 1953); *Wohlstand für Alle*,

Though such arguments naturally gained in importance during the elections of 1953 and 1957, they also formed an important component of West Germany's fragile self-image during the 1950s.

Because the social market economy became such an important source of legitimacy for West Germans from 1945 until about the mid-1960s, it is not surprising that it lost much of that legitimacy during the more tumultuous latter half of the 1960s. Like all Western democracies, West Germany experienced a student movement that called into question the received verities of the past. At its most basic level in West Germany, this took the form of rejecting the concept of a "zero hour" (*Stunde Null*) in 1945. The concept of a *Stunde Null* suggested that the collapse of 1945 offered a clean slate upon which to build a new society. To West Germans who had experienced the Nazi period and the occupation as adults, the *Stunde Null* allowed one to establish a clear demarcation between what had taken place in Germany before 1945 and what took place afterward. It therefore undergirded the taboos of the 1950s and discouraged open discussion of the National Socialist past. To younger West Germans entering university during the 1960s, breaking this taboo was urgent. Rather than accept 1945 as *Stunde Null*, these Germans emphasized the continuities transcending 1945. Rather than accept the myth that West Germany represented a break with the past, younger Germans were inclined to characterize West German society as a "restoration" of what ought to have been a discredited system. To be sure, many serious scholars, journalists, and politicians, like Theodor Adorno, Eugen Kogon, and Ralf Dahrendorf, had long been concerned with the extent to which West Germany had failed adequately to reform institutions

(Düsseldorf: Econ Verlag 1957); and *Deutsche Wirtschaftspolitik. Der Weg der sozialen Marktwirtschaft* (Düsseldorf: Econ Verlag 1962). Probably the most well-known academic defense of the social market economy during its early controversies was the work of Wilhelm Röpke commissioned by the West German government in 1950, entitled *Ist die deutsche Wirtschaftspolitik richtig? Analyse und Kritik* (Stuttgart: 1950). A founding myth about the social market economy was also reinforced through the medium of campaigning. Of particular importance in this regard was the WAAGE organization, sponsored by the Industrie- und Handelskammer of Cologne. Through posters, it sought to spread "productivism" to German workers, that is, that wages rise through increases in productivity rather than through radical income redistribution. See "Die Waage; Ein Bericht über die Tätigkeit in den Jahren 1952–54/55–56/57," Rheinisch-Westfälisches Wirtschaftsarchiv, WAAGE collection, 16/1/2. On the WAAGE in general, see the recent work of Dirk Schindelbeck and Volker Ilgen, "*Haste was, biste was!*": *Werbung für die Soziale Marktwirtschaft* (Darmstadt: Primus 1999). It should also be noted that the WAAGE organization in particular has attracted historians interested in the nexus of gender and consumer culture. See, in this regard, Mark E. Spicka, "Gender, Political Discourse, and the CDU/CSU Vision of the Economic Miracle, 1949–1957," *German Studies Review* 25, no. 2 (2002): 305–29. On the issue of gender and consumption in general, see Erica Carter, *How German Is She? Postwar West German Reconstruction and the Consuming Woman* (Ann Arbor: University of Michigan Press 1997).

and cultural practices implicated in Nazism.⁶ By the late 1960s, however, such sociological and liberal analyses of the problem of restoration were supplemented by a more radical Marxist critique of the overall restoration of capitalism.

This “restoration paradigm,” which came to dominate serious work on West Germany’s economic history by the late 1960s, held that the restoration of capitalism undermined attempts to reform German social structure. With the destruction of Nazism in 1945, the hour of socialism appeared to have arrived. Indeed, both the Americans and especially the British had initially considered Kurt Schumacher’s Social Democratic Party (SPD), as well as the left wing of the new Christian Democratic Union (CDU), the representatives of Germany’s dormant democratic tradition. As Social Democrats enjoyed great influence among the occupying authorities, there existed much momentum for the introduction of the “economic democracy” the SPD had long espoused. Such an economic democracy would have encompassed a decentralized economic planning system, the institutionalization of equal labor influence over the governance of the economy, and, most important, the socialization (that is, the public ownership) of heavy industry. Yet, by 1947, the momentum for socialization had waned. The reason, many historians argued, lay in the American determination to impose ideological conformity as it grew concerned with the emerging cold war with the Soviet Union. This American obsession with cold war imperatives, then, facilitated the return to power of traditional elites who wished to restore traditional capitalism.⁷ Though this restoration paradigm soon

6. See, for example, “Was bedeutet: Aufarbeitung der Vergangenheit,” *Theodor Adorno: gesammelte Schriften*, vol. 10:2, Frankfurt, 1977, Eugen Kogon, “Die Aussichten der Restauration: Über die gesellschaftlichen Grundlagen der Zeit,” *Frankfurter Hefte* 7 (1952): 166–177; Ralf Dahrendorf, *Society and Democracy in Germany* (New York: Anchor Books 1969).

7. The restorationist literature is extensive. It also owed much to East German critiques directed at West German capitalism. The most important monographs included Eberhard Schmidt, *Die verhinderte Neuordnung 1945–1952: Zur Auseinandersetzung um die Demokratisierung der Wirtschaft in den westlichen Besatzungszonen und in der Bundesrepublik Deutschland* (Frankfurt: Europäische Verlagsanstalt 1970); Ute Schmidt and Tilman Fichter, *Der erzwungene Kapitalismus: Klassenkämpfe in den Westzonen 1945–1948*; (Berlin: Wagnebach; 1971) and Rolf Badstübner and Siegfried Thomas, *Restauration und Spaltung: Entstehung und Entwicklung der BRD, 1945–1955* (Cologne: Paul-Rugenstein 1975). For monographs that discussed specifically how the doctrine of the social market economy fit into the restoration paradigm, see the classic work of Gerold Ambrosius, *Die Durchsetzung der Sozialen Marktwirtschaft in Westdeutschland, 1945–1949* (Stuttgart: Deutsche Verlagsanstalt 1977), and the earlier work by Reinhard Blum, *Soziale Marktwirtschaft, Wirtschaftspolitik zwischen Neoliberalismus und Ordoliberalismus* (Tübingen: Mohr 1969). Rudolf Uertz performed the pioneering work on Christian Socialism within the CDU and Adenauer’s relationship with the Christian socialists in *Christentum und Sozialismus in der frühen CDU: Grundlagen und Wirkungen der christlich-sozialen Ideen in der Union 1945–1949* (Stuttgart: Deutsche Verlagsanstalt 1981). For the principal work on how the SPD failed to realize its agenda of social reform in West Germany under the forces of the capitalist restoration engineered by the Americans, see Erich Ott, *Die Wirtschaftskonzeption der SPD*

lost its polemical edge, it continues to exercise great influence over historians today. This is because it gives concrete expression to the observation that, though the social market economy on the surface represented a break with the past, many economic, industrial, and social institutions survived the supposed caesura of 1945. Partly as a result of this, many of the case studies on economic policy and the history of economic institutions that proliferated during the 1970s and 1980s aimed not to overturn the restoration paradigm, but rather to pinpoint the crucial events and decisions that led to this restoration.⁸

While the restoration paradigm undermined the political legitimacy of the claim that the social market economy represented a radical departure from German economic tradition, the important historian Werner Abelshausen undermined the economic argument that it initiated West Germany's postwar recovery. Beginning with his groundbreaking 1975 monograph *Wirtschaft in Westdeutschland, 1945–1948*, Abelshausen argued that the “economic miracle” experienced during the 1950s did not follow intentionally from economic policy, but rather represented a reconstruction period in which an initially devastated German economy caught up to normal rates of growth. The abnormally high growth rates of the 1950s simply allowed the return to the level of development the economy would have enjoyed had it not been for the shocks of depression and war. When reconstruction ended in the early to mid-1960s, West Germany resumed “normal” rates of growth, of about 3% to 4% per annum, measured as the average growth rate since the middle to late nineteenth century. In other words, the relationship between the social market economy and the rapid growth of the economic miracle was incidental. Indeed, Abelshausen located the beginning of recovery in early 1947 anyway, at least one year before Erhard enjoyed any influence, and also demonstrated that upon the

nach 1945 (Marburg: Verlag Arbeiter-Bewegung 1978); and Ernst-Ulrich Hüster, *Die Politik der SPD 1945–1950* (Frankfurt: Campus Verlag 1978). The influential thesis that the institutionalization of management–labor codetermination became a vehicle whereby the forces of capitalism integrated the labor movement into the restoration and persuaded the unions to abandon more thoroughgoing reforms of German industry was first articulated in Frank Deppe et al., *Kritik der Mitbestimmung: Partnerschaft oder Klassenkampf?* (Frankfurt: Suhr Kamp 1969).

8. The release of the relevant British documentation during the late 1970s inspired much of this literature. See, for example, the essays in Josef Foscsepoh and Rolf Steininger, eds., *Britische Deutschland und Besatzungspolitik 1945–1949* (Paderborn: Ferdinand Schöningh 1988); Dietmar Petzina and Walter Euchner, *Wirtschaftspolitik im britischen Besatzungsgebiet 1945–1949* (Düsseldorf: Schwann 1984); and Ian Turner, ed., *Reconstruction in Post-war Germany: British Occupation Policy and the Western Zones, 1945–1955* (Oxford: Oxford University Press 1989). See also some of the many important monographs, including Alexander Drexler, *Planwirtschaft in Westdeutschland, 1945–1948: eine Fallstudie über die Textilbewirtschaftung in der britischen und bizone* (Stuttgart: Fisterner 1985); and Rolf Steininger, *Ein neues Land an Rhein und Ruhr: die Ruhrfrage 1945/46 und die Entstehung Nordrhein-Westfalens* (Cologne: W. Kohlhammer 1990).

completion of catching up to Germany's natural long-term rate of growth, the social market economy could not deliver the growth rates enjoyed during the 1950s.⁹

Abelshausen's work has unleashed huge debates among economic historians. Aside from some disagreement over the use and interpretation of official statistics,¹⁰ these debates have focused on the relationship between economic policies and economic conditions. Abelshausen has tended to stress the demand-side preconditions for German prosperity. Long before his work appeared, a number of American economists stressed supply-side conditions favorable to rapid growth in postwar Germany. In *Europe's Postwar Growth*, Charles Kindleberger argued that the plentiful supply of skilled labor in West Germany, originating in the influx of approximately 12 million expellees from the East, rendered the labor movement cooperative in keeping rising wage levels behind increases in productivity.¹¹ In two different though equally important works on German finance, Frederick G. Reuss and Karl W. Roskamp demonstrated how West Germany's peculiar methods of capital formation during the occupation encouraged productive investment. In the late 1940s, Germany had no functioning capital market. Even after the currency reform, virtually no long-term capital market existed. What's more, the Allies had imposed a steeply progressive tax code in 1946. But the tax code also included generous depreciation allowances that, with the high profits accruing to German firms as the boom took hold by 1949, encouraged a great amount of self-financing.¹² Implicit in this body of work was that the free-market policies of Ludwig Erhard did not necessarily spark the economic miracle, but they did allow the unusually favorable supply-side conditions of the West German economy of the time to be brought to bear. As a recent supply-side interpretation of the rise and decline of the social market economy has put it, "miracles emerge

9. Werner Abelshausen, *Wirtschaft in Westdeutschland 1945–1948: Rekonstruktion und Wachstumsbedingungen in der amerikanischen und britischen Zone* (Stuttgart: Deutsche Verlagsanstalt 1975). See also Abelshausen's other works, such as *Die Langen Fünfziger Jahre. Wirtschaft und Gesellschaft der Bundesrepublik Deutschland 1949–1966* (Düsseldorf: Schwann 1987).

10. Alfred Ritschl, "Die Währungsreform von 1948 und der Wiederaufstieg der westdeutschen Industrie: Zu den Thesen von Matthias Manz und Werner Abelshausen über die Produktionswirkungen der westdeutschen Industrie," *Vierteljahrshefte für Zeitgeschichte*, 33, no. 1 (1985):136–65. See also Christoph Buchheim, "Die Währungsreform 1948 in Westdeutschland," *Vierteljahrshefte für Zeitgeschichte*, 362 (1988): 189–231.

11. Charles Kindleberger, *Europe's Postwar Growth: The Role of Labor Supply* (Cambridge, MA: Harvard University Press 1967).

12. Frederick G. Reuss, *Fiscal Policy for Growth Without Inflation: The German Experiment* (Baltimore: Johns Hopkins University Press 1963); Karl W. Roskamp, *Capital Formation in West Germany* (Detroit: Wayne State University Press 1965).

when spontaneity prevails over regulation, and they fade when corporatist rigidities impair the flexibility for smooth adjustment.”¹³

Yet, of all preconditions that historians have emphasized as contributing factors to the economic success of Erhard's social market economy, perhaps no other was quite as important as the fact that West Germany functioned within an international trading system that allowed it to export. After more than fifteen years of autarky, West Germany returned to the world market with a vengeance after 1948. By 1952, the Federal Republic began to run trade surpluses that shortly became burning international trade issues themselves. Ludwig Erhard, of course, championed free trade. But as historians like Christoph Buchheim and Gerd Hardach point out, the international trading regime of which the West Germans took advantage was largely a function of the Anglo-American commitment to a multilateral free-trade regime. With the Bretton Woods agreement of late 1944, the British and Americans in effect imposed their view that the severity and duration of the Great Depression had owed much to the adoption of nationalist economic strategies during the interwar period, with a concomitant collapse in international trade. In the postwar period, therefore, the Allies wished to encourage international trade and economic integration. The Marshall Plan originated primarily in the realization that the Western European economies lacked the hard currency (that is, the dollar; hence the term *dollar gap*) to enable them to reduce trade barriers without risking insolvency. By encouraging inter-European trade, through such mechanisms as the European Payments Union of 1950, the Americans, in effect, guaranteed a fragile free trading order that benefited the West German economy.¹⁴ The role of exports in fueling West German prosperity during the 1950s underscores the Western European regional context within which West German reconstruction took place. Nevertheless, as most other studies of the Marshall Plan and Western European economic history have noted, West Germany was the engine of Western European economic growth.¹⁵

13. Herbert Giersch, Karl-Heinz Paqué, and Holgar Schmieding, *The fading miracle: Four decades of market economy in Germany* (New York: Cambridge University Press 1992), p. xi.

14. On the role of international trade in facilitating the economic miracle, see, above all, Christoph Buchheim, *Die Wiedereingliederung Westdeutschlands in die Weltwirtschaft, 1945–1958* (Munich: R. Oldenbourg 1990). See also the early yet still valuable study by Henry C. Wallich, *Mainsprings of German Economic Revival* (New Haven: Yale University Press 1955); Volker Hentschel, *Ludwig Erhard, ein Politikerleben* (Munich: Ullstein 1996), pp. 120–140, 157–177, 213–223; Alan Milward, *The Reconstruction of Western Europe, 1945–1951* (London: Methuen 1984); Harold James, *International Monetary Cooperation since Bretton Woods* (New York: Oxford University Press 1996), pp. 95–108.

15. Hentschel, *Erhard*, pp. 307–329, 420–440, 492–510; Buchheim, *Wiedereingliederung*; Gerd Hardach, *Der Marshall-Plan: Auslandshilfe und Wiederaufbau in Westdeutschland 1948–1952* (Munich: Deutsche Taschenbuch Verlag 1994), pp. 277–283, 323–337; Alan S. Milward, *The European Rescue of the Nation-State* (Berkeley: University of California Press 1992), pp. 134–167; Reinhard Neebe,

What this all means is that historians have struggled to find the proper balance in establishing the relationship between preconditions for economic growth in West Germany (and Western Europe) and the economic policies pursued in West Germany for explaining the so-called economic miracle. In his recent monumental biography of Erhard, Volker Hentschel has given expression to an emergent consensus on how to view the relationship between the social market economy introduced by Erhard and West German prosperity. Hentschel argues that recovery would not have taken place if certain preconditions had not been met. The two most important preconditions included the level of physical reconstruction accomplished under the economic planning regime in western Germany from 1945 to 1948, particularly the transportation network, and the American-sponsored free-trading regime buttressed by Marshall Plan aid. Though highly critical of Erhard, Hentschel nevertheless suggests that, in 1948, Erhard offered the most effective policies with which to take advantage of these preconditions. Thus, the preconditions for growth, which Hentschel insists existed without Erhard's doing, were there, but "Erhard's fundamental policy coup de main . . . during the summer of 1948 cleared the way for the rapid and steep recovery."¹⁶ At the end of the day, therefore, economic policy did matter.

Along with the attempt to establish a clear relationship between the significance of economic policy and economic preconditions in West Germany, one must also sort out the relationship between that West German economic policy and the Western free-trading international system of which it was a part. The most striking economic discontinuity of the twentieth century, for example, is the extent to which Western economies in the postwar period abandoned the increasingly nationalist economic policies of

"German Big Business and the Return to the World Market after World War II," in Volker Berghahn, ed., *Quest for Economic Empire: European Strategies of German Big Business in the Twentieth Century* (Providence: Berghahn Books 1996), pp. 95–121. See also John Gillingham, *Coal, Steel and the Rebirth of Europe, 1945–1955: The Germans and the French from Ruhr Conflict to Economic Community* (Cambridge: Cambridge University Press 1991). In a recent habilitation, the economic historian Ludgar Lindlar has argued that the Federal Republic's rapid recovery was a function of Western European economic growth. Seen in this light, he suggests, the common experience of Western Europe diminishes the significance of any specific economic policy, such as the social market economy. See his *Das mißverständene Wirtschaftswunder: Westdeutschland und die westeuropäische Nachkriegsprosperität* (Tübingen: Mohrsiebeck 1997).

16. Hentschel, *Erhard*, p. 214. Christoph Buchheim offers a more strident defense of Erhard's reforms by contrasting them favorably against the sluggish economy that continued to exist even after the currency reform in the French zone of occupation in "Die Notwendigkeit einer durchgreifenden Wirtschaftsreform zur Ankurbelung des westdeutschen Wirtschaftswachstums in den 1940er Jahren," in Dietmar Petzina, ed., *Ordnungspolitische Weichenstellungen nach dem Zweiten Weltkrieg* (Berlin, Duncker & Humboldt 1991), pp. 55–65. A. J. Nicholls offers a vigorous defense of the social market economy in *Freedom with Responsibility: The Social Market Economy in Germany, 1918–1963* (Oxford, Oxford University Press 1994).

the interwar period. To be sure, not all economic historians would concur in Charles Kindleberger's judgment that the reason the Great Depression endured so long was because of the collapse of international trade aggravated by the adoption of increasingly hostile and mercantilistic nationalist economic policies, but the architects of the Bretton Woods regime clearly believed that the reconstruction and maintenance of a healthy international trading order was both an economic and political priority of overwhelming importance in the postwar world.¹⁷ It is also clear that, in ascending order of enthusiasm, the British, French, Italians, and, especially, West Germans agreed that creating an international free trading regime was the *sine qua non* of a politically healthy international order.¹⁸ In other words, Western approaches to the international political economy, on the whole, converged. A consensus across the West emerged concerning, in broad terms, the goals of economic policies, the proper relationship between national economic policies and the international order, and the relationship between prosperity and political culture. Whence this consensus?

Andrew Shonfield provided an explanation for this convergence nearly forty years ago in his influential book *Modern Capitalism*. According to Shonfield, modern capitalism developed to address the "crisis of capitalism"

17. For a recent excellent treatment of the thinking behind the Bretton Woods agreement, see Harold James, *International Monetary Cooperation Since Bretton Woods* (New York: Oxford University Press 1996), pp. 27–57. On Bretton Woods in general, see Alfred Eckes, *A Search for Solvency: Bretton Woods and the International Monetary System, 1941–1971* (Austin: University of Texas Press 1975). See also Thomas Zeiler, *Free Trade, Free World: The Advent of GATT* (Chapel Hill: University of North Carolina Press 1999). For the classic study of the Great Depression itself that stresses the importance of the collapse of international trade and the inability of the great powers to revive it, see Charles Kindleberger, *The World in Depression, 1929–1939* (Berkeley: University of California Press 1986).
18. This is not to minimize, of course, the grave reservations of the British about allowing currency convertibility and thus permitting a dollar-dominated international system at the probable expense of the "Sterling Area," developed under British auspices since the Ottawa agreements of 1932. See, especially, James, *International Monetary Cooperation*, pp. 85–103; British reluctance to allow full currency convertibility is also a principal theme of Alan Milward's *The Reconstruction of Western Europe, 1945–51* (London: Methuen 1984), and Michael J. Hogan's *The Marshall Plan: America, Britain, and the Reconstruction of Western Europe, 1947–52* (Cambridge: Cambridge University Press 1987). The French, as Milward also argues in *Reconstruction*, were wary of American-inspired free international trade and refused to allow the OEEC to develop into an instrument for European economic integration. But they also were interested in obtaining access to raw materials in the Ruhr, particularly coal, to fuel the growth of the French steel industry so critical to the success of the Monnet Plan. Therefore, they proved amenable to the pooling and payments arrangements centered on West Germany, such as the European Payments Union, the European Coal and Steel Community, and, finally, the European Economic Community (EEC). The French also saw in the EEC an outlet for agricultural surpluses. See, in particular, Hitchcock, *France Restored*; Gillingham, *Coal, Steel and the Rebirth of Europe*; and Milward, *European Rescue*, pp. 224–317. Despite these reservations, it is still fair to say that, on the whole, most respectable British and French politicians rejected the totally nationalist economic policies of the interwar period even if they intended to pursue national interests within a basically cooperative international trading system, which Bretton Woods offered.

witnessed during the Great Depression. Shonfield defined *modern capitalism* as a mixed system that permitted some partnership between big business and government, as well as economic planning, while preserving private property and a regulated market. It aimed, in the first instance, at evening out damaging economic cycles. These elements distinguished modern capitalism from traditional, freewheeling nineteenth-century liberal capitalism. But the economic planning such an imperative implied in modern capitalism had also been made possible by the long-term efforts to establish predictability in the free market through, for example, the development of economic forecasting and the increasing sophistication of statistics. Shonfield saw in France under the Monnet plan the archetype of modern capitalism. Through “indicative planning,” Jean Monnet utilized economic forecasting, in addition to the state’s control over the central bank and nationalized industry, to guide the French economy. But Shonfield also argued that other Western capitalisms were headed in the same direction, most obviously in Britain and Sweden. Even in America, where the free market had been tempered indirectly more through regulation than in direct and conscious intervention by the state, Shonfield believed that deliberate planning would gain in influence. As for West Germany, Shonfield downplayed the significance of social market doctrine to stress the continued importance of industrial associations and thus the underlying planning impulses he felt crucial to West German economic success. All Western economies, then, were converging on a single model of modern capitalism.¹⁹

Another explanation for the convergence of West German economic and industrial culture with those in the West is the concept of Americanization. In his 1986 book, *The Americanisation of West German Industry, 1945–1973*, Volker Berghahn argued that the best way to understand the gradual transformation of West German industrial culture in the decades after World War II was to understand it as a process of Americanization. On an economic and industrial level, World War II represented a conflict between an American model of capitalism and a nationalist, authoritarian, and autarkic model of German capitalism. Although he did not attempt a revision of the view that important elements of pre-1945 German capitalism initially were restored in West Germany, often with the acquiescence of American occupation authorities afraid of communism, he did argue that American industrial culture gradually overcame German industrial culture. When the younger generation of managers reached the top of many West German firms by the early 1960s, West German industrial culture became more open, more

19. Shonfield, *Modern Capitalism*.

dynamic, more friendly to labor, and thus more American. Since Berghahn's thesis on the Americanization of West German economic and industrial culture, the concept of Americanization has been applied to most areas of West German and European historiography.²⁰ Trying properly to understand Americanization, however, raises a number of problematic issues. For one thing, precisely because of the consensus across western Europe and America after 1945 about the goals of economics and the role of international economic relations in reaching those goals, it is not clear what one can define as Americanization. Writing on France, for example, Irwin Wall suggests that the transformation in the French economy and French economic thinking should be understood as a more complicated process than just Americanization.²¹ Or, writing on Germany during the 1920s, Mary Nolan has cautioned that what was often termed Americanization consisted in fact of genuinely American ideas repackaged by Germans to fit German conditions more easily.²²

The larger problem in the attempt to explain a convergence across Western economic and industrial cultures after 1945 by stressing changes in German thought, attitudes, and practices is in establishing the limits of such changes. To be sure, West German industrial culture changed over time. One may wish to characterize this change as Americanization. On the other hand, West German industrial culture retained many specifically German characteristics. Even a cursory examination of how the German economy functions will demonstrate the fundamental importance of management-labor codetermination, the supervisory board method of corporate governance, or the retail store hours law in defining the parameters of economic action in Germany and in delineating the limits of Americanization. That is, the social market economy is a very German thing. As far as Shonfield's earlier argument about the underlying movement of all Western economies

20. Volker Berghahn, *The Americanisation of West German Industry, 1945–1973* (New York: Cambridge University Press 1986). The Americanization thesis has generated a vast literature. Some of the more important recent titles include Richard Kuisel, *Seducing the French: The Dilemma of Americanization* (Berkeley: University of California Press 1993); Reinhold Wagnleitner, *Coca-Colonization and Cold War: The Cultural Mission of the United States in Austria After the Second World War* (Chapel Hill: University of North Carolina Press 1994); and Uta G. Poiger, *Jazz, Rock, and Rebels. Cold War Politics and American Culture in a Divided Germany* (Berkeley: University of California Press 2000). See the helpful collection of essays in Heide Fehrenbach and Uta G. Poiger, *Transactions, Transgressions, and Transformation: American Culture in Western Europe and Japan* (New York: Berghahn Books 2000). For a more critical view of the concept of Americanization, see Richard Pells, *Not Like Us: How Europeans Have Loved, Hated, and Transformed American Culture Since World War II* (New York: Basic Books 1997).
21. Wall, *The United States and the Making of Postwar France*, p. 9.
22. Mary Nolan, *Visions of Modernity: American Business and the Modernization of Germany* (New York: Oxford University Press 1994).

toward a more or less similar “modern capitalism” is concerned, one must appreciate the role of perspective. Britain, France, and the United States may have experienced the Great Depression and the World War II as a lesson in the inadequacy of laissez-faire capitalism and the potential of a more mixed system. But, from many, though not all, German perspectives, the Depression and the war pointed to the economic weaknesses and the political dangers of a too powerful state. Certain underlying patterns of economic behavior favorable to planning remained in postwar Germany, but the fundamental direction of German industrial culture, until the latter half of the 1960s, pointed in the opposite direction. The social market economy was a doctrine that embodied this change in perspective. In the final analysis, therefore, any examination of the postwar West German economy requires the careful sorting out of international and domestic exigencies.

As a fresh analysis of the economic policy process in West Germany from 1945 until 1957, this study examines the origins and development of the social market economy. It seeks to answer the following questions: How can one situate the phenomenon of the social market economy within the larger context of German history? How can one properly understand the role of Americanization? Did the social market economy represent a genuine reform within the context of German industrial and economic history? Any evaluation of economic policy debates in West Germany during the decade after 1945 is made difficult by the fact that such a total occupation as Germany experienced renders the distinction between internal domestic and international exigencies meaningless. The complete asymmetry in power between the Allies, particularly the United States, and the West Germans gave the Allies the unprecedented opportunity to shape the industrial and political culture of the defeated enemy. Nevertheless, each occupying power established relationships it considered necessary with West Germans that diluted its power. The Americans might occasionally exert direct pressure on the Germans, or the British for that matter, but such open attempts to use power often discredited the very ideas the Americans wished to champion. This does not mean that the Americans or the British failed to exert influence in occupied Germany. Yet, influence from Washington or London quite often worked in unintended ways. Such unintended, rather than intended, interactions influenced the emergent political and industrial culture in a Germany dominated by debates over economic and industrial policy. An examination of this process highlights the complex interplay between domestic German and international pressures that, in the end, left a great amount of space for the West Germans themselves to shape an economic order.

One can see this complex dynamic at work from Germany's collapse in 1945 to the adoption of the social market economy between 1948 and 1949. Many scholars still attribute the defeat of radical social reform in West Germany to America's antisocialist prejudices stoked by the emerging cold war. As far as the development of economic policies in the western zones were concerned, however, other important processes were at work as well. For instance, one cannot simply characterize the debates over economic reform in Germany solely as debates between conservatives and reformers. Rather, fundamental differences between rival visions of reform proved important as well. This is clear, for example, in the conflict between the advocacy of the decartelization program put forth by James Martin, head of the U.S. decartelization branch, and the British and Social Democratic vision of subordinating socialized industries to a central economic planning regime. This is also true of the vexed relationship between the Social Democrats and the British. Though they both agreed on the need for moderate socialism in Germany, they soon grew impatient, and then suspicious of one another. Suspicions of the British, on the part of the SPD, encouraged many social democrats to believe in the inevitability of a capitalist restoration as American influence over the "bizon" grew.

The political success of Erhard also owed much to this internal-international dynamic. Erhard profited greatly from the gradual sense of frustration that had set in between the Allies and Germans by 1948. The Allies demanded that the Germans pull themselves up by their own bootstraps. The Germans, both from SPD and CDU, responded that only additional aid could make economic recovery possible. Yet, despite the fundamental agreement of the SPD and CDU when they were critical of Allied policies, economic and industrial policy debates among Germans themselves became quite polarized. Though the British in particular attempted to forge a broad consensus between Social Democrats and Christian Democrats for the sake of enduring social reform, the two large political parties rallied to the relatively polarizing figures of Kurt Schumacher (SPD) and Konrad Adenauer (CDU). This polarization, combined with the impasse over the future of economic policy experienced between the Germans and the Allies, gave Erhard considerable room to maneuver. At a time of frustration for all involved, Erhard offered boldness and direction. Adenauer and the CDU embraced Erhard because he offered a coherent and understandable philosophy with which to define the differences between the CDU and SPD. By 1948, the West Germans had found a considerable amount of space to develop economic policies in line with domestic German economic and political exigencies.

As the 1950s unfolded, the interplay between international and domestic German factors effecting the development of the West German economy changed. Ludwig Erhard's social market economy now represented a doctrine that the first West German government, under Konrad Adenauer of the CDU, sought to apply across the various sectors of the economy. As a body of doctrine, it became the focus around which economic policy debates revolved. The legitimacy of the social market economy rested on the argument that a free-market competitive order, guarded by the state, could better achieve essential social ends than could traditional capitalism, national socialism, and even modern social democracy. The first challenge to the legitimacy of the social market economy during the 1950s took place with the "Korean War crisis." The upsurge in demand for industrial goods unleashed by the Korean War made evident the problems of capital shortage and trade imbalances to the West German economy. The West Germans needed to produce more coal for manufacturing industries because they had no money with which to import this crucial raw material. With no capital to invest in the coal industry to ease this bottleneck, West German industrial organizations stepped forward to provide the needed financing in early 1952. Werner Abelshauser argued that this solution signaled the return of "corporatism" to West German industry.²³ But as this study suggests, Erhard had always recognized that, given the level of destruction Germany suffered during the war, some areas of the economy required stimulative measures that did not necessarily accord with free-market theory. What was important to Erhard and his supporters was that such special provisions act in a "market conforming" (*Marktkonform*) manner. In fact, he defeated various proposals, put forth by the SPD, the Finance Ministry, and the Americans, to use the problem of capital shortage to empower the state to introduce a general regime of economic planning. Whether the mechanism ultimately chosen to alleviate the capital shortage in heavy industry represented corporatism depends on whether one defines corporatism as indicating the influence of associations over public policy or as a fascist attempt to replace market individualism with an economy of "corporate" identity and representation.

23. Abelshauser, "Ansätze 'Korporative Marktwirtschaft' in der Koreakrise der frühen fünfziger Jahre: Ein Briefwechsel zwischen dem Hohen Kommissar John McCloy und Bundeskanzler Konrad Adenauer," *Vierteljahrshefte für Zeitgeschichte* 30, no.4 (October 1982): 715–56. See also Abelshauser, "Korea, die Ruhr und Erhards Marktwirtschaft: Die Energiekrise von 1950/51," *Rheinische Vierteljahrsblätter* 45, no.3 (1981): 287–316. The most thorough account of investment in the Ruhr during this crisis period is in Heiner Adamsen, *Investitionshilfe für die Ruhr: Wiederaufbau, Verbände und Soziale Marktwirtschaft 1948–1952* (Wuppertal: Peter Hammer Verlag 1981). H. F. Wünsche published a great amount of German documents on the Korean War crisis in *Die Korea-Krise als ordnungspolitische Herausforderung der deutschen Wirtschaftspolitik* (Stuttgart: Gustav Fischer Verlag 1986). For a more positive view of Erhard's role in this crisis, see A. J. Nicholls, *Freedom with Responsibility*, pp. 270–99.

The second challenge to the legitimacy of the social market economy lay in the broader issue of competition within German industrial culture. Social market theorists around Erhard insisted that a truly competitive order maintained by a strong state represented the distinguishing characteristic of the social market economy and set it apart from traditional German capitalism. The weaknesses of the 1957 anticartel law, therefore, have led many historians to conclude that the social market economy failed.²⁴ But the issue of competition is complicated by the confluence of international and domestic German processes. The Americans were negatively associated with free competition and the abolition of cartels because of the role of decartelization in the American occupation. Erhard nevertheless guided a debate on competition that promised a veritable revolution in traditional German business culture. Opposition to a stringent anticartel law did not just come from the vested business interests wishing to reestablish traditional anticompetitive practices. The impression that the Americans in their naivete would destroy German industry through radical decartelization, in apparent contradiction to the goals of the Marshall Plan, encouraged a broader spectrum of opposition. The West German left, for example, sided with German business in opposing many Allied policies aiming toward a deconcentration of German heavy industry. The American ideological commitment to a priori competition also appeared to threaten the small business-oriented *Mittelstand*. Yet, as Erhard supported competition as an instrument with which to create a competitive order (*Ordnung*) rather than a priori competition, he could make concessions that did not undermine competitive culture, but promised to reinforce it. He also allowed exemptions from the anticartel law if such practices as the exemptions allowed would not undermine the competitive order. Though problematic, the 1957 law remained true to its fundamental purpose of maintaining a competitive economy.

What role did the institutionalization of the social market economy play in the economic miracle? Though, as this study argues, the West Germans themselves enjoyed plenty of space to shape the social market economy, it would be a mistake to return to the founding myth of Erhard and the neo-liberal school and characterize the social market economy as the panacea that enabled Germany to recover from the war. As economic historians like

24. The standard account of the cartel debate during the 1950s remains Rüdiger Robert, *Konzentrationspolitik in der Bundesrepublik: Das Beispiel der Entstehung des Gesetzes gegen Wettbewerbsbeschränkung* (Berlin, Duncker Humboldt 1976), supplemented by the important article of Peter Hüttenberger, "Wirtschaftsordnung und Interessenpolitik in der Kartellgesetzgebung der Bundesrepublik, 1949–1957," *Vierteljahrshefte für Zeitgeschichte* 24, no.3 (July 1976): 287–307. See also the influential account by Volker Berghahn, *Americanisation*, pp. 155–81.

Christoph Buchheim and Volker Hentschel have shown, the international and structural contexts within which a country so heavily dependent on exports operated was certainly important as well. On the other hand, what would have happened if the SPD had retained control over West German economic policy beyond 1947? At a minimum, social democrats would not have wished to deregulate consumer goods prices to coincide with the currency reform of June 1948. They worried that hasty deregulation would lead to a ruinous inflation. But the psychological and economic effect of allowing the market to determine the prices of nonessential goods made the currency reform a success. The purpose of the reform was, after all, to restore the integrity of money. In addition, it may be presumed that the SPD would have endeavored to create the economic democracy it had advocated since 1945 and continued to advocate into the early 1950s. Though Social Democratic theorists would certainly have maintained that sufficient decentralization could exist within an economic democracy to guard against the rigidities of Soviet-style planning, economic policy decisions would still have been made in negotiation with labor. Indeed, this likelihood highlights the principal means whereby Social Democrats wished to improve the living standards of average Germans: through the redistribution of a more efficient, planned production rather than through a focus on the increase of productivity itself. It is difficult to see where such policies would not have inhibited the dramatic gains in productivity experienced in late 1948 and 1949.

For the 1950s, a more realistic question to consider is what would have happened had Erhard lost the control to define the parameters of the social market economy not just to Social Democrats, but to the conservative critics of his policies. By the middle of the 1950s, it is clear, rising West German living standards were a function of gains in productivity outpacing gains in wages and prices. That is, real wages increased. Much credit for this must, of course, go to the traditions of monetary stability enshrined in the emergent Deutsche Bundesbank during the 1950s. But credit must also go to the West German government's insistence on nurturing a competitive environment. During the Korean War crisis, Erhard fought attempts to solve West Germany's capital shortages by restricting trade or embarking upon state-directed investment. Though the solution found in the Investment Aid law of 1952 was not ideal, it represented a limited intervention in the workings of the market and was of short duration. For this reason, Erhard and his supporters considered it *marktkonform*. On competition policy, culminating in the controversial anticartel law of 1957, Erhard fought a more ambivalent and lonely battle. The ambitious Americans had done much to discredit native anticartel sentiment. But the major German industrialist

organization *Bundesverband der deutschen Industrie* (BDI) fought competition on many fronts, not just that of the anticartel law. The association constantly fought liberalized trade policies with little success against Erhard. Erhard also used powers devolved upon him by the outgoing military governments to pressure business to accept a cartel law at all. At the end of the day, however, West German business during the 1950s responded positively to a competitive international and domestic environment whose main champion was Erhard.

Planning for Reconstruction

The case of occupied Germany provides the best example of truly international history. Following Nazism's collapse, the three principal allies (soon joined by the French) assumed full sovereignty over Germany as a whole. At Potsdam, in July and August 1945, the Allies agreed to govern Germany as a united country and created the quadripartite Allied Control Council (ACC) for that purpose. Owing to the unprecedented physical devastation of the country, each Allied power soon became deeply involved in the minutiae of political and economic reconstruction. At the same time, each Allied power wished to involve Germans in the politics and/or administration of its respective zone. The result was a system of relationships so complex as to transcend the boundaries of traditional diplomacy or national politics. The interplay between Germans on the ground, who confronted each other within the context of basic political, economic, or social debate; between Germans and the occupiers of their zones, who played the twin roles of supervisor and advocate; between the Allies themselves in the ACC, where decision making required unanimous agreement; and Allied representatives and the home capitals represented a process that historians have long tried to disentangle and explain.

For decades, a cold war paradigm offered an analytical framework within which to analyze and judge the history of occupied Germany. At war's end, each occupying power focused on reforming German institutions in order to eliminate the German threat to European security. This reforming drive manifested itself in the famous effort to "denazify, demilitarize, and decartelize" German society. Yet by 1947, the pressures of the cold war shifted the attention of all the Allies from reforming to rehabilitating the former enemy in order to enlist its formidable economic powers in the new conflict. In the western zones, many historians argue, the Americans abandoned worthy

efforts at social reform, such as the Morgenthau Plan, in favor of reintroducing a hitherto discredited capitalism in order to speed the economic recovery of western Germany. With its inclusion in the Marshall Plan, the decision to revive West Germany and point it against the communist east was made. The historian Carolyn Woods Eisenberg has recently reiterated this argument, many portions of which date back to the intense criticism of American policy by those U.S. officials who had wished to pursue thoroughgoing reform, that the ultimate American emphasis on a capitalist economic recovery determined the division of Germany and, in turn, the cold war.¹ This paradigm also provided the background to the “restoration thesis” in Germany popular during the 1960s and 1970s, that American cold war imperatives, as well as American ideological prejudices, spelled the death knell of social democracy by 1947.² By positing a dramatic shift in emphasis from reform to rehabilitation, sometime in 1947, a shift originating in economic and strategic imperatives linked to the cold war, historians have found a way to sift through the complexity of the politics, economics, and diplomacy of the occupation.

But this cold war analytical framework fails to do justice to the complex interplay between international and domestic forces that characterized the occupation period in western Germany. The process of postwar planning for Germany, conducted in London and Washington in 1944 and 1945, as well as the first year of the occupation, offers a case in point. For instance, historians who have focused on American planning, have characterized the demise of the Morgenthau Plan, advocated by Treasury Secretary Henry Morgenthau, which called for the thorough denazification and deindustrialization of Germany, as a victory of ideological conservatives against progressive New Dealers fought out principally within the American government. If looked at in its international context, however, it becomes clear that the ideas advanced by Morgenthau had little in common with the views of the British or the Soviets.³ Moreover, the argument that such a

1. See Carolyn Woods Eisenberg, *Drawing the Line: The American Decision to Divide Germany, 1944–1949* (Cambridge: Cambridge University Press 1996). Eisenberg’s argument is reminiscent of James Martin, in *All Honorable Men* (Boston: 1950). Two recent valuable works on the Morgenthau Plan by German scholars include Bernd Greiner’s, *Die Morgenthau-Legende: zur Geschichte eines umstrittenen Plans* (Hamburg: Hamburgor Edition 1995); and Wilfried Mausbach’s, *Zwischen Morgenthau und Marshall: Das wirtschaftspolitische Deutschlandkonzept der USA 1944–1947* (Dusseldorf: Droste 1996).
2. See, for example, Eberhard Schmidt, *Verhinderte Neuordnung*; and Schmid and Fichter, *Der erzwungene Kapitalismus*.
3. British views will be discussed in detail in Chapters 2 and 3. No real consensus has yet emerged about the overall meaning of Soviet policies toward Germany. Indeed, the leading studies on the Soviet occupation that have drawn on previously inaccessible materials have stressed the complexity of Soviet relations with its zone and with the rest of Germany. See, for example, Norman Naimarck, *The Russians in Germany: A History of the Soviet Zone of Occupation, 1945–1949* (Cambridge, MA:

“punitive” peace disregarded economic and political realities on the ground in Germany had merit and should not be automatically judged as the self-interested musings of conservatives. Finally, the leading reform group in Germany in 1945, and the group upon which the Western democracies placed such great hopes, the Social Democrats, advanced a reform program for industrial Germany and advocated economic policies fundamentally at variance with the “Morgenthau reformers” in Washington or in OMGUS (Office of Military Government–United States). Hence, the conflicts over appropriate policies for a post-Nazi Germany were not necessarily functions of an ideological dispute between reformers and conservatives, but rather a function of the complex interplay between international and domestic actors who had different visions of reform.

PLANNING AND REALITY

As war drew to a close, Allied planners in both London and Washington wished to avoid the mistakes of Versailles. But this could mean a great many things. At first, the relatively small circles entrusted with providing guidelines for a peace settlement with Germany considered the creation of a stable, multilateral, international financial and trading system the primary objective of any postwar planning. They assumed that their governments envisioned a postwar Germany more or less voluntarily participating in such a system. An essential precondition for such a settlement was a modest and economically efficient agreement on reparations. In London, where John Maynard Keynes guided the early discussion over a postwar settlement, officials placed particular emphasis on avoiding a reparations fiasco and viewed Germany as an essential participant in European recovery as a whole. In America, too, where second-tier officials in the State Department dominated postwar planning on Germany, officials wanted to create conditions in Europe that would allow a rapid American withdrawal. This meant keeping reparations

Harvard University Press 1995); and David Pike, *The Politics of Culture in Soviet-Occupied Germany, 1945–1949* (Stanford: Stanford University Press 1993). The minutes of the meeting between Stalin and the East German Communists held on 4 June 1945, which has been scrutinized recently by a number of historians, is reprinted in Willfried Loth and Rolf Badstübner, *Aufzeichnungen zur Deutschlandpolitik 1945–53* (Berlin: Akademie Verlag 1993). See John Lewis Gaddis's interpretation in *We Now Know: Rethinking Cold War History* (Oxford: Oxford University Press 1997), pp. 115–18. Other historians, such as Naimark, *The Russians in Germany*, pp. 257–60; and Vladislav Zubok and Constantine Pleshakov, *Inside the Kremlin's Cold War: From Stalin to Khrushchev* (Cambridge, MA: Harvard University Press 1996), p. 48, believe the document should not be read literally and that it admits of a variety of views. See also Scott D. Parish and Mikhail M. Narinsky, “New Evidence on the Soviet Rejection of the Marshall Plan, 1947: Two Reports,” Cold War International History Project, Working Paper 9.

claims to a minimum, reviving German economic life under noninflationary conditions, and integrating a postwar Germany into the new international financial system. Yet as the end of war drew near in late 1944 and early 1945, as the extent of Nazi atrocities became widely known, and as the desire of the Germans to fight to the bitter end no matter what the cost grew evident, officials in other departments expressed concern over the state of planning for Germany. They expressed alarm at the extent to which the hitherto small circle of planners contemplated the rapid economic rehabilitation of the defeated enemy. Perhaps best exemplified by Morgenthau, they tended to view their colleagues who advocated the rehabilitation of Germany as conservatives insensitive to the very great crimes committed by the Nazis. By 1945, the world of postwar planning became conceptually divided into partisans of a "soft peace" and advocates of a "hard peace." This dichotomy found its way into the historiographical literature on postwar Europe and has persisted to this day.

The conceptual distinction between proponents of a hard or soft peace suggests that ideology determined the course of reconstruction in Germany. But this conceptual dichotomy has extracted an individual policy debate from a larger context with two very important dimensions: the confrontation with reality on the ground in Germany and the importance of maintaining long-term Allied agreement on the treatment of Germany. As discussion of the Morgenthau Plan, which advocated the "pastoralization" of Germany, preoccupied planners in London and Washington during the fall of 1944, neither the difficulties of reaching great power agreement on Germany nor the extent of the physical and financial damage to Germany were fully appreciated. Any effort to reduce the productivity of the German economy to such levels as would render the Germans incapable of paying reparations would surely encounter the opposition of Allied countries, including the Soviet Union, that had endured much more physical destruction on their own soil than had Britain or the United States. The advocates of a hard peace believed it possible to maintain a standard of living in Germany demonstrably below that of its former victims while avoiding the kind of mass starvation or chaos that might prevent an early end to the occupation. British and American military commanders in Germany, however, feared that conditions did not permit such a subtle balance to be attained. To them, simply the prevention of disease and unrest required great efforts. Although many of these officials had indeed long been skeptical of a hard peace, their concerns were not unfounded. The system of distribution in Germany had broken down. Excess currency the Nazis had printed to finance the war resulted in the very real possibility of hyperinflation. Allied officials felt compelled to

maintain Nazi-era controls in order to rebuild a system of distribution and to prevent hyperinflation. Maintaining such controls, however, required a significant expenditure in manpower and money. Unsurprisingly, the Allies could not end their occupation if they kept their commitment to maintain German living standards at an artificially low level and to “pastoralize” the German economy.

As Allied planners deliberated during the fall of 1944 on the best way to prevent the revival of German economic strength in the postwar period, they began to realize the extent of economic chaos already reigning in Germany. From 1936 on, the Nazis had built a command economy to finance and facilitate massive rearmament. The central component of this command economy, the price and wage controls instituted in 1936, allowed massive deficit spending while holding inflation in check with draconian police enforcement of controls.⁴ Gradually, the National Socialist command economy developed a system of industrial and consumer rationing that further marginalized the distributive dimension of the market. By the time the Allies conquered Germany, the meager network of distribution that remained had been destroyed by Allied bombing and other military action. The massive increase in the amount of currency since 1936 to finance the war now posed an even more serious problem because the distribution of both consumer and producer goods had dwindled to almost nothing. Allied officials realized that in order to prevent hyperinflation, they had to restore a system of distribution, encourage the production of both industrial and consumer goods, and reduce the amount of currency in circulation. In the meantime, as the chief of OMGUS’s finance division, Bernard Bernstein, advised U.S. military governor General Lucius Clay, “primary reliance against undesirable price and income increases must continue to be, as is true in all the major countries at war, on direct controls.”⁵

It took a long time for planners in London and Washington to realize the extent of their likely commitment to German recovery. Initially, most planners assumed a relatively rapid reintegration of Germany into the international economy. Already in 1942, an interministerial committee met

4. For a discussion of German rearmament policies, see Dietmar Petzina, *Die deutsche Wirtschaft in der Zwischenkriegszeit* (Wiesbaden: Sterner 1977); R. J. Overy, *War and Economy in the Third Reich* (Oxford: Clarendon Press 1994); and William Carr, *Arms, Autarky and Aggression: A Study in German Foreign Policy, 1933–1939* (New York: Norton 1972).

5. Bernstein to Clay, “German Public Finance,” 15 June 1945, NARA, RG 107, Records of the Assistant Secretary of War (McCloy), 370.8, box 27. See also a similar discussion among British planners in Mark Turner to Chambers, 9 March 1945, PRO, FO 942/265; and Hans Luther, “Rückwirkungen aus den Preisproblem auf die Währungsreform,” annex to “Hiermit wird der Entwurf einer Zwischenlösung in der Währungsfrage vorgelegt,” February 1946, BA, Z 1/311.

in Whitehall charged with providing the general outlines for a postwar settlement with Germany. Under the chairmanship of Lord Malkin but dominated by John Maynard Keynes, the committee focused on the issue of reparations. Keynes had made his reputation during the 1920s as the most severe and eloquent critic of the Versailles reparations settlement.⁶ He argued that Germany must not be forced to pay an amount of reparations that might inhibit an economic recovery essential not only to the revival of Europe, but to the relief of British occupation expenditures in Germany as well.⁷ Keynes's concern over the capacity of Germany to pay a large amount of reparations found its way into the Malkin Committee Report of 1943. The interwar period had demonstrated, so the report argued, that the Versailles reparations settlement exceeded Germany's capacity to pay. An unreasonable reparations settlement had been forced on the Germans because "the makers of the Treaty of Versailles were suffering, or pretending to suffer, or acquiescing in the imputation of suffering, from the illusion that their total claims against the enemy could be met."⁸ The Malkin Report recommended a prioritization of reparations that left Germany relatively uncontrolled and free economically to revive.

As the most prestigious individual at the Treasury during the 1940s, Keynes sought to imbue British postwar planning with his central fear that unrealistic reparations demands would in fact have the perverse effect of requiring the British to pay more in order to uphold a postwar settlement. Outlandish claims against Germany would force the occupying powers to intervene increasingly in German affairs to extract available wealth. In any event, experience had convinced Keynes that the Germans could not pay reparations without rebuilding their own industry first. This, of course, required American and British loans or, in the context of a total occupation of Germany, direct expenditures by the occupying powers themselves. Keynes did not trust the Americans to remain long in Germany. He feared that if events took their course, Britain would in the end pay more to maintain the postwar order. "You will see that I observe here the thin end of the wedge of my *bête noire*, namely that it turns out to be us who have to pay German reparations. That is how all these things tend to end up. I should like to imbue all Departments from the outset with the doctrine that, in no

6. See Keynes, *The Economics Consequences of the Peace* (London: Harcourt, Brace, and Howe 1919).

7. Note by Lord Keynes, "Germany's Contribution to the Cost of Keeping the Peace of the World," 21 December 1942, PRO, Keynes papers, T 247/86.

8. "Report of the Interdepartmental Committee on Reparations and Economic Security" (the Malkin Report), 31 August 1943, PRO, FO 942/52. See also Alec Cairncross, *The Price of War: British Policy on German Reparations, 1941-1949* (Oxford: Blackwell 1986).

circumstances or on any terms, do we supply anything or pay for anything, so far as Germany is concerned.”⁹

The interministerial staff created in late 1943 to work out concrete policies for the occupation along the lines of the Malkin Report, the Economics and Industrial Planning Staff (EIPS), took Keynes’s warnings to heart. As the EIPS grew aware of the extent of the damage in Germany, its concern to limit reparations claims only increased. E. W. Playfair reminded his colleagues on the EIPS that “it was . . . important that the other countries of Europe should not be allowed to take so much from Germany that we ourselves would have to furnish Germany with the means to meet these claims.”¹⁰ British postwar planning emphasized the need to limit reparations to facilitate both the speedy economic recovery of Europe as a whole and to reduce the potential liabilities of a postwar Britain short of money.

In the United States, postwar planning followed a more circuitous and controversial path. Roosevelt preferred to avoid commitments over the postwar world. Up to late 1944, planning for Germany had been left to the Working Security Committee (WSC), a relatively low-level body with representatives from the State, War, and Navy Departments, subordinate to the State–War–Navy Coordinating Committee. Under the dominance of the State Department, the committee had virtually no influence over Roosevelt, who did not hold his Secretary of State or State Department in high regard. In any event, the Working Security Committee completed a set of guidelines for American policy in Germany by March 1944 and sent these guidelines to the American representative at the European Advisory Commission (EAC) meeting in London. The WSC considered the threat of inflation in Germany the most important issue for Allied planners. Because of rearmament and wartime spending, the volume of money in circulation in Germany had reached disastrous proportions. To avert hyperinflation, “it will be of paramount interest to the United Nations that economic and financial policies adequate to avert the danger of economic collapse, or to ameliorate the conditions of such a collapse if it has occurred, are put into effect.” Foremost among such policies, the committee advised retaining the

9. Keynes to Playfair, 14 February 1944, PRO, Keynes papers, T 247/87. Keynes underscored his argument that Britain should incur no new obligations as a result of the impending occupation of Germany by adding up the already accepted obligations and noting that the full bill equaled nearly the entire amount of Soviet reparations claims. “It is interesting to note that the total war burden we should be carrying under the above assumptions adds up to exactly the same figure, namely, \$20 billion, that the Russians think appropriate in the case of Germany (though they will not get it or anything like it).” *The Collected Writings of J. M. Keynes*, vol. 14, *Overseas Financial Policy in Stage III*, p. 278.

10. “Minutes of EIPS Meeting, EIPS/29/19,” 20 June 1944, PRO, FO 942/53.

Nazi price control system. The WSC also recommended that the Allies take immediate steps to increase production in Germany. To accomplish this and reduce the relative amount of currency in circulation required the Allies to prevent a breakdown in the system of distribution and enforce an already strict rationing system.¹¹ Taken together, these recommendations amounted to a serious commitment on the part of the Americans to facilitate the economic recovery of Germany.

Therein lay the problem. Secretary of State Cordell Hull and the State Department had not enjoyed the president's confidence for quite some time. Postwar planning for Germany conducted under the auspices of the State Department had taken place without much input from the White House. Hull, in poor health and preoccupied with preparations for the Dumbarton Oaks Conference to establish the United Nations, was not in a position to turn Roosevelt's attention to the issue of planning for the occupation of Germany. On the other hand, New Deal stalwarts such as presidential advisor Harry Hopkins and Treasury Secretary Henry Morgenthau stood at the pinnacles of their careers and enjoyed the height of their influence with the White House. Neither of them, however, had been involved in postwar planning for Germany. On a trip to London in August 1944, Morgenthau received a later version of the State Department's WSC paper circulating at the EAC. Authored by Leo Pasvolsky, the paper reviewed the American position on reparations and economic recovery in Germany inspired by the earlier principles articulated at the WSC. Pasvolsky stated that American objectives in Germany were to control economic war potential. "This, however, is not assumed to imply a large-scale and permanent impairment of all German industry." Indeed, Pasvolsky contemplated the "eventual integration of Germany into the world economy."¹² Alarmed at the lenient treatment State Department officials wished to apply to Germany, Morgenthau set his subordinates in the Treasury to work on an alternative plan.¹³ Morgenthau discussed the Treasury's view with Roosevelt at the Quebec Conference with Winston Churchill, held in September 1944. Hull was not in Quebec to listen because FDR had told him beforehand that he and Churchill would discuss military matters only. In his absence, Morgenthau convinced the president, who then convinced a

11. Working Security Committee, "Germany: Post-Surrender Problems. Control of the German Economy Immediately After Surrender: Policies Essential to Guard Against Internal Collapse," 2 March 1944, NARA, RG 107, Records of the Assistant Secretary of War (McCloy), 370.8, box 26.

12. Pasvolsky, "Summary: Report on Reparation, Restitution, and Property Rights—Germany," 31 July 1944, U.S. Senate, *Subcommittee to Investigate the Administration of the Internal Security Act and Other Internal Security Laws—Morgenthau Diary*, vol. 1, p. 403.

13. Meeting on "Army Directive," 23 August 1944, *Ibid.*, pp. 427–30.

reluctant Churchill, to agree tentatively to a hard peace for Germany – the Morgenthau Plan.¹⁴ Roosevelt and Churchill declared that “this programme for eliminating the war-making industries on the Ruhr and in the Saar is looking forward to converting Germany into a country primarily agricultural and pastoral in its character.”¹⁵

Although the actual Morgenthau Plan circulating in Washington during September 1944 did not contain an explicit demand for the “pastoralization” of Germany, it did entail a massive reevaluation of all postwar planning. Along with proposing the partition of Germany and the vigorous prosecution of Nazis,¹⁶ Morgenthau suggested the deindustrialization of the Ruhr. “Here lies the heart of German industrial power. This area should not only be stripped of all presently existing industries but so weakened and controlled that it cannot in the foreseeable future become an industrial area.” Within six months of the cessation of hostilities, all industrial equipment not destroyed in combat would be dismantled and removed. An international authority subject to the United Nations would then govern the area. Although Morgenthau’s demands to limit or even refuse reparations claims was uncontroversial in Washington and London, his reasons for limiting reparations were not. The attempt to enable Germany to pay reparations would only create pressure to allow the overall economic rehabilitation of Germany. “If we were to expect Germany to pay recurring reparations, whether in the form of money or goods, we would be forced at the very beginning to start a rehabilitation and reconstruction program for the German economy.” The treasury secretary dismissed the widely held view that a general European recovery required a healthy and active Ruhr. The British, French, and Polish coal industries, he argued, could quickly replace the Ruhr as Europe’s principal source of coal. “If the Ruhr industry were eliminated, new iron and steel industries would unquestionably be built up in the rest of Europe to provide for those needs in iron and steel which the Ruhr used

14. *The Memoirs of Cordell Hull*, vol. 2 (New York: MacMillan 1948), p. 1602.

15. Churchill to War cabinet, Gunfire No. 169, 15 September 1944, PRO, FO 371/46868. The War cabinet received this message with alarm. They were concerned about the propaganda effect of the Morgenthau Plan on the Germans’ determination to fight to the bitter end and Morgenthau’s apparent willingness to tolerate a considerable level of inflation to punish the Germans. “A failure to maintain economic controls will lead to hoarding and eventually to another inflation, such as Germany had before.” “Copy of Telegram from the Foreign Office to the Foreign Secretary at Quebec Dated 14th September, 1944,” PRO, FO 942/150.

16. Morgenthau held a considerable advantage over the State Department on the question of partitioning Germany. While in London, he had been informed that Roosevelt had agreed to Stalin’s request for the partitioning of Germany at the Teheran Conference of 1943. Hull had never been permitted to see the minutes of the Teheran Conference and thus assumed, as did his subordinates at the State Department, that Germany would be treated as a single entity. *Morgenthau Diary*, vol. 1, pp. 415–18. See also *Memoirs of Cordell Hull*, vol. 2 pp. 1602–22.

to satisfy . . .” In the final analysis, the Treasury argued, “the elimination of this industrial apparatus is indispensable to rendering renewed German aggression impossible for many years to come.”¹⁷

The Morgenthau Plan hit the State Department like a bombshell. The treasury secretary’s plans dismissed the assumption that a postwar Germany should become a vibrant member of the international economic community. When State Department officials James Dunn, H. Freeman Matthews, and James Riddleberger met with Harry Hopkins on 4 September, they realized the extent to which the president now leaned toward such a punitive peace. They stressed to Hopkins the likely demand of other countries for reparations from Germany. To meet such claims, not only would the Allies have to desist from deindustrializing the Ruhr, but they would have to maintain and strengthen the existing controls over Germany. They tried to assure the White House that the “ultimate purpose would be to effect a fundamental change in the organization and conduct of German economic life so that German economy can eventually be integrated into an interdependent world economy.”¹⁸ Cordell Hull, on the other hand, had been shaken by the intensity of the Treasury’s unhappiness with the postwar planning for Germany undertaken in the State Department. He also despaired over FDR’s habit of keeping him in the dark over important questions of policy. Hence, he sent an alternative policy over to Morgenthau on the same day that it made its way to the cabinet. Although he advised that the “U.K. and U.S.S.R. together with a number of smaller states . . . may have claims on German production which they will require for purposes of rehabilitation and reconstruction,” he nevertheless sought to adopt many of the treasury secretary’s views. Echoing Morgenthau’s language, he recommended that “the standard of living of the German population shall be held down to a subsistence level,” that Germany’s economic power “must be eliminated,”

17. “Morgenthau Plan,” 8 September 1944, NARA, RG 107, 370.8, box 28. Morgenthau’s steadfast opposition to reparations helped make his ideas initially interesting to the British. Keynes wrote Chancellor of the Exchequer John Anderson that “you will see that the document is by no means as crude as the information first to hand might have suggested. . . . Unfortunately it is the most vulnerable paragraph, namely paragraph 4 [i.e., about the Ruhr], which has received all the attention, and here it seems to me that they quite clearly shirk the essential difficulty. . . .” Keynes to Anderson, 6 October 1944, PRO, Keynes papers, T 247/87. Harry Dexter White enthusiastically passed on Keynes’s initial interest to his boss, “Group Meeting,” 22 August 1944, *Morgenthau Diary*, vol. 1, p. 422. Given Morgenthau’s antipathy toward reparations, it is difficult to understand Carolyn Eisenberg’s argument that there was much the Soviets would have liked in his plan; see *Drawing the Line*, pp. 14–70. On the general American reluctance to countenance heavy reparations lest the Americans ultimately receive the bill, see John H. Backer, *The Decision to Divide Germany: American Foreign Policy in Transition* (Durham: Duke University Press 1978), pp. 46–60.
18. Riddleberger to Hull, 4 September 1944, NARA, RG 59, 740.00119 EW/9-444, reprinted in *Foreign Relations of the United States (FRUS)*, 1944: Quebec Conference, pp. 93–95.

and that Germany must be “dependent upon imports and exports” so that it “cannot by its own devices revert to War Production.”¹⁹

The War Department, like the State Department, reacted with alarm to the developing situation. Henry Stimson, the Republican secretary of war, and especially his assistant secretary, John J. McCloy, had long tried to get the president to focus on the need to decide basic occupation policy for Germany. They had already received Roosevelt’s ire after Morgenthau brought to his attention a military handbook the War Department planned to issue to U.S. commanders entering Germany. The handbook indicated that the primary task of the army of occupation was to “get things running” and restore the economy as quickly as possible.²⁰ FDR angrily sent the handbook back to Stimson with an order for extensive revisions. “It is of the utmost importance that every person in Germany should realize that this time Germany is a defeated nation.”²¹ Stimson could see where all of this discussion on postwar Germany headed. In a series of memoranda, he attempted to convince the president that the issue in Germany was one of means, not ends. “When we discuss means, the difference is not whether we should be soft or tough on the German people, but rather whether the course proposed will in fact best attain our agreed objective, continued peace.” He questioned whether “over the years a group of seventy million educated, efficient, and imaginative people can be kept within bounds on such a low level of subsistence as the Treasury proposals contemplate.” The successful creation of a stable multilateral international order presupposed the inclusion of Germany. “Enforced poverty is even worse, for it destroys the spirit not only of the victim but debases the victor.”²² In an immediate sense, Stimson’s protests had little effect on the White House. But gradually, the argument that Morgenthau’s proposals would endanger the original

19. Hull, “Suggested Recommendations on Treatment of Germany by the Cabinet Committee for the President,” 4 September 1944, *Morgenthau Diary*, vol. 1, pp. 519–21. In his memoirs, Hull described the above proposals as a compromise position for which Morgenthau did not, in the end, exhibit much enthusiasm. Morgenthau’s diaries, however, suggest he felt he had converted the State Department to his line of thinking. See *Memoirs of Cordell Hull*, vol. 2, pp. 1608–10.
20. Quoted in Morgenthau, “Memorandum for the President,” 25 August 1944, *Morgenthau Diary*, vol. 1, pp. 440–42; Backer, *The Decision to Divide Germany*, pp. 102–3.
21. FDR, “Memorandum for the Secretary of War,” 26 August 1944, *Morgenthau Diary*, vol. 1, pp. 443–45.
22. Stimson to Roosevelt, 13 September 1944. On 8 September, Stimson argued to FDR that the Ruhr constituted “a natural and necessary asset for the productivity of Europe. In a period when the world is suffering from destruction and from want of production, the concept of the total obliteration of these values is to my mind wholly wrong.” NARA, RG 107, ASW, 370.8, box 26. The War Department estimated Morgenthau’s proposals would lead to the unemployment of 30 million Germans. See White, “Dinner at the Secretary’s Home,” 4 September 1944, *Morgenthau Diary*, vol. 1, p. 503.

American objectives in Germany, that is, lasting denazification and a stable peace, rather than advance them, began to gain strength.

In the ensuing weeks, the State Department moved away from its earlier willingness to incorporate some aspects of the Morgenthau Plan into its thinking on postwar Germany. State Department officials now argued that the Treasury's proposals might endanger great-power cooperation in postwar Germany. Morgenthau's intention to reduce Germany's industrial capabilities to such an extent as to render it incapable of paying reparations could not please those Allies dependant on German reparations for their own reconstruction. The Soviets had already indicated that "Mr. Morgenthau's type of thinking was not acceptable to the Soviet government."²³ As Cordell Hull recovered from the shock of Quebec, he sent another memo to the White House in which he emphasized that any policy for Germany "will have to be worked out with our principal allies if they are to be applied throughout the German Reich." The United States was not likely to make any reparation claims, he admitted. "However, the USSR and a number of other states which have been victims of German destruction and exploitation may press claims for German production and labor services for rehabilitation and construction." Facilitating Germany's payment of reparations, however, presumed allowing the Germans at least a limited economic recovery. In the short run, the precarious financial condition of Germany made the continuation of widespread controls necessary. In the long run, maintaining Germany's economic viability might imply a considerable commitment on the part of the Allies.²⁴ FDR nevertheless dismissed Hull's concerns at this time with the remark, "I dislike making detailed plans for a country which we do not yet occupy."²⁵

Hull's successor, Edward Stettinius, continued the State Department's strategy of questioning the Morgenthau Plan's effectiveness as an instrument of great-power cooperation. In a memo to FDR in early November, Stettinius demonstrated that neither the British nor the Soviets would likely agree to the sweeping deindustrialization of Germany. Although the British might seek to limit Germany's competitive capabilities after the war as Morgenthau had emphasized, he reminded the president that their "program for accomplishing this objective is . . . moderate and restrained, relying primarily upon controls rather than upon basic economic impairment of

23. Leo Pasvolksy, "Memorandum of Conversation: German Problem," 28 September 1944, NARA, RG 59, Office of European Affairs, Germany, reel 15.

24. Hull, "Memorandum for the President," 29 September 1944, annex to Dunn to McCloy, 23 December 1944, NARA, RG 107, ASW, 370.8, box 28.

25. FDR to Hull, 20 October 1944, *Ibid.*

Germany.” With regard to the elimination of industrial war potential, he believed the British would support measures taken against purely autarkic industries first financed and developed by the Nazi regime only, such as the synthetic oil and rubber industries. As for the Russians, they would expect to receive immediate reparations through the dismantling of plants and the elimination of war industries. The Soviet interest in dismantling appeared compatible with the Morgenthau Plan, yet their long-term interests dictated the need for a continuous flow of reparations available only through the restoration of current production. With this argument, Stettinius pointed out the Soviet interest in a German economic revival and “that sweeping deindustrialization would be regarded by Russia as incompatible with her interest in Germany as a source of supply of industrial goods.” The new secretary of state advised the president that, though the White House may wish to view the debates in Washington as taking place between proponents of a hard and a soft peace for Germany, “a program of sweeping deindustrialization does not provide an adequate basis for sustained international security cooperation, nor does it provide a satisfactory alternative to such cooperation.”²⁶

The State Department continued its assault on the Morgenthau Plan into 1945 by highlighting both its inability to maintain great power cooperation and to transform German society. All action taken against Germany had to serve the purpose of maintaining a great power commitment to the joint occupation of the country. Both the Russians and the British had made clear their intentions to control the German economy thoroughly. In an internal memorandum, the State Department recommended that the Americans make an equal commitment. “Consequently, we must be prepared to take all possible steps in the initial phases of occupation to prevent [the] development of a chaotically unmanageable economic situation, since this is a prerequisite to the exercise of effective economic control.” Beyond simply maintaining great power cooperation in Germany, the Americans must work to direct the Germans away from aggression as well. Economically, this involved the abolition of German self-sufficiency and the “elimination of the instruments for German economic aggression.” Eliminating self-sufficiency, however, demanded the reintegration of Germany into an international financial system. “The eventual objectives imply the assimilation – on a basis of equality – of a reformed, peaceful and economically non-aggressive Germany into a liberal system of world trade.” Not only would the Morgenthau Plan

26. Stettinius to FDR, “Memorandum for the President,” 10 November 1944, *Ibid.* On Russian views, see Naimark, *The Russians in Germany*, pp. 141–204.

actually inhibit the continuation of great power cooperation, but it would sow the seeds of a resentful Germany as well.²⁷

Stettinius offered many valid points about the impression the Morgenthau Plan made abroad. In London, despite both Morgenthau and Stettinius's assumption that the desire to limit German industrial competition guided postwar planning, the Economics and Industrial Planning Staff feared that Morgenthau's reluctance to maintain controls over the distribution of money and goods in Germany would create an unmanageable economic chaos. As the Morgenthau Plan became known in London in September, British planners on the EIPS had been working on ways to contain inflation in Germany. An internal EIPS paper drew from the social experiences of Germany's 1923 hyperinflation. While small savers and wage earners had been hurt the most, EIPS planners believed, large landowners and industrialists had found it relatively easy to preserve their wealth by converting money into tangible assets. A recurrence of such an inflation would likely help only wealthy Nazis. In addition, "one of the most serious results of inflation is a radical misdirection of productive effort and the hoarding up and withdrawal from the orthodox channels of distribution of every type of goods." Containing inflation presupposed the steady and measured maintenance of both the price and wage controls, as well as the encouragement of an effective system of distribution. Judging from the Americans who had worked in the European Advisory Commission, the British had believed that the United States took a similar view of inflation and controls, "but recent telegrams from Washington suggest that high circles in the United States Government are tending to argue that inflation should be allowed to take its course, or even that it would be actively encouraged."²⁸ Allowing the Germans to "stew in their juice," as the Morgenthau Plan implied, meant permitting a new hyperinflation to develop. To British planners, this seemed a rather curious way of maintaining security against Germany. "Again it has been accepted that chaos and a starving and bankrupt Germany would not serve the interests of the occupying powers. Regard must also be paid to the consideration that excessive harshness, as opposed to sternness, may weaken rather than strengthen the durability of the settlement, by the reactions it would provoke."²⁹ To official London, the Morgenthau Plan appeared a threat to, rather than a facilitator of, national security.

27. "Economic Policies Toward Germany," annex to Dunn to McCloy, 23 January 1945, NARA, RG 107, ASW, 370.8, box 27.

28. Flemings, "Inflation in Germany," 14 September 1944, PRO, FO 942/150.

29. Troutbeck, "The German Settlement," 23 January 1945, PRO, FO 371/46865.

The British tried to hint to the Americans their doubts about the Morgenthau Plan without openly disagreeing with them. When meeting with Loy Henderson, the State Department director of Near Eastern Affairs, in early February 1945, EIPS member E. Playfair skirted the issue while nevertheless suggesting that the British considered at least a limited revival of German industry advisable. Although Henderson admitted that some enthusiasm for the Morgenthau Plan had dissipated in Washington because the Nazis had seized upon it to convince the Germans of the futility of an early peace, he warned his British colleagues that London's attitude toward German revival was not shared by the United States. Rather, he argued that a selective inflation in Germany could serve desirable social ends: "It would consist of a reallocation of the national income and would have as its aim the elimination of industrial profits and what the Nazis had stolen." Inflation could also, he said, benefit the German economy by increasing pent-up consumer demand. The British did not think much of this argument, but they did not want to alienate Henderson, as he was virtually alone among the Americans in advocating the need to maintain serious economic controls in postwar Germany to prevent economic and social chaos.³⁰ Even as the debate in Washington moved against Morgenthau, the British Foreign Office took care not to appear out of step with American thinking. During a meeting with the Permanent Undersecretary Sir Alexander Cadogan, Harry Hopkins warned that "the Morgenthau plan as such was dead but we must not think that some of the proposals advanced in it would not be revived." Cadogan could see the proffered olive branch and responded by agreeing with Hopkins that any shortfall in German production resulting from a relatively punitive peace, particularly in steel, could be accommodated by an increase in American steel exports to Europe.³¹

The mounting pressure on President Roosevelt to turn away from the Morgenthau Plan, however, was not without effect. Roosevelt grew increasingly willing to compromise with the State and War Departments as long as a compromise entailed the language of a hard peace. The policy he approved

30. "Minutes of EIPS Meeting," 6 February 1945, PRO, FO 942/151. Henderson had led a raucous meeting in Washington a few days earlier in which he argued that the necessity of maintaining Nazi-era controls would be necessary during the occupation. The United States could no longer look askance, Henderson suggested, at the possible development of a severe inflation. Morton P. Fischer, Finance Division, "Memorandum in re Meeting with Mr. Leon Henderson," 31 January 1945, NARA, RG 107, ASW, 370.8, box 29.

31. "Anglo-United States Discussion on the Future Treatment of Germany," 5 February 1945, PRO, FO 371/46865. Cadogan concluded that "they anticipated a disastrous slump in United States steel production and would fight hard against free supplies of German produced steel to Allied countries as reparation," David Dilks, ed., *The Diaries of Sir Alexander Cadogan, 1938-1945* (New York: Putnam 1972), pp. 702-5.

in March 1945 included such language. The United States pledged to support the Allied Control Council, the great power body founded to exercise sovereignty over occupied Germany, even if the ACC used economic controls not just to extract reparations, but to assure a level of production that met the needs of the occupying armies and displaced persons as well. Such a level of production would suffice “to prevent starvation or such disease or civil unrest as would endanger the occupying forces.” At the same time, however, “no action shall be taken, in execution of the reparations program or otherwise, which would tend to support basic living standards in Germany on a higher level than that existing in any one of the neighboring United Nations.”³² This compromise made its way into the official directive, JCS 1067, sent to General Dwight D. Eisenhower, the American military commander in Germany. JCS 1067 included the order to use economic controls to “ensure the production and maintenance of goods and services required to prevent starvation or such disease and unrest as would endanger these forces.”³³ In a directive otherwise in substantial agreement with the principles of a hard peace, the so-called “disease and unrest” escape clause provided by JCS 1067 allowed Eisenhower’s successor, Military Governor Lucius Clay, to begin the serious reconstruction of western Germany.

REVISIONS AND REALITY

Once the occupation of Germany began, the entire nature of the discussions about Germany in Washington and London changed dramatically. It had only been in mid- to late 1944 that planning for Germany, which had hitherto been the domain of the U.S. State Department and the British Treasury, had grown to include other interested parties, such as Henry Morgenthau’s Treasury Department, determined to inflict a hard peace upon the defeated enemy. By late 1945, however, a third group of influential actors in the determination of German policy emerged: occupation officials. The American Office of Military Government–United States and the British Control Commission played an increasingly important role in the fate of Germany. Faced with the task of rendering the Germans incapable of mounting a serious threat to Europe, they had also been charged with the job of creating economic conditions allowing a quick end to the occupation. As the

32. “Summary of United States Initial Post Defeat Policy Relating to Germany,” 22 March 1945, NARA, RG 107, ASW, 370.8, box 28.

33. “Directive of the United States Joint Chiefs of Staff to the Commander-in-Chief of the United States Forces of Occupation regarding the Military Government of Germany (JCS 1067),” April 1945, reprinted in Beate Ruhm von Oppen, *Documents on Germany Under Occupation, 1945–1954* (London: Oxford University Press 1955), pp. 13–27.

difficult economic problems of occupied Germany became clearer, such as the chronic shortages of raw materials and food, a broken network of distribution, and a worthless currency, these officials argued for a more rehabilitative approach to Germany.

Historians have often explained this change in approach to Germany as part of an ideological transformation guided by the imperatives of the cold war. Conservatives, so it is argued, had come to dominate German policy by 1947.³⁴ Inherently sympathetic to private enterprise and hostile to socialism, these conservatives suppressed thoroughgoing reform in Germany so as to concentrate on containing the Soviet Union. While not entirely untrue, such an interpretation leaves much unsaid. The wish to take more active steps in the rehabilitation and reconstruction of Germany did not simply result from a change in ideology. Both conservatives and New Dealers in the military government understood the impact of broken systems of distribution and shortages of food on an economy. To alleviate fundamental social distress, conservatives, New Dealers, and most important, British socialists urged Washington and London to do more to relieve Germany almost from the beginning of the occupation. At best, the intensification of the cold war hastened this process. In any event, cold war attitudes did not necessarily imply an abandonment of social reform in Germany. Quite the contrary. For the British especially, but also for the Americans, social reform became a weapon in the growing competition with the Soviet Union in Germany.

When the Labour Party came to power in August 1945, it appeared that London might embark on a fundamental reevaluation of its German policy. Hugh Dalton, Labour's finance expert and the man who expected to become foreign secretary, did not share Keynes's reservations concerning reparations. The great economist had emphasized the transfer problem in the reparations settlement of the 1920s. The transfer of money, he argued, had contributed to a steady depreciation in the value of the Reichsmark during the 1920s. This depreciation had in turn improved the terms of trade for the Germans and worsened the terms of trade for the British. A transfer of goods instead of money, on the other hand, made the recipient country potentially dependent on goods from the country paying reparations.³⁵ That is, reparations in

34. See James Martin, *All Honorable Men* (Boston: Little, Brown 1950). See also the essays in Charles Maier and Günther Bischof, eds., *The Marshall Plan and Germany* (New York: Berg 1991); and Eisenberg, *Drawing the Line*. See also Rebecca Boehlong analysis of local politics in initiating a conservative revival in *A question of priorities* (Providence: Berghahn 1996).

35. See Keynes, *Economic Consequences*. See also Carl-Ludwig Holtfrerich, *The German Inflation, 1914–1923: Causes and Effects in International Perspective* (New York: De Coruyter 1986), pp. 137–54, 279–99; and Stephen A. Schuker, *American "Reparations" to Germany, 1919–33: Implications for the Third-World Debt Crisis* (Princeton: Princeton University Press 1988), pp. 14–46, 82–105.

goods or currency helped German exporters in the long run. Keynes had concluded that reparations beyond a reasonable level could only improve the relative economic position of Germany and worsen that of its neighbors. Reflecting the Labour Party's confidence in economic planning, Dalton thought Keynes's reservations about the transfer mechanism applicable only to market economies. A planned economy, which he hoped the Labour government would introduce, could handle reparations more effectively. "If a gift *does* do damage, it shows that there is something wrong with the national economy of the recipient . . . Planned Economies can take it, but unplanned can't."³⁶ In a report to the Labour Party's National Executive Committee, Dalton argued that "last time the victors made a sad mess of all this. They claimed too much, collected too little, distributed most unjustly what they collected." He urged the government to restrict reparations to payments in kind and labor, money transacted between the Germans and the British military government within Germany, and general contributions to the west for the upkeep of defense.³⁷ Dalton did not see any inherent reason why the British should oppose reparations.

When Labour did come to the helm in late August 1945, Dalton did not receive the coveted post of foreign secretary, but rather that of the chancellor of the exchequer. His rival within the Labour Party, Ernest Bevin, became foreign secretary.³⁸ Nevertheless, Dalton's notorious antipathy toward the Germans found expression in the new government's insistence on achieving "economic security" in the British zone. In his first presentation to the cabinet on policy in Germany, Bevin stressed the paramount need for Britain to achieve both military and economic security vis-à-vis Germany through the exercise of stringent controls and thoroughgoing disarmament. "The immediate purpose was to achieve *security* against the possibility of future German aggression, and the proposals . . . therefore embodied a drastic policy over a selected field of German industry with a view to eliminating the basis of Germany's industrial war potential." To conciliate those who

36. Dalton, "Post-War Aims of the British Labour Party," annex to Dalton to Noel-Baker, 18 May 1943, LSE, Dalton papers, 7/10. Emphasis in original.

37. Dalton, "International Post-War Settlement," annex to Dalton to Labour Party, 11 January 1944, *ibid.* Dalton paid particularly close attention to the idea of forcing the Germans to hand over a considerable amount of timber from Germany's relatively unscathed forests. "The Germans have been ruthlessly felling the forest in all the occupied countries. They should be required to do the same to their own, and hand the timber over." *Ibid.* See also his diary entry of 2 January 1945, in which he "argued that reparations in kind, especially timber . . . differ from reparations in money in that in the former case we decide what the Germans should hand over and in the latter case *they* decide." LSE, Dalton diaries, vol. 32, 1945. Emphasis in original.

38. On the rivalry between Bevin and Dalton, see Kenneth O. Morgan, *The People's Peace: British History, 1945-1990* (Oxford: Oxford University Press, 1992), pp. 29-70.

wished to restrict Germany's ability to compete with British industry in the postwar world, Bevin announced that the Foreign Office would investigate effective measures to inhibit Germany's export trade in the future.³⁹ But despite Bevin's attempts to articulate a more punitive attitude toward Germany, London did not remain immune to the departmental turf wars that had plagued Washington the previous year. Control of the occupation of Germany represented a central and unresolved question. The Foreign Office naturally wished to integrate the British occupation of Germany into the larger framework of overall British policy toward Europe. Although the interministerial Control Commission was created to head the occupation, it had at first been staffed primarily by Foreign Office personnel. Other departments in London, such as the Treasury and the Board of Trade, wanted to prevent the Foreign Office from dominating the Control Commission. At the insistence of the Treasury, a junior minister of cabinet rank, Chancellor of the Duchy of Lancaster John Hynd, became head of the Control Commission. He functioned independently of the Foreign Office. In the years to come, Hynd became a conspicuous rival to Bevin in the creation of policy toward Germany and an irritant to the career diplomats in the Foreign Office.⁴⁰ He also grew into a determined advocate of western German reconstruction within the next year.

Hynd and other British and American officials found in Germany that the debates taking place in London or Washington about how to treat the Germans provided little guidance to Allied officials actually working in Germany. They had been entrusted with the task of reactivating economic life. Quite apart from the very real problem of nurturing quadripartite cooperation in the Allied Control Council for general policies on Germany, no one had ever explained how to implement a deliberate decision to maintain a standard of living equal to but not above that of Germany's European neighbors. Allied officials quickly learned that they faced an economic system that had completely broken down. The extent of the physical damage to housing, factory buildings, and equipment varied depending on the military significance of the target. At first sight, the Ruhr appeared devastated. Yet, plenty of equipment had either made it through the war unscathed or had been replaced by new machinery.⁴¹ In southern Germany, that is,

39. "CM(45)31st Conclusions," 13 September 1945, PRO, CAB 128/1. Emphasis in original.

40. "Note of Meeting of Ministers Held at No. 10 Downing Street," 17 August 1945, J. A. C. Robertson to Bridges, "German Control Commission and the Foreign Office," 18 August 1945, Wilfred Eady to Bridges, "Visit to Control Commission," 1 September 1945, PRO, T 273/60. It is interesting that in the German literature on the British occupation, Hynd is referred to as the *Deutschlandminister*.

41. On this point, see Werner Abelshauser, *Wirtschaft in Westdeutschland, 1945–1948* (Stuttgart: Deutsche Verlagsanstalt 1975), pp. 114–30. See also *U.S. Strategic Bombing Survey*, 1948.

the American zone, agriculture still functioned well. Consumer industries stayed in operation on a local basis. Throughout the western zones, stocks of raw materials remained considerable in 1945.⁴² Thus, although great damage had indeed been done to the physical assets of the German economy, the damage did not rise to catastrophic levels.

The system itself, however, of distribution, transportation, supply, and finance had been destroyed. The state of the coal industry illustrated the importance of distribution to the German economy. The coal industry had, of course, been one of the primary targets of the Allied bombing campaign.⁴³ The physical state of the mines, however, remained adequate. Acceptable housing for miners and their families, neglected for years by the Nazis and then destroyed by the Allies during the war, represented a more serious problem. Until 1945, the Germans had kept the coal mining industry going through recourse to slave labor. Such brutal working conditions, of course, were no longer acceptable under the occupation regime. As a result, production plummeted.⁴⁴ According to an American report, the Ruhr extracted in 1945 only 10 percent of its prewar production of coal. But coal also acted as the heart of the German economy, pumping fuel to the other industries through an arterial network of distribution. In the closing months of the war, Allied air forces had concentrated on destroying this network by bombing railway marshaling yards. With a defunct supply network, available coal did not get distributed effectively to German industry, small businesses, and households. For the moment, stocks of coal accumulated during the war provided some breathing space. But American analyst Calvin B. Hoover just stated the obvious when he commented that the Allies would have to restore a network of distribution. "The restoration of communications, transport and fuel supply are prerequisites for the resumption of production on any considerable scale in those industries in which it is to be permitted and for the revival of a minimum civilian economy."⁴⁵

42. Calvin B. Hoover, Economic Intelligence Branch, to director, Economics Division, "Report of Economic Situation in Germany," 2 July 1945, NARA, RG 59, 862.50/7-245.

43. See, for instance, Statistisches Hausdienst, "Der Wohnungsbestand und die Wohndichte in den Gross- und Mittelstädten der Britischen Besatzungszone," August 1946, BA, Z 8/192.

44. For an in-depth study of labor at the Ruhr mines after World War II, see Marc Roseman, *Recasting the Ruhr: Manpower, Economic Recovery and Labour Relations in the Ruhr Mines, 1945-58* (Oxford: Berg 1991).

45. Hoover, "Report of Economic Situation in Germany," 2 July 1945, NARA, RG 59, 862.50/7-245. See also Murphy to State, 23 October 1945, NARA, RG 59, 862.6362/10-1645; Department of State, "The Ruhr in the Economy of Europe," Division of Geography and Cartography, 29 March 1945, pp. 1-13. For Eisenberg's more critical view of Calvin Hoover, see *Drawing the Line*, p. 179.

Along with a crippled system of distribution, Allied officials faced a potentially disastrous currency situation. The price and wage controls instituted by the Nazis in 1936 had allowed the German government to indulge in reckless deficit spending to finance rearmament without facing inflation. Bernard Bernstein, head of OMGUS's Finance Division, estimated to Military Governor Clay that the amount of German money in circulation had increased approximately six times since 1936. The amount of currency in circulation chased too few goods available at official prices. With the cessation of draconian Nazi enforcement of price controls in 1945, a flourishing black market began to develop. The Allies felt compelled to maintain the price and wage controls to avert a hyperinflation. As the Allies would have to incur additional deficits to restore the economic infrastructure, Bernstein recommended keeping the controls in place because "at the present time it appears that the major factors which will influence the size of the deficit from the expenditure side are the financing of reconstruction, rehabilitation, relief, reparations, and occupation costs."⁴⁶ Already in the fall of 1945, then, officials in Germany thought in terms of restoring a system. They had gone beyond the isolated concerns over dismantling, decartelization, and economic security preoccupying their superiors in London and Washington.

The immediate justification for pursuing reconstruction in the individual zones, of course, had been the failure of the Allied Control Council in Berlin to decide on a common set of policies. At the Potsdam Conference of July and August 1945, the Allies had agreed to treat Germany as an "economic unit."⁴⁷ Divided primarily into the overwhelmingly agricultural American and Soviet zones and the industrialized British zone (with France accorded a small zone in southwestern Germany following the Potsdam Conference), Germany had to function as a complete unit in order to attain self-sufficiency. The Russians and Americans required machinery and other industrial goods from the Ruhr in the British zone, while the British needed food from the Russian and American zones. Despite an inherent skepticism about whether four-power control of Germany could work, the quadripartite machinery appeared at first to function reasonably well.⁴⁸ But the recovery of Germany

46. Bernstein to Clay, "German Public Finance," 15 June 1945, NARA, RG 107, ASW, 370.8, box 27. See also Hans Luther, "Rückwirkungen aus dem Preisproblem auf die Währungsreform," February 1946, BA, Z 1/311.

47. "Extracts from the Report on the Tripartite Conference of Berlin (Potsdam), 17 July–2 August 1945," reprinted in Ruhm von Oppen, *Documents on Germany Under Occupation*, pp. 40–50.

48. The Americans in particular had been quite encouraged by the willingness of the Soviets to side with them against the British on the seizure of assets of IG Farben and on the draft decartelization bill.

as a single economic unit required the creation of a number of central German administrations based in Berlin. At Potsdam, the Allies had agreed to reactivate central administrations for finance and transportation at the earliest possible date. The French, however, objected to the creation of any central administrations until the Ruhr question, namely the separation of the Ruhr from the rest of Germany, had been settled.⁴⁹ Not party to the Potsdam agreement, they did not feel bound by the ACC's commitment to treating Germany as a single economic unit. After quarreling with the French in the ACC for months, American military governor Lucius Clay halted reparations deliveries from the American zone. Although directed ostensibly at the French, Clay's action has become depicted as one of the great opening shots of the cold war.⁵⁰

Despite an initial decent working relationship with the Soviets in the ACC, the British and Americans worried about Soviet intentions in Germany. The Soviets had eagerly sided with the Anglo-Americans in the Allied Control Council to denounce French obstructionism in the case of central institutions. Whether the Soviets would indeed allow the creation of central institutions should the French suddenly give way, however, remained unclear. They had already put in place an administrative apparatus in their zone. Ostensibly for the extraction of reparations, these institutions appeared to prejudice the creation of institutions at a central level. In any event, Anglo-American officials already complained frequently about the inability to gain access to the Soviet zone.⁵¹ As Clay explained to John McCloy of the War Department, "the Russians have set up a complete German administration in their zone. I have been reluctant to create any such German agencies for our zone for fear it might impede the treatment of Germany as an economic entity."⁵² The Americans nevertheless went ahead, in July 1945, with a reorganization of German economic agencies in their zone. They wished to eliminate those organizations, such as *Gaue*, *Wirtschaftsgruppen*, and main committees, created by the Nazis. They wanted to substitute these National Socialist institutions with an administrative apparatus to guide controls, rationing, and distribution.⁵³ The British had grown even more anti-Soviet

49. See Strang, "Foreign Office Minute," 8 November 1945, annex to Strang to Oliver Harvey, 8 November 1945, PRO, FO 371/46989.

50. Eisenberg has recently and forcefully restated the significance of Clay's action taken ostensibly against the French as one of the most important opening gambits of the cold war in Germany at least. *Drawing the Line*, p. 212.

51. For the most up-to-date account of the administrative arrangements in the Soviet zone, see Naimark, *The Russians in Germany*, pp. 9–68.

52. Clay to McCloy, 5 October 1945, NARA, RG 107, ASW, 370.8, box 27.

53. Murphy to State, No. 230, 30 July 1945, NARA, RG 59, 862.50/7–3045.

in Germany. They had become quite upset over the fusion of the Social Democrats and the Communists into the Socialist Unity Party (*Sozialistische Einheitspartei*, or SED) in the Soviet zone, and they feared growing Communist agitation in the Ruhr.⁵⁴ In early 1946, they decided to create institutions in their zone to manage at least a limited economic recovery.⁵⁵ At first, they considered such German administrative units temporary, pending movement on the issue of central administrations in Berlin.⁵⁶ By October 1945, British officials in Germany drew up plans for a German Economic Advisory Board and the nucleus of the future bizonal economic council—*Wirtschaftsrat*), to give advice on economic policies to the British military government.⁵⁷

The lack of any decisive agreement on the future of Germany in the Allied Control Council, combined with the ambiguous attitude of the western Allies toward the Germans in their zone, created a situation by late 1945 in which Allied officials in Germany worked toward the economic recovery of the former enemy. This transformation did not always take place against the backdrop of debates between a hard or soft peace. Admittedly, most officials working in Germany did dismiss the Morgenthau Plan as folly. But the practical difficulties facing officials in Germany transcended such debates. A letter from the British political advisor in Germany, William Strang, to Foreign Secretary Bevin, illustrated this phenomenon. In late 1945, Strang emphasized to Bevin that most British officials in Germany had maintained a profound distrust of the Germans. But they also consciously worked to restore housing and raise the bread ration. Restoring worker housing and maintaining a reasonable bread ration meant restoring a viable system of distribution. “It follows from this that our detachments may come to regard the Germans in our zone as their own special charge.”⁵⁸ This did not mean that Strang now advocated a soft peace. He argued the need to combine the “negative” goal of destroying Germany’s capacity to wage war with a “positive” goal of alleviating distress. As a report of the Foreign Office’s Economic Advisory Panel put it, “we must surely add to the purely negative

54. “The Soviet Campaign Against Great Britain in Germany,” annex to Sholto-Douglas to Arthur Street, 27 May 1946, PRO, FO 1030/162. The Berlin Christian Democrats, the British noticed, also began to chafe under Soviet pressure to go along with the SED. Andreas Hermes was forced to resign in late 1945. See Hermes to Pieck, 8 October 1945, ACDP, NL Hermes, I-090-17/2.

55. “Note of a Discussion About Germany,” 3 April 1946, PRO, FO 371/55586; “CP(46)186, Policy Towards Germany: Memorandum by the Secretary of State for Foreign Affairs,” 3 May 1946, PRO, CAB 129/9; “CM(46)43rd Conclusions,” 7 May 1946, PRO, CAB 128/7.

56. “Meeting of the Economic Planning Committee,” 15 August 1945, PRO, FO 1025/22.

57. CCG BE Secretariat, “Proposed German Economic Advisory Board for the British Zone,” 16 October 1945, PRO, FO 371/46973.

58. Strang to Bevin, 27 October 1945, PRO, FO 1030/317.

policy of destruction a positive policy designed to construct a new Germany. . . . At the end of that period it was our hope to have a Germany which had been turned into a peaceful direction, which had no incentive to revert to the bad old pre-war shape because it had already taken on a new, better and more peaceful shape.”⁵⁹ Facing what appeared a complete breakdown in the nationwide system of transportation and distribution, officials such as Strang gradually evolved into advocates of economic recovery in Germany. In the abstract, their wartime attitudes toward Germans had not necessarily changed. But in their determination to rebuild a broken system and to alleviate distress, they buried a hard peace. Nothing demonstrated the end result of this gradual transformation in attitudes toward Germany better than John Hynd himself. Hynd, the patron of the Social Democrats and a proponent of dramatic structural reforms in Germany, became the mouthpiece of British officialdom in Germany lobbying for greater exports and increased food imports.⁶⁰ Indeed, Hynd’s advocacy for Germany preceded Secretary of State Byrnes’s famous Stuttgart speech of September 1946 by several months.⁶¹

The relatively limited measures taken to restore some semblance of economic order on an almost ad hoc basis in late 1945 did not fail to raise alarm bells in Washington and London. To congressional and parliamentary critics, for instance, the American and British military governments had lost the vigilance necessary to insure the Allies against any future German aggression. In mid-1945, the wartime Senate Committee on War Mobilization, the Kilgore Committee, began to investigate the continuing “economic base for German aggression” under the military governments. Senator Kilgore wrote the assistant secretary of state for economic affairs, William Clayton, that “there is already evidence on hand that the German conspirators for aggression . . . have prepared for the defeat in the present war . . . and are trying to create economic reserves, inside and outside of Germany, for another attempt at world conquest.”⁶² The Kilgore Committee sought to maintain

59. Economic Advisory Panel, “Draft First Report of Economic Advisory Panel,” 3 November 1945, PRO, BT 211/1. The British Secretariat in Germany argued in a similar vein that “to achieve the objective while carrying out the practical tasks is hard. It can only be done by striking a nice balance between long-term aims and short-term needs. . . . none of these objectives can be realised if economic chaos and anarchy prevail in Germany.” Secretariat (Major General R. H. Dewing), “Draft White Paper,” 28 November 1945, PRO, FO 1049/142.

60. Hynd to Bevin, 7 March 1946, PRO, FO 942/475.

61. See “Stuttgart Speech by J. F. Byrnes, United States Secretary of State: Restatement of Policy in Germany,” 6 September 1946, reprinted in Ruhm von Oppen, *Documents on Germany Under Occupation*, pp. 152–60. See also Noel Annan, *Changing Enemies: The Defeat and Regeneration of Germany* (London: Harper Collins 1996), pp. 184–85.

62. Kilgore to Clayton, 10 May 1945, NARA, RG 59, 862.00/5-945.

pressure on OMGUS to decartelize the German economy thoroughly. Concerns over the attitude of American military officials in Germany reached a fever pitch in late August, when several U.S. technical advisors told the *New York Times* that a punitive peace represented “an economic absurdity.” Miriam Stuart, of the Society for the Prevention of World War III, denounced the American military government in a letter to Secretary of State Byrnes. “This is a strongly defeatist attitude and indeed a kind of sabotage. If these technicians do not believe in the effectiveness of the Potsdam Program, then they should be replaced by other experts who have belief in and fortitude enough to execute the Big Three decisions.”⁶³

Concerns also arose in London over the Foreign Office and the Control Commission’s evident desire to rehabilitate the British zone. The Board of Trade (BOT) in particular voiced misgivings about the repercussions of this policy. It wanted to secure from Germany certain machine goods as reparations to aid in the reconstruction of Britain and to facilitate a future export drive. But the Economic Advisory Panel in the Foreign Office had urged that British policy limit reparations from Germany. The British delegates to the Allied Control Council thus proposed levels of industry for Germany that did not leave much room for the dismantling of the metallurgical, chemical, and engineering industries.⁶⁴ Yet in time the BOT too developed mixed feelings about Germany. Forcing German firms to supply British industry, BOT officials conceded, must not seriously inhibit the revival of Germany, because if Germany remained economically prostrate, then British authorities would have to continue to incur deficits that London could ill afford. BOT policy thus required a subtle and sophisticated approach to Germany on the part of British industry. Frequent meetings with the Federation of British Industries and the giant Imperial Chemicals Industries trust, however, revealed that British industry did not want supplies from Germany in the form of reparations. Rather, they wanted Whitehall to hold German productivity to artificially low levels in order to reduce direct competition between the two countries in the future.⁶⁵ This the Board of Trade refused to do. British officials had no intention of simply smothering German competition. As Eric Seal of the BOT complained to his colleague W. Ritchie, “the situation surely is that the British and other Allied

63. Miriam Stuart, Society for the Prevention of World War III, to Byrnes, 14 September 1945, NARA, RG 59, 862.50/9-1445.

64. A. L. Burgess, “Board of Trade Minute. Industrial Disarmament, Reparations, and British Commercial Interests,” 10 December 1945, PRO, BT 211/124; Cairncross, *Price of War*.

65. See Richard Pares, “Board of Trade Minute: Note for Meeting on Reparations Deliveries,” 9 October 1945, PRO, BT 211/125; and “Note of a Meeting Held at the Board of Trade . . . to Discuss German Dyestuffs,” 22 February 1946, PRO, BT 211/124.

producers have a splendid opportunity whilst Germany is prostrate of building up a . . . competitive position . . . They ought to be told to concentrate on building up this competitive position and not to rely upon the elimination of competition by a perpetuation of control.”⁶⁶ Seal’s remarks illustrated the dilemma facing the Board of Trade. British officials in Germany, they felt, had lost sight of larger British interests. The Board of Trade understood, however, that any pressure to steer Germany away from competing directly with British industry must not in itself inhibit German recovery.

By 1946, Allied policy in Germany had already begun to work toward the constructive rehabilitation of Germany. But this transformation did not reflect an ideological debate, but rather an interplay of domestic German conditions, diplomatic considerations within Germany, and the broader goals for Germany set in allied capitals. As the debate between proponents of a hard and a soft peace continued to rage in Washington and London, officials in OMGUS and the British Control Commission set about restoring an economic infrastructure based on strict controls to rebuild a broken-down system of distribution. Quite unable to embark upon a deliberate effort to maintain German living standards at an objective level not higher than that of Germany’s European neighbors, the occupation armies exerted great efforts simply to keep the economy running. The commitment to rebuild Germany, however, did not include an ideological abandonment of fundamental structural reform. Rather, Allied officials tended to allow Germans themselves to take the lead in drawing up a reform agenda. The Social Democratic Party (SPD), under Kurt Schumacher, became the primary beneficiary of the change in Allied attitudes toward Germany.

SOCIALISM IN THE WESTERN ZONES

The Americans and the British wanted to transform German society. But the Germans in the western zones did not act as passive recipients of an agenda worked out in Washington and London. They had plans of their own. Following the defeat and disgrace of Nazism, many Germans thought the hour of socialism had arrived. True to the socialist historical canon, they believed Nazism had discredited capitalism and liberalism. Even without an explicit ideological condemnation of capitalism, however, the widespread destruction of many cities and the general misery afflicting Germans immediately after the war nurtured an initial sense of egalitarianism favorable to

66. Eric Seal to W. Ritchie, 24 July 1946, PRO, BT 211/84.

the diffusion of socialist ideas. The socialism prevalent in defeated Germany found expression not just among Social Democrats and Communists, but among more conservative “Christian socialists” as well. The “Christian socialists” formed an essential part of the new Christian Democratic Union. They supported the socialization of basic industries, increased worker participation in the organs of economic self-government (*Selbstverwaltung*), and the inculcation of an idealized Christian ethos into industrial culture. At war’s end, then, the principal political movements in Germany embodied an as yet unclearly defined desire for socialism.

As the permanent and implacable foe of Nazism, the Social Democratic Party expected to lead a socialist transformation in Germany. Its principal demands, such as the socialization of the Ruhr’s heavy industry, enjoyed widespread support. Although Social Democrats recognized the inherent legal rights of the Allies under the provisions of the unconditional surrender to determine the fate of Germany, they did not necessarily impart to them the moral right to decide how to reform the discredited Germany. They expected the Allies to recognize them as important actors in the structural and cultural changes about to take place.

It did not take long for the Allies to realize the importance of harnessing socialism to their political and economic agendas in Germany. Both the Americans and the British needed friends in Germany to accomplish their goals. They both, especially the British, recognized the Social Democrats as politically untainted allies in the social transformations of the occupation. The cold war did not end Allied enthusiasm for socialism. Rather, particularly for the British, the emerging cold war in Germany reinforced the position of Kurt Schumacher’s SPD in the western zones. Schumacher had steadfastly refused, in early 1946, to allow his branch of the SPD to enter into fusion with the eastern German Communists to form the Socialist Unity Party (*Sozialistische Einheitspartei*, or SED).⁶⁷ Following the formation of the SED, the British became concerned over Communist activities in the Ruhr. They feared the Soviet Union wished to foment discontent and instability there. Rather than abandoning socialism and the Social Democrats, the British redoubled their commitment to the socialization of industry, worker participation in economic administration, and the institutionalization of a

67. On Schumacher’s antipathy toward the Soviets and the SED, see Lewis J. Edinger, *Kurt Schumacher: A Study in Personality and Political Behavior* (Stanford: Stanford University Press 1965), pp. 155–59; and Peter Merseburger, *Der schwierige Deutsche: Kurt Schumacher, Eine Biographie* (Stuttgart: Deutsche Verlagsanstalt 1995), pp. 240–317. On the creation of the SED, see Naimark, *The Russians in Germany*, pp. 251–317.

socialist ethos, precisely to forestall a Communist one. The Americans, far slower than the British to grow impatient with the Soviet Union, initially supported the “progressive” policies of the British as well.

The Social Democratic Party felt it represented the “other” Germany. Embodying Germany’s democratic tradition, the SPD not unreasonably expected to play a great role in the postwar period. Most Social Democrats agreed with Kurt Schumacher, that “there is only one way to overcome the class character of Nazism: Socialism.”⁶⁸ Schumacher had remained in Germany throughout the Nazi period and spent ten years in the Dachau concentration camp.⁶⁹ As a genuine victim of Nazism, he did not easily accept the moral authority of the Allies. But the exile SPD, based in London since 1939, understood the potential difficulties in persuading the Allies to recognize them as legitimate players in the postwar era. In its declaration of October 1943, the exile SPD warned that Allied policies alone could not transform Germany into a peaceful society. “The permanent success of such policies depends upon Allied willingness to allow the German people the possibility to shape its domestic political, social, and economic existence on its own initiative.” Anticipating the development of a hard peace party in London and Washington, these Social Democrats warned that Germany’s domestic development could be severely damaged, if “conditions are created that lead to lasting mass unemployment and that hinder a workable policy of social security.”⁷⁰ The exile Social Democrats saw themselves as the self-conscious enemies of wartime Germany even if the Allies did not always recognize them as such. At the same time, they prepared to work against the Allies if need be, to effect the economic and political rehabilitation of postwar Germany.

As the postwar SPD around Schumacher’s Hannover headquarters grew into the most potent political force in the western zones, social democrats reinforced their commitment to a structural transformation of German society. Unlike after World War I, the SPD did not want to leave fundamental social change undone. But the SPD also wished to define itself, and the socialist policies it advocated, as part of a broader western European and American movement to a more organized, though democratic, economy. At the first SPD congress, held at Hannover on 5 October 1945, Schumacher confidently proclaimed the hour of the social democrats. He

68. Schumacher, “Politische Richtlinien für die SPD in ihrem Verhältnis zu den anderen politischen Faktoren, 1945,” 28 August 1945, reprinted in Dieter Dowe and Kurt Klotzbach, ed., *Programmatische Dokumente der deutschen Sozialdemokratie* (Berlin: J. H. W. Dietz 1973), p. 246.

69. Edinger, *Kurt Schumacher*, pp. 53–71; Merseburger, *Der schwierige Deutsche*, pp. 166–94.

70. “Die internationale Politik deutscher Sozialisten,” 23 October 1943, BA, NL Agartz, 104/27.

nevertheless warned his compatriots that the evident enthusiasm for the SPD “did not mean an explicit endorsement of socialism or even a recognition of the necessity of a rationally planned (*planmäßig gelenkten*) economy.”⁷¹ The leading SPD economist, Viktor Agartz, elaborated on SPD economic policy at the next party congress, in Hannover, in May 1946. Capitalism, Agartz warned, should not be allowed to revive once again: “Despite the political and economic collapse of the World War I, Germany had risen in a few years to a form of capitalism reorganized on an imperialist basis.” Agartz took pains to stress that the Social Democrats did not envisage a planning regime controlled strictly from the center. Carefully regulated competition and initiative should simply function according to a socialist ethos. “The SPD does not see in planning an end in itself. We wish to restrict State intervention into the economy to the absolute minimum.”⁷² To effect dramatic social change in Germany, the Social Democrats wished to institutionalize worker participation in the vaunted German tradition of economic self-administration (*Selbstverwaltung*). Guided by state control of heavy industry and finance, a decentralized planning economy would wrest Germany from its reactionary, capitalist traditions.

In 1945, the Social Democrats found willing allies for their advocacy of socialism in the new Christian Democratic Union (CDU). The Christian Democrats emerged in 1945 as a broadly defined Christian political force opposed both to the liberal and secular traditions in German history. Dominated at first by Weimar-era Christian trade unionists such as Johannes Albers and Karl Arnold, figures associated with the 1944 plot on Hitler’s life such as Andreas Hermes, and persons involved in both, such as Jacob Kaiser, the economic tenets articulated by Christian Democrats in 1945 became identified with “Christian socialism.” Stripped of the intolerant content of turn-of-the-century Christian socialism, the CDU now advocated structural reforms for industry that appealed to social democrats. In general, the Christian Democrats favored some form of public control over basic industry. As the first branch of the CDU formed under Andreas Hermes in Berlin, it proclaimed that “it was imperative to protect the State from the illegitimate influence of manifestations of industrial power for all time. The key industries [*Schlüsselindustrien*] must be placed clearly under the authority of the State.” Similarly, Christian Democrats in Cologne urged

71. Schumacher, “Programmatische Erklärungen vom 5. Oktober 1945,” reprinted in Ossip K. Flechtheim, ed., *Dokumente zur parteipolitischen Entwicklung in Deutschland seit 1945* (Berlin: Verlag H. Wendler 1963), p. 6. Schumacher was at great pains to inform the skeptical British that the Hannover conference represented a great victory over the Soviets. See “Socialist Party Congress,” annex to Major Field Robinson to Troutbeck, 19 October 1945, PRO, FO 371/1945.

72. Agartz, “Sozialistische Wirtschaftspolitik,” 9 May 1946, BA, NL Agartz, 633/14.

that “public ownership may be extended as much as the public interest requires.” This would include, they argued, heavy industry, the postal system, railways, and the financial industry. The Frankfurt Christian Democrats supported socialization as the basis for the postwar economy. “We commit ourselves to an economic socialism on the basis of democratic principles . . . We strive for the socialization of certain large and basic producers [*Urproduktionen*], large industries, and large banks.”⁷³ In the treatment of the economy and industry, there appeared considerable room for agreement between Social Democrats and the “Christian socialists” in the nascent CDU in 1945. As Johannes Albers wrote to the legendary Christian trade unionist Adam Stegerwald shortly before the latter’s death, “there is nothing more to do unless it [that is, industrial policy] is socialist in the good sense of the word.”⁷⁴

To be sure, the SPD and the CDU disagreed on many things. Although both parties agreed broadly on basic economic policy, the explicitly Christian ethos of the early CDU remained significant. To Christian Democrats, the long process of secularization, of which social democracy had been a crucial part, had produced a cultural nihilism that the Nazis exploited. Whereas the SPD considered the structural transformation of German society the central issue of postwar Germany, the Christian Democrats considered the ethical and spiritual regeneration of Germany on a Christian basis of fundamental importance. Early Christian Democrats wanted to inculcate a spiritual ethos in a German youth seduced by National Socialism. Andreas Hermes, who attempted in 1945 to establish his Berlin organization as the central headquarters of Christian Democracy, took this very seriously. He conceded that “it was the forces of the trusts [*Konzernen*] that brought Hitler to power.” Socialization of heavy industry, he argued, could eradicate the pernicious influence of large-scale monopolistic industry from Germany. But he also stressed that “what we struggle against, particularly among the youth, is the false lesson of Hitler, that morals are irrelevant in public life, and that, in the interests of State, one can lie, indulge in prejudice, steal, and murder.” Hermes thus advocated “a form of leadership for the State and the people that is close to God, not alienated from Him.”⁷⁵ Eberhard Welty’s

73. See “Aufruf an das Deutsche Volk,” pp. 27–30, “Kölner Leitsätze,” pp. 30–36, and “Frankfurter Leitsätze vom September 1945,” pp. 36–45, all reprinted in Ossip K. Flechtheim, *Dokumente zur parteipolitischen Entwicklung*, vol. 2.

74. Albers to Adam Stegerwald, 15 August 1945, BA, NL Jacob Kaiser, 18/315. See also Ambrosius, *Durchsetzung der Sozialen marktwirtschaft*, pp. 14–24. For an in-depth account of the influence of Christian socialism in the early CDU, see Uertz, *Christentum und Sozialismus*.

75. Hermes, “Rede für die Godesberger Tagung der Christlich-Demokratischen-Union,” 15 December 1945, ACDP, NL Hermes, 1-090-016/1. Hermes’s speech was delivered for him at Bad

Was Nun?, the most influential Christian socialist pamphlet in these years, established the right of people organized in the state to exercise “special ownership” [*Sondereigentum*] over heavy industry and finance. Public ownership, however, should reintegrate economic life into an explicitly Christian value system. “According to both humanistic and Christian ethics, the State is not a Power, neither a blending of subterranean forces nor even simply an associations of interests, but rather the State represents a *natural and unconditionally encouraged arrangement of God’s creation order* [*Schöpfungsordnung*]”⁷⁶ The state’s legitimate power over the economy derived from its divinely inspired origins. Although overwhelmingly Catholic, Christian Democrats tried to attract Protestants by emphasizing a general Christian ethic. As Otto Schmidt of Wuppertal stated, “all interests must subordinate themselves to the two fundamental principles of Christianity on the one hand, and the good of the community, which can also be realized through democracy, on the other hand.”⁷⁷ Although Social Democrats and Christian Democrats largely agreed on the need to replace a discredited capitalism with an albeit vaguely defined socialism, the explicit religious sensibility of even the Christian socialists within the CDU forshadowed plenty of conflict with the militantly secular SPD. In the years to come, this conflict would manifest itself in bitter debates over education policy, particularly in the industrial Land of North-Rhine Westphalia.

In 1946 the British military government, with the acquiescence of the Americans, sought to nurture a broadly socialist alliance between Social Democrats and the CDU to effect permanent structural change in Germany.⁷⁸ The Labour Party’s accession to power in London provided part of the stimulus to support socialism and social change in Germany in a more active manner. With the exception of Hugh Dalton, most of the Labour Party had already decided during the war, to extend aid to socialist

Godesberg because the Soviets did not issue him the transit visa necessary to travel from Berlin to Bad Godesberg.

76. Eberhard Welty, *Was Nun? Grundsätze und Hinweise zur Neuordnung im deutschen Lebensraum*, 1946. Emphasis in the original.

77. Otto Schmidt, “Das gemeinchristliche Anliegen im politisch-sozialen Leben,” 2 September 1945, annex to Freiherr von Bumpfenberg to Günther Henle, BA, NL Henle, 384/78.

78. Among the Americans, James Riddleberger became a powerful backer of working closely with the Social Democrats in Germany. See Riddleberger to Byrnes, 10 June 1946, NARA, RG 59, Office of European Affairs (Hickerson and Matthews Files), reel 15; and Riddleberger, “Comment on ‘A Discussion of Possible Constitutional Provisions for a German Federal Government,’” Hoover Institution—Stanford University, Robert Murphy papers, 59/19. Robert Murphy’s initial impressions of the CDU were not very favorable. “As compared with KPD and SPD, both the CD... are comparatively inactive, unenergetic and led by individuals who, though apparently good honest exponents of middle class capitalist... democratic views, are not very adept at politics.” Murphy to the State Department, 7 September 1945, NARA, RG 59, 862.00/9-745

parties in Europe, even to German socialists.⁷⁹ But the natural ideological affinities between Labour and social democracy provided only part of the reason for their ever closer relationship. In fact, the British had worried about the centralizing nature of Schumacher's SPD and the trade union movement. They worried that centralization might undermine the official Allied policy of democratization and political decentralization.⁸⁰ The British overcame their reservations toward the western German left as a result of the developing cold war. Frustrated with what they considered Soviet obstruction in the Allied Control Council, the fusion of the SPD and the Communist Party in the eastern zone, and Communist agitation in the Ruhr, the British Labour government threw down the gauntlet to the Soviets in Germany. To combat Soviet influence, they reinforced their commitment to moderate social change in Germany. As Austen Albu, the deputy president of the Governmental Subcommittee in the Control Commission, stated, "it is clear that the only party which can gain the support of the Working class and can help, in present circumstances, to resist Communist pressure and remain democratic is the SPD."⁸¹ To that end, the British supported a coalition between the SPD and the Christian socialists in Germany to bring about "progressive social change."⁸² Labour Party representatives Phillip Noel-Baker and Morgan Phillips, visiting the SPD in July 1946, encouraged Social Democrats to disregard religious differences with the CDU and focus on the common ground of economic and industrial policies. Phillips stressed that "the CDU is gaining ground steadily and

79. See especially Philip Noel-Baker to Clement Attlee, 15 September 1943, Churchill Archives, Noel-Baker papers, 4/291. "I am sure the overwhelming majority of both wings of the Party desire that our attitude shall be to encourage social democrats in all the ex-enemy countries, including Germany, in the greatest possible measure." See also Secretariat of the Political Division, "Draft White Paper," 28 November 1945, PRO, FO 1049/42.

80. The British worried about the union's plan to create a single union federation of strictly centralized industrial unions. Whereas the British TUC had united craft-based organizations in an umbrella organization that, in turn, created the Labour Party, the German union movement had been split both confessionally and vocationally. The single postwar German union federation, which later became the Deutsche Gewerkschaftsbund, aimed to overcome the traditional confessional divide between socialist, or "free", unions and Christian unions on the one hand, and vocational division on the other, by integrating everyone into a union based on industrial divisions. Hence, by July 1946, the German unions in the British zone decided that "the contentious issue of the form of organization for the unions has been brought a step further, in that the recommendation of the zonal committee has been issued for the conference in July to adopt the industrial union (*Industrieverband*) as the basis for the zonal trade union movement." "Bericht für Runkfunk und Presse. Sitzung des gewerkschaftlichen Zonenausschusses vom 30. Mai bis 1. Juni 1946 in Bielefeld," 3 June 1946, FES, DGB-Archiv/ 101/11/2. The TUC recommended to their German compatriots that "there should be a number of unions with complete autonomy in the affairs of their members." See "Trade Unionism in Germany," *Labour: Official Organ of the Trades Union Congress* 8, no. 5, 1/46.

81. Albu, "Memorandum," 14 March 1946, Churchill Archives, Albu papers, 28/German.

82. "CM(46)43rd Conclusions," 7 May 1946, PRO, CAB 128/7.

we are especially interested to know to what extent the Social Democrats can win over the leftist elements within the CDU.”⁸³ The British viewed the central contest in their zone as containing “two main contestants, rival candidates for the leadership of the labour movement, the Communists and the Social Democrats.”⁸⁴ In the next two years, 1946 and 1947, the socialist agenda, that is, the socialization of industry, increased worker influence over the economy, and the institutionalization of a socialist ethos depended upon the ability of Social Democrats to build bridges to leftist Christian Democrats.

CONCLUSION

By early 1946, the occupation in western Germany pursued a moderately socialist agenda. As the war drew to a close in late 1944, American and British planners had become aware of the scope of their likely powers and responsibilities over a defeated Germany. Although early wartime planning had concentrated on reintegrating Germany as quickly as possible into an international financial system, London, and especially Washington, flirted with a more thoroughgoing and punitive peace best exemplified by the Morgenthau Plan. The Morgenthau Plan and the sentiments it expressed, however, did not appear to offer a realistic way to secure the long-term cooperation of the four powers. The goal of a punitive peace, in which German living standards would remain deliberately and artificially low but not low enough to cause disease or unrest, proved difficult to achieve in practice because war-torn Germany depended not only on the restoration of physical plant and commercial production, but on networks of distribution as well. Eventually, the Allies found that the best hope for social and cultural change in Germany lay in the support they could give to moderate socialism. The forces of moderate socialism in western Germany, be they Kurt Schumacher’s SPD or a very large part of the pre-Adenauerian CDU, would by themselves wrest social and political power from the same reactionary and traditional elites that allied policy had aimed to disarm. The commencement of the cold war only reinforced Allied reliance on socialism in the western zones. The fortunes of socialism in West Germany were not necessarily dependant on the changing context of the cold war.

83. “Protokoll der Sitzung der Parteivorstandes am 12. Juli 1946 in Hannover,” FES, Bestand PV, Protokolle 1946.

84. Allan Flanders, “Notes on German Politics,” 2 October 1947, annex to Steel to J. A. M. Majoribanks, 6 October 1947, PRO, FO 1049/859.

Nevertheless, the lasting strength of socialism in western Germany remained unclear. The SPD and the CDU had many potential differences in 1945 and 1946. They often disagreed on noneconomic issues. Although they both wished to transform Germany's industrial and social structure, the Christian Democrats approached social problems with a decidedly cultural epistemology. When Adenauer became prominent in the CDU in 1946 and early 1947, he supplemented these existing cultural and education differences with the SPD with an alternative economic ideology. In fact, once socialism was discussed in any detail in Germany, differences soon emerged even without Adenauer's help. The first test case of whether moderate socialism could grow in western Germany was the socialization of the Ruhr's heavy industry.

The Future of the Ruhr

Socialization, Decartelization, Restoration, 1945–48

Perhaps the most controversial issue that faced the “Bonn Republic” throughout its existence was its relationship to the German past. Whereas the East German regime argued that Nazism’s hatred of communism made the German Democratic Republic (GDR) fundamentally irresponsible for Germany’s history before 1945, the Federal Republic enjoyed no such luxury. Though the myth of a *Stunde Null* enjoyed widespread popularity, acute West German observers from the beginning worried about the continued existence of institutions and prominence of individuals implicated in the crimes of Nazism. As Konrad Adenauer’s Christian Democratic Union strove to establish the moral, as well as political, legitimacy of West Germany, many social scientists echoed the Social Democratic opposition in criticizing a “restoration” of preindustrial elites. The continued prominence of judges, lawyers, and civil servants, especially Hans Globke in the Chancellery, threatened the fundamental moral authority of the West German system.¹ Similarly, the return to power of many Ruhr industrialists signaled to many the restoration of a capitalism that had brought Hitler to power.

The lack of deep structural reform in the Ruhr industrial basin proved fundamental to the restoration thesis. After all, in 1945, Ruhr industrialists were completely discredited. Not only socialists and Communists, but the Americans and British believed that the industrialists of the Ruhr had provided crucial support to Hitler. After Germany’s defeat, the Social Democratic Party (SPD) emerged as the strongest political force in occupied Germany. Confident that the hour of socialism had arrived, Social Democrats advocated deep structural reforms in German industry that

1. Globke codrafted the Nuremberg laws of 1935. He later served as Adenauer’s highly trusted state secretary. For a recent treatment of this issue within the context of remembering the Holocaust, see Jeffrey Herf, *Divided Memory: The Nazi Past in the Two Germanys* (Cambridge, Mass: Harvard University Press 1997).

looked toward the creation of an “economic democracy” (*Wirtschaftsdemokratie*). Such an economic democracy would involve the public ownership of heavy industry (socialization) and the institutionalization of equal worker influence over all organs of the economy (codetermination).² The British initially supported the Social Democrats in their desire to “socialize” Ruhr industry. But by 1947 the momentum for public ownership in the Ruhr had waned. Most historians have explained the demise of socialization by pointing to American influence. By 1947, the Americans had become increasingly obsessed with the cold war. As the United States shifted its attention from reforming a defeated enemy to enlisting that former enemy in the struggle against a new foe, American policy makers lost interest in experiments in social reform and instead wished to focus on German economic recovery. As American influence over the western zones increased in 1947, the United States effectively vetoed British plans for socialization. American hostility toward public ownership in the Ruhr ultimately led, then, to the restoration of traditional capitalism.

The traditional restoration thesis really involved two points and linked them together. The Americans exercised a decisive influence over the shape of postwar Germany’s social system by implementing an antisocialist agenda, determined by American cold war needs, at the expense of alternatives. In this way, the Americans facilitated continuities in the western German capitalist system that transcended 1945. Whether the social market economy represented nothing more than a restoration of traditional capitalism will occupy the latter half of this book. Here we will examine the extent to which the Americans, acting out of cold war imperatives, inhibited the realization of deep structural reforms, such as socialization, or, for that matter, thorough decartelization in the Ruhr, and thus exercised *the* decisive influence over

2. The word *socialization* (*Sozialisierung*) possessed an ambiguous meaning (in both English and German) during the occupation. On the one hand, *socialization* meant the assumption of public ownership over heavy industry. English speakers then and most Germans now use the term *nationalization* to refer to the assumption of public ownership over industry. But as no German “nation” existed during the occupation, and as most proposals for public ownership involved at least provisional ownership of industry at a level other than the national one, the Americans and the British adopted the common German usage of the word *socialization*. As far as German usage is concerned, the term *Sozialisierung* could have two meanings. Although the Social Democrats intended *Sozialisierung* to mean state ownership, one could define the term as meaning either *Verstaatlichung* (unmistakingly state ownership), or as *Gemeinwirtschaft*, involving a looser reorientation of the purposes of industry for the collective. The vagueness of the term *Sozialisierung* perhaps enabled Social Democrats to convince reticent conservatives to believe that what the SPD intended was some form of *Gemeinwirtschaft* instead of outright *Verstaatlichung*.

As far as the term *codetermination* is concerned, it refers today to the institution adopted in 1951, discussed in Chapter 6, that accorded equal union influence in the supervisory board of large firms (*Aufsichtsräte*). Codetermination during the occupation, however, was not limited to industry, but rather was meant to institutionalize equal union influence over the economy as a whole.

the shape of the western German economic system. With this in mind, one can make a number of points that cast prevailing views into doubt.

First, British socialization policy ran into difficulties on its own independent of the Americans. London decided in 1946 to advocate the socialization of Ruhr industry both to extend the olive branch to German Social Democrats and to ensure its own security. For security and diplomatic reasons (having mainly to do with the French), the Foreign Office insisted that the socialization of coal and steel be limited to one *Land*, or state, North-Rhine Westphalia. British officials working in Germany, in the Control Commission, nevertheless soon realized that limiting socialization to one *Land* did not meet with the agreement of the Social Democrats.³ The Control Commission developed grave misgivings, as did the SPD, about the technical and organizational feasibility of placing socialized heavy industry under the authority of one *Land* at the expense of the overall German economic planning system that London and the Social Democrats wished to create. The Control Commission became ever more insistent on adopting SPD views, as they feared the Social Democrats would grow disillusioned with the British. By early 1947, then, the Foreign Office in London and the British Control Commission in Germany disagreed fundamentally about public ownership in the Ruhr and could not resolve their differences. When the Americans raised protests against British socialization policy, the British were, in fact, without a policy.

Second, viewing American policy toward social reform in German industrial culture solely through the framework of the cold war overlooks the complexity and fluidity of American views on the western German economy. The Americans began the occupation with the intention of decartelizing German industry thoroughly. Though American decartelization policy succeeded in breaking up IG Farben and, for a number of years,

3. Wolfgang Rudzio and Rolf Steininger examined the issue of socialization in the British zone extensively. They demonstrated the fundamental contradiction between official British policy and the desires of the Social Democrats. See Rudzio, "Das Sozialisierungskonzept der SPD und seine internationalen Realisierungsbedingungen," and Steininger's essay, "Die Sozialisierung fand nicht statt," in Josef Foschepoth and Rulf Steininger, eds., *Britische Deutschland- und Besatzungspolitik*. Rudzio also examined British socialization policy in "Die ausgebliebene Sozialisierung an Rhein und Ruhr. Zur Sozialisierungspolitik von Labour-Regierung und SPD 1945-1948," *Archiv für Sozialgeschichte* 18 (1978): 1-39. Also of interest is Steininger's account of the creation of North-Rhine Westphalia in *Ein neues Land an Rhein und Ruhr. Die Ruhrfrage 1945/46 und die Entstehung Nordrhein-Westfalens*, (Cologne, W. Kuhlhammer 1990) Werner Milert, "Die verschenkte Kontrolle: Bestimmungsgründe und Grundzüge der britischen Kohlenpolitik im Ruhrbergbau 1945-1948," in Dietmar Petzina and Walter Euchner, eds., *Wirtschaftspolitik im britischen Besatzungsgebiet 1945-1949* (Düsseldorf: Schwann 1984), p. 117. In an excellent general account of Britain's role in the division of Germany, Anne Deighton restates the traditional version of why socialization was shelved in *The Impossible Peace: Britain, the Division of Germany and the Origins of the Cold War* (Oxford: Oxford University Press 1990), pp. 197-200.

the big banks, the Americans did not succeed in effecting a root and branch reform of the Ruhr's coal and steel industries. James Martin, head of the American military government's decartelization branch, argued later that American enthusiasm for deep-rooted and necessary reforms to the German industrial structure had waned because of the shift in priorities in 1947 owing to the cold war. Like British policy toward socialization, however, one can also view the transformation in American policies toward German industry as part of a process of negotiation with realities in Germany as well as with German democratic allies. U.S. decartelization policy suffered its most dramatic setback when the Americans agreed, with the British and their allies in the SPD, that a functioning economic planning system took precedence over widespread decartelization policy. Many American critics of the U.S. military government took the creation of the bizon in early 1947 as an indication of a reckless fixation on rehabilitating an undeserving former enemy in order to confront the Soviet Union. But the British Labour government in London took American agreement to apply central controls with a view to reconstruction in Germany as a constructive recognition of economic realities on the part of the Americans. Neither view is entirely out of place. Indeed, American opposition toward the specific British socialization proposal, during the first half of 1947, owed much to the residual American belief that structural reform in German industry be approached from the standpoint of free competition, the very basis of the American ideological commitment to decartelization. The prevailing belief, therefore, that American ideological objections to public ownership, objections raised in 1947 with a renewed vigor, dashed hopes for enduring social reform in the Ruhr, overlooks how reform agendas can change over time. Neither American nor British views toward German industrial culture were static. They changed as a result of a dialogue with the Germans undertaken within an atmosphere of rapidly changing economic, political, and international circumstances. Plans for dramatic social reforms, endorsed enthusiastically in 1945, foundered by 1947 and 1948, primarily because of technical reservations, not ideological objections. Indeed, confronted by the realities of reconstruction in western Germany, the Allies began to lose the power to shape the postwar West German political economy.

THE EVOLUTION OF BRITISH SOCIALIZATION POLICY

With varying degrees of ideological intensity, the Allies in the war against Germany shared the view that its social structure represented a major

element of the German problem. The persistent power of a supposedly preindustrial elite of Junkers, militarists, and monopoly capitalists was held to have retarded Germany's democratic development and to have perpetuated its militaristic culture. Stalin had asserted that the Soviet Union waged war not against the German people, but against a monopolistic and reactionary ruling class. To wrest power from this reactionary ruling class, the Soviets took control of all large firms in their zone and transformed them into Soviet–German joint stock companies.⁴ In contrast, the Americans aimed to eliminate the entrenched ruling class with the decartelization of German industry. They hoped, thereby, to recreate on German soil a competitive economy immune to monopoly. In comparison to the other Allies, the British came relatively late to a discussion on the future of German industry. Occupying the Ruhr, they were effectively charged with breaking the power of the region's notorious industrialists.

By 1945, the Economic and Industrial Planning Staff (EIPS), the inter-ministerial committee charged with British postwar planning, had not yet considered in detail what to do with the Ruhr. True to the principles of the Malkin Committee Report of 1943, the EIPS had hitherto concentrated on recommending ways to avoid a large reparations settlement. Apart from vaguely advocating “industrial disarmament” and “economic security,” EIPS members had not developed any concrete proposals for how the British military government should run and reform the Ruhr's basic industries. They definitely opposed French demands for the political separation of the Ruhr and the Rhineland from Germany.⁵ Such dismemberment would only encourage German revanchism and obstruct a swift and “reasonable” peace settlement. On the other hand, they rejected Soviet ideas about international ownership as well. At Yalta, the Soviets had proposed that Allied governments assume direct ownership of important Ruhr industries. The EIPS feared that such close control of the Ruhr merely invited German obstruction. International ownership gave the Allies a vested economic interest in the prosperity of precisely those industries that they wanted to control for security reasons in the first place. The dividends derived from international ownership constituted an indefinite form of reparations, “precisely the form

4. Naimark, *The Russians in Germany*, pp. 141–204. For a general account of Soviet economic policies toward East Germany and the GDR's policies growing out of them, see Jeffrey Kopstein, *The Politics of Economic Decline in East Germany, 1945–1989* (Chapel Hill: University of North Carolina Press 1997), especially pp. 17–40.
5. On French policy toward Germany, see F. Roy Willis, *France, Germany and the New Europe, 1945–1967* (Stanford: Stanford University Press 1968); William I. Hitchcock, *France Restored: Cold War Diplomacy and the Quest for Leadership in Europe, 1944–1954* (Chapel Hill: University of North Carolina Press 1998).

of reparation which both we and the Russians have rejected.”⁶ By late 1945, apart from confiscating the property of the most notorious right-wing industrialists, the British military government had done nothing. The EIPS and the Foreign Office had no formal guidance to offer.

Pressure from events within Germany, as well as from the new Labour government, forced the EIPS and the Foreign Office to reconsider some form of public ownership for the Ruhr’s coal and steel industries. The Americans announced to the Allied Control Council on 5 July that they had seized all assets of IG Farben in their zone. They intended to decartelize the firm. They appeared to invite the British to take similar action not only against IG Farben holdings in the British zone, which included the Bayer complex near Cologne, but against Krupps at Essen and the Hermann Göringwerke at Salzgitter as well. As the United States got credit for taking decisive action against Farben, the British military government grew uneasy about doing nothing. Sir Percy Mills, of the Control Commission, urged the EIPS to come up with a positive policy for the Ruhr, because “it was highly desirable that the Control Commission . . . should have something to show for the occupation of the British zone.”⁷ The new foreign secretary, Ernest Bevin, applied some ideological pressure to the EIPS as well. Harold Laski, Labour’s premier economist and party chairman, had sent Bevin a highly charged letter by an American, a Lieutenant R. M. Scammon. Scammon excoriated American free-enterprise principles and called on the British to conduct a “socialist” policy in their zone. Bevin passed the letter on to the EIPS on 11 August with the comment that “this question of ownership and operation of German industry will become acute; I should like a careful study of the problem.”⁸

EIPS planners recoiled from a polemical interpretation of the Ruhr’s industrial culture. They also criticized the American “trust busting” approach because they considered the basic Ruhr industries natural monopolies. “Even if we were successful in eliminating existing combines, which is by no means certain, we could not prevent the formation of new ones after the period of occupation and close control is over.” Ruhr industries

6. “Control and Ownership by the United Nations of German Industrial Concerns: Memorandum by the Economic and Industrial Planning Staff,” 18 May 1945, Public Record Office (PRO), FO 942/235.

7. “EIPS/134. The Treatment of IG Farbenindustrie, Krupps and the Hermann Goeringwerke: Note by the Acting Chairman,” annex to Ritchie to Playfair, 26 July 1945, PRO, FO 942/236. See also Raymond Stokes, *Divide and Prosper: The Heirs of IG Farben Under Allied Authority, 1945–1951* (Berkeley: University of California Press 1988).

8. First Lieut. R. M. Scammon to Harold Laski, n.d., annex to A. H. Lincoln to Mark Turner, 11 August 1945, *ibid.*

had tended to converge because of the compact location of their natural resources and the relative scarcity of high-quality coking coal. It was foolhardy to believe that free competition could endure there. Hence, "the only practicable alternative is some form or other of Allied, or of public or cooperative German, ownership."⁹ Nobody wanted to hand the industries over to a central German government, but the Ruhr area could, in fact, be contained within one *Land*. As E. Ackroyd, of the Ministry of Supply, pointed out to EIPS chairman Mark Turner:

It is, I agree, arguable that if we encourage public ownership of a German industry we shall be increasing the chances of future armed aggression. In the case of the coal and steel industries, however, there is a history of concentration of power in the hands of private interests. . . . Public ownership would at least be a preferable alternative to the concentration of economic power in private hands and I think, therefore, that our right policy during the occupation should be to encourage public ownership on a regional basis of the coal and steel industries.¹⁰

An international authority could then supervise the *Land*.

In Germany, British officials in the Control Commission considered socialization a powerful way to build bridges to progressive German circles. Immediately after the war, much of German opinion favored some form of socialization.¹¹ In late November, the head of the North German Coal Control, H. E. Collins, informed Deputy Military Governor Brian Robertson that most coal miners in the Ruhr supported public ownership of their industries.¹² German political leaders told John Hynd, chancellor of the Duchy of Lancaster and head of the Control Office, of their desire to build a counterpart to the British Labour Party. They considered the socialization of Germany's key industries the lynchpin of their economic agenda.¹³ In December, Brian Robertson and his two most important economic and political advisors, Sir Percy Mills and William Strang, suggested to Bevin

9. EIPS, "Report on the Ownership and Organisation of German Industry," 7 November 1945, PRO, FO 942/237.

10. Ackroyd to Turner, 23 October 1945, PRO, FO 942/236.

11. Aside from Social Democrats and Communists, Christian socialists in the CDU strongly advocated socialization. See Ambrosius, *Durchsetzung der sozialen Marktwirtschaft*; Uertz, *Christentum und Sozialismus*.

12. H. E. Collins (of the NGCC) to General Templer, "Attitude of Miners to the Question of Ownership of Coal Mines in the British Occupied Zone," 30 November 1945, annex to Templer to Mills, 4 December 1945, PRO, FO 1032/587. For an internal military government proposal to establish a Tennessee Valley Authority in the Rhineland and Ruhr, see John Alexander, "Rhine Valley Authority," 27 August 1945, PRO, FO 1032/1594. Mark Roseman, *Recasting the Ruhr*, pp. 39, 76.

13. "Summary of Conversations Between the Chancellor of the Duchy of Lancaster and German Political Leaders on 11 November 1945 in Berlin," annex to Strang to chief of staff, British zone, 13 November 1945, PRO, FO 1030/317.

the creation of public holding companies to own and run the coal and steel industries in the Ruhr.¹⁴ With Hynd's support, Bevin informed the House of Commons on 1 February that the Ruhr industries would not be returned to their previous owners. Instead of separating Ruhr industry from Germany, as the French proposed, Bevin thought one ought "to own it publicly under international control with each Government owning a share in the concern and sitting on the governing body."¹⁵

When it came to devising a plan to implement public ownership of industry in Germany in a way that might mitigate the security concerns of France and create enthusiasm in Germany at the same time, the British ran into difficulty. Bevin considered it crucially important to conciliate the French. He knew the French feared any measures that might place the industrial might of the Ruhr back in German hands. He suggested, therefore, establishing an International Holding Corporation, the capital structure of which ensured "that the voting control would be retained by the Participating Powers," while profits generally were "made available to the German people."¹⁶ Yet much of the cabinet, especially Prime Minister Clement Attlee, worried that the Germans might reject a form of international ownership that did not allow considerably more German participation.¹⁷ As the Foreign Office discussed ways to increase the German role, Sir Geoffrey Vickers suggested placing the industries in a public corporation responsible to a provincial government, similar to the relationship "of the National Coal Board in this country to His Majesty's Government."¹⁸ Instead of partially owning the industries themselves, the international authority would exercise oversight powers only. When Bevin presented this revised plan to the cabinet on 15 April, however, his colleagues now feared placing the industries directly in the hands of a provincial German government (that is what became North Rhine-Westphalia) might alarm the French.¹⁹ Unable to arrive at a solution,

14. Robertson, Mills, and Strang, "The Future of the Rhineland and the Ruhr," 18 December 1945, annex to Montgomery to Sir Arthur Street, 19 December 1945, PRO, FO 371/55399.

15. Bevin's speech of 1 February 1946, PRO, FO 1049/420. See also Hynd to Bevin, 7 March 1946, PRO, FO 942/475.

16. "CP(46)156. The Future of Germany and the Ruhr: Memorandum by the Secretary of State for Foreign Affairs," 11 March 1946; EIPS, "The Control of the Ruhr," 4 February 1946, PRO, CAB 129/9.

17. "German Industry: Minutes of a Meeting Held in the Prime Minister's Room, House of Commons, SW1 on Friday, 15 March, 1946," PRO, PREM 8/520.

18. Edmund Hall-Patch to Orme Sargent, "Foreign Office Minute," 10 April 1946; Attached Minute by Vickers, PRO, FO 371/55401. See also an internal Foreign Office discussion of vesting the Ruhr industries in a provincially based public corporation, "Note of a discussion on the Ruhr on April 15," 17 April 1946, PRO, FO 371/55402.

19. "CP(46)139. The Ruhr and Western Germany. Memorandum by the Secretary of State for Foreign Affairs," 15 April 1946, PRO, CAB 129/8. "CM(46)36th Conclusions," 17 April 1946, PRO, CAB 128/5.

Bevin proposed to present both plans to the French and the other Western allies at the upcoming Conference of Foreign Ministers in Paris.

As the Paris Conference approached in May, however, the cabinet grew increasingly concerned about the deteriorating economic and political situation in their zone in Germany. They observed with dismay the forced fusion of the SPD and the Communist Party in the Soviet zone. They became convinced that the Soviets deliberately obstructed recovery in Germany on a quadripartite basis. The deteriorating economic and social situation in the Ruhr reinforced British determination to strengthen the western SPD against the Communists. To win the emerging cold war in Germany, then, the British felt compelled to adopt a policy on the public ownership of industry more amenable to German opinion, even at the possible risk of alarming the French. As Bevin told the cabinet when the Allied Control Council appeared to break down, British policy in Germany should “concentrate on constructive measures in our zone, both political and economic, and refuse to be deflected from our course by the Russians.”²⁰ Far from being marginalized because of the cold war, British socialization policy in fact emerged as a weapon in the cold war. Though Bevin and the Foreign Office would seek to reconcile socialism in Germany with both British and French security concerns, the emphasis on socialism increased because Communist successes in the Ruhr placed Britain’s overall German policy in jeopardy. As Herbert Morrison, president of the Board of Trade and architect of the Labour model of public ownership in Britain, argued at the very same meeting, “We should adopt a more positive and progressive socialist policy in our zone, in both economic and social matters, so that the democratic forces in Germany should be encouraged and that we should stand out as the natural leaders of progressive democracy.”²¹ The time had come to apply basic Social Democratic economic and political principles to the British zone.

In Paris, Bevin went ahead and sought the views of Britain’s Western allies on the two alternative plans discussed in the cabinet in April. Even so, London clearly preferred outright socialization under a German *Land* government. The British no longer felt the same distrust, for “their” Germans that had helped cement four-power cooperation immediately after the war. Economic and administrative difficulties in Germany had forced British officials to get to know those Germans charged with the zone’s rehabilitation. This familiarization allowed the natural affinities between Labourites or

20. “CP(46)186. Policy Towards Germany: Memorandum by the Secretary of State for Foreign Affairs,” 3 May 1946, PRO, CAB 129/9.

21. “CM(46)43rd Conclusions,” 7 May 1946, PRO, CAB 128/7. For Morrison’s model of public ownership, see his *Socialisation and Transport* (London: 1933).

Keynesians on the one hand, and moderate social and Christian Democrats on the other, to manifest themselves. London also felt threatened by what it considered Communist exploitation of the economic chaos in their zone. They worried in particular about Communist influence over the works' councils in the Ruhr. They thought the Soviets had thrown down the gauntlet in Germany. Britain's security now demanded not only the control of the Ruhr, but a public relations battle with the Soviet Union in Germany as well. As a result, the British pursued a more socialist policy in Germany. The focus of such a socialist policy was the socialization of Ruhr heavy industry.

THE SPD, THE FRENCH, AND THE CONTROL COMMISSION

Britain's new policy toward the Ruhr depended on reconciling the conflicting desires of the French and the western German Social Democrats. Bevin wanted to conclude a permanent alliance with the French. Although he disagreed with their views on the Ruhr, he did not want to push them too far. He was reluctant to suggest socialization because it implied that the Ruhr coal and steel industries might end up in the hands of a future central German government. This was the exact opposite of what the French wanted. Subordinating the socialized industries to a single *Land*, however, offered an easier way for an international body to oversee and regulate the Ruhr's development. Persuading the SPD, on the other hand, to accept *Länder* ownership of such crucially important industries as coal and steel proved challenging. The SPD, upon whom Bevin's German policy depended, wanted key socialized industries embedded in a centrally planned economy. These industries played a central role in their intentions to create an economic democracy (*Wirtschaftsdemokratie*). The British needed to convince them to accept socialization of Ruhr heavy industry within one *Land* only, but they feared alienating the SPD if they made their intentions too clear. As the socialization issue intensified in Germany in late 1946 and early 1947, the British Control Commission began to agree with the SPD rather than with the Foreign Office. If Germany required central controls to spur economic growth, central institutions had to exercise authority over Germany's most fundamental industries. The Control Commission tried to convince the Foreign Office to reconsider its insistence on placing the industries under *Länder* authority. The Foreign Office refused. By the spring of 1947, British socialization policy was, as a result, in disarray.

Kurt Schumacher's Social Democratic Party appealed to the British Labour government because of its intense anticommunism and its commitment to a modern planned economy. The postwar SPD wanted to apply

two basic lessons from the past. First, Social Democrats should never entertain the idea of a popular front with communism. Schumacher skillfully steered the West German SPD away from fusion with the Communists. He rejected the model of the Socialist Unity Party (*Sozialistische Einheitspartei*, or SED) of the Soviet zone. By early 1946, he had staked out his ground as the most prominent anticommunist in Germany.²² Another lesson Schumacher's SPD took from the past was that the Weimar Republic had suffered from an "uncompleted" revolution. The key element missing from the Weimarian social and economic system had been the socialization of Germany's basic industries. During the war, the exiled members of the SPD in London consistently argued the fundamental need for socialization. Schumacher confirmed this position shortly after the war.²³ Unlike 1918 to 1919, the postwar SPD would not compromise on this fundamental principle.

The SPD envisioned socialized firms operating within a system of modern economic planning and "economic democracy." As Viktor Agartz, top SPD economist and the appointed head of the Economic Office of the British zone (*Zentralamt für Wirtschaft*), told the SPD Party Congress in Hannover on 9 May 1946, "The SPD does not seek socialization as an end in itself." Social Democrats hoped to harness what they considered an already highly organized form of capitalism to socialist planning principles. Though in favor of planning at a central level, the SPD did not wish to eliminate market relationships. Rather, it intended the market to function in those sectors of the economy considered truly competitive. Those sectors of the economy that naturally tended toward monopoly, such as investment banking and heavy industry, Agartz claimed for the state. "Such control should be guided by long-term planning. The intervention of the State in production must therefore be more wide-ranging and deeper in the basic industries than in the consumer sector."²⁴ Fundamental to the functioning of an economic democracy was the trade-union movement (later organized into the *Deutsche Gewerkschaftsbund*). The unions demanded the transformation of Germany's vaunted tradition of economic self-administration (*Selbstverwaltung*) to reflect equal union influence. Agartz promised them, for instance, that they would receive equal representation on all quasi-governmental planning and

22. On Schumacher's anti-Soviet and anticommunist views, see Edinger, *Kurt Schumacher*, pp. 155–59. See also Merseburger, *Der schwierige Deutsche*, pp. 240–317.

23. See Erny Ollenhauer, "Möglichkeiten und Aufgaben einer geeinten sozialistischen Partei in Deutschland. Grundgedanken eines Referates von Erich Ollenhauer in einer Mitgliederversammlung der 'Union' in London 1942" and Kurt Schumacher, "Politische Richtlinien für die SPD in ihrem Verhältnis zu den anderen politischen Faktoren, 1945," in Dieter Dowe and Kurt Klotzbach, eds., *Programmatische Dokumente der deutschen Sozialdemokratie* (Berlin: J. H. W. Dretz 1973).

24. Viktor Agartz, "'Sozialistische Wirtschaftspolitik.' Referat gehalten am 9. Mai 1946 auf dem sozialdemokratischen Parteitag in Hannover," BA, NL Agartz 633/14.

advisory bodies, such as the local *Industrie- und Handelskammern*, which had traditionally exerted so much influence over the German economy.²⁵ Such bodies would then direct planning and distribute raw materials at the local level. By emphasizing the fundamentally decentralized nature of the system they envisioned, Social Democrats wished to dissociate their version of planning from the rigid, Communist image of economic planning. Even so, the SPD and the unions understood socialization to mean the subordination of the Ruhr to such a centrally planned economic democracy.

German Social Democrats welcomed Bevin's support for public ownership in the Ruhr, announced to the House of Commons on 1 February 1946. But they soon grew suspicious of delay. Hynd tried on repeated occasions to convince the SPD that the British meant what they said about socialization.²⁶ But the influential Agartz, in particular, began to mistrust the British. Agartz's distrust grew out of what he considered the inefficient planning apparatus of the British zone. When the British created the *Zentralamt für Wirtschaft* (ZAW) at Minden and appointed him its chairman, Agartz thought this a serious step to remedy what he considered the total lack of coordination among individual *Länder*-based planning agencies.²⁷ But in the coming months, he became increasingly frustrated with British reluctance to restrict *Länder* authority in favor of the ZAW.²⁸ The Fusion Agreement of December 1946 between the United States and Britain, which created the bizonie, further alarmed the SPD. The Americans had pursued the policy of decentralization even more than the British. Decentralization in the American zone, Social Democrats feared, would impede a planning economy. They worried that south German politicians would dilute the power of the central economic institutions just created by the British. Agartz had already had an unpleasant encounter with south German politicians in September, when Ludwig Erhard, at the time the Bavarian minister of economics, derisively associated him with "centralization,

25. Gewerkschaftliches Zonensekretariat (GZS), "Bericht ueber die Zusammenkunft der Gewerkschaften mit dem Leiter des Zentralamtes fuer Wirtschaft Dr. Agartz in einer Besprechung ueber die kommende Wirtschaftsverfassung," 29 July 1946, Friedrich-Ebert-Stiftung, DGB-Archiv, 101/11/2. See also GZS, "Wirtschaftspolitischer Ausschuss der Gewerkschaften in der Britischen Zone. Bericht ueber die Sitzung am 8. und 9. November in Brackwede b. Bielefeld," 14 November 1946, FES, DGB-Archiv, 101/11/3.

26. "Besprechung mit Hynd am 15.6.46," annex to "Protokoll der Sitzung des Parteivorstandes am 12. Juli 1946 in Hannover," FES, Bestand PV, Protokolle 1946.

27. "Vortrag von Herrn Dr Victor [sic] Agartz, Leiter des Zentralamts für Wirtschaft in der britischen Zone, über *Aktuelle Fragen der Wirtschaftspolitik*" and "Rundfunkrede Dr. Agartz am 29.7.46," BA, NL Agartz, 633/14.

28. He complained bitterly to friends that "he is quite depressed, because he feels increasingly enveloped in a growing cauldron." Werner Hansen to Willi Eichler, 3 August 1946, FES, DGB-Archiv, 101/11/2.

planning and socialization.”²⁹ The unions feared American influence as well. They considered the appointment of Rudolf Mueller as the first head of the bizonal economic office (*Verwaltungsamt für Wirtschaft*) instead of Agartz in late 1946 as confirmation of a south German reactionary and particularistic ascendancy.³⁰

The Social Democrats expressed their concerns about the general direction of bizonal policies in the Cologne Resolutions, adopted on 25 September 1946.³¹ They worried that “the fusion of the British and American zones of occupation had seen all of the most important central administrative offices fall into the hands of representatives of the capitalist restoration and the bourgeoisie.” The SPD did not want “to assume political responsibility for circumstances forced upon it.” To abet what they considered a growing restoration of hitherto discredited industrial elites in Germany, they demanded the immediate “socialization of heavy industry, the banking and insurance sectors, and a radical land reform.”³² If the military governments failed to address these issues, the SPD would withdraw from public office and assume the role of opposition. The SPD felt abandoned by the British just as the British decided to make socialism a priority in their zone. But Social Democrats also felt trapped between a rock and a hard place. The socialization of Ruhr heavy industry formed the key element in their plans for Germany. They had reacted enthusiastically to the British, but they feared that delay might kill the project. They did not want the events of 1918 and 1919, when a similar momentum toward the socialization of Ruhr heavy industry had quickly dissipated, to repeat itself. They also did not want to accept responsibility for the worsening economy of the western zones. Anti-British resentment had made inroads in western Germany in 1946. The SPD became aware of the political cost of its association with the British.

Just as the SPD despaired of British support, however, the British Control Commission in Berlin adopted its views on the relationship between Ruhr industry and the rest of the German economy. British officials in Berlin now called for the strict application of centrally administered controls.

29. Agartz, “Aktennotiz,” September 1946, BA, NL Agartz, 633/14.

30. Union spokesman Ludwig Rosenberg warned Cecil Weir that “the Trade Unions are of the opinion that Dr. Mueller supports tendencies which are not in accord with the declared intentions of the Trade Unions with regard to the future and the running of industry.” Rosenberg to Weir, 18 November 1946, FES, DGB-Archiv, 101/11/4. Rosenberg later reminded Allan Flanders, of the British Political Division, that the German left did not support the British unconditionally. Rosenberg to Flanders, 28 November 1946, *ibid.*

31. “Sitzung des Parteiausschusses am Mittwoch, dem 25.9.46 in Köln,” FES, Bestand PV, Protokolle, 1946.

32. “Entschliessung der gemeinsamen Sitzung des Vorstandes der Sozialdemokratischen Partei Deutschlands in Köln am 25.9.1946,” 25 September 1946, *ibid.*

They considered controls the only means to overcome Germany's chronic raw materials shortages. They agreed with Social Democrats that *Länder* control of basic industries would obstruct the centrally planned economy necessary to Germany's recovery. John Hynd, head of the Control Commission, made this explicit in a meeting with Bevin in April.³³ He questioned the Foreign Office's plan to place the industries under the Land of North Rhine-Westphalia only. Austen Albu, head of the Governmental Subcommittee of the Control Commission, became an advocate of adopting Social Democratic views toward the economy. "We must show in Germany that Britain today is the most socially progressive country in the world and is guided by principles which Europe desperately needs."³⁴ The Control Commission now argued that Britain's security interests in Germany lay not in the decentralization of the German economy, but in the progressive social changes embodied in a program of wide-ranging socialization itself.

Unbeknownst to the Foreign Office, officials in the British military government worked in 1946 to develop plans to socialize the coal industry on a zonal instead of *Land* basis. E. F. Schumacher, the Control Commission's chief economic advisor, tried to demonstrate the inevitability of public ownership in the Ruhr in a paper read approvingly by Military Governor Brian Robertson. Schumacher questioned any real choice between private and public ownership under the conditions prevailing in the British zone. The war had destroyed Germany's industrial base. As a result, Germany suffered chronic shortages. Only central controls could distribute much needed resources in a rational way. These controls would have to remain in place for a long time. Under the circumstances, the term "*ownership*" lost much of its meaning. "The choice lies, broadly speaking, between *Public Control over Private Property* on the one hand and *Public Control Over Public Property* on the other." He concluded that "the greater the degree of public control that has to be exercised in *any* case the stronger is the argument in favour of reunited 'control' and 'ownership' through socialisation." The SPD believed in the power of social change more than the military government. Far from endangering British security, wide-ranging socialization destroyed those social forces that had threatened peace in the first place:

The "future Nazi movement" will not be able to capture the State unless it manages to obtain the support of powerful social forces. It can, I think, be taken as an historical fact that Hitler's movement would not have succeeded if it had not been for two circumstances first, that the rabid anti-labour sections of German industry gave it

33. "Note of a Discussion About Germany on April 3rd," 3 April 1946, PRO, FO 371/55586.

34. Austen Albu, "Memorandum," 14 March 1946, Churchill archives, Albu papers, File 28/German.

the money, and, second, that the economic chaos of unplanned private enterprise gave it the men.

London's enthusiasm for socialization had originally derived from its wish to obtain "security" against the war-making power of the Ruhr's industries in Germany's hands. Schumacher redefined the German threat against Britain as a social group and an economic system rather than as Germany itself. Destroying this social class and introducing economic planning should reduce Britain's security reservations against wide-ranging socialization. "A far-reaching programme of socialisation in Germany is a political and economic necessity."³⁵

Officials in the Control Commission began to lay the groundwork for socialism on a zonal wide basis in the British zone in late 1946. At a meeting on 14 September, Albu reiterated to his colleagues the "importance of proceeding with economic planning if political stability was to be achieved." Cecil Weir, Albu's immediate superior as head of the governmental sub-commission, confirmed that socialization was to apply to basic industries on a wide scale.³⁶ A week later, E. F. Schumacher and the North German Coal Control (NGCC) submitted proposals for the coal industry. To endow the Germans with real power, "the ownership titles of the coal industry will all be vested in *one* hand." An International Ruhr Control should supervise the activities of a German Coal Board. But Schumacher and the NGCC also argued that all collieries in the British zone, not just those in North Rhine-Westphalia, qualified for socialization. "We have come to the conclusion . . . that the concentration of ownership in one hand should embrace the hard and brown coal industries not merely of the 'inner area' [i.e., the Ruhr] but of all coal fields in the British zone. . . . The German Coal Board will therefore be in a monopoly position with no 'outsider' to contend with." The psychological and political situation in Germany demanded swift movement on socialization. E. F. Schumacher recommended that the British waste no time and immediately appoint German trustees for the coal industry.³⁷

Thus, throughout 1946, the Control Commission moved closer to the position of the SPD on the role of socialized firms within the economy.

35. E. F. Schumacher, "Socialisation of German Industry," 12 June 1946, PRO, FO 1036/115. Emphasis in the original.

36. "SCOPC/M(46)11. Extract from Minutes of 11th Meeting of SCOPC dated 14.9.46," 14 September 1946, PRO, FO 1032/1647.

37. "Proposals for the Future Structure and Control of the German Coal Industry," 21 September 1946, annex to "ECOSC/P(47)37. "Conference of the Economic Sub-Commission Policy Committee," October 1946, PRO, FO 1030/181.

These British officials doubted whether placing Ruhr industry in the hands of one Land could work in an economy of central controls. Central economic planning, they believed, was essential to German recovery. In addition, they considered the rapid implementation of socialization critical to the political position of not just the British, but the SPD as well. Shaken by the "Cologne Resolutions," in which the SPD had threatened to withdraw from all bizonal offices if their demands on socialization were not met, Robertson assured SPD chief Kurt Schumacher of Britain's intention to take basic industry into public ownership. He also called on the German Zonal Advisory Council to consider concrete plans for public ownership.³⁸ When Berlin advised London in October that they "should like to take immediate action in clarifying ownership status of coal industry [in the] British Zone,"³⁹ the views of the Control Commission and the Foreign Office had diverged considerably. What had begun as a narrow attempt to guarantee British security by controlling Germany's means of industrial warfare had evolved into a program of wide-ranging social and economic reform.

Yet, at the same time, the Foreign Office had become increasingly convinced of the need to limit public ownership of heavy industry to the Land of North-Rhine Westphalia. The Foreign Office's position hardened owing to diplomatic considerations. At the Paris Foreign Ministers' Conference in the spring of 1946, British diplomats sought French and American views on the Ruhr. On 28 April, Foreign Office official Oliver Harvey handed René Massigli, French ambassador to London, the two different plans for the Ruhr discussed in the cabinet on 17 April. The first plan proposed international ownership of the Ruhr industries "to control the more important industries of the Ruhr through the ownership or part ownership of a selected group of industrial companies." The second suggested placing the Ruhr's heavy industries in the hands of a provincial coal board. The British hoped either of these schemes might assuage French security concerns, but to their chagrin the French received both proposals coolly.⁴⁰ In contrast, the Americans responded favorably. When Harvey met with

38. Robertson to Jenkins, BGCC 14313, 14 October 1946, PRO, FO 1032/766. "Statement by Deputy Military Governor at Zonal Advisory Council on 23rd October 1946," PRO, FO 1049/433.

39. Berlin to the Control Office, Argus 679, 18 October 1946, PRO, FO 1036/115.

40. "Paris Conference April 1946. Record of Conversation of 28th April Concerning the Ruhr and Rhineland," 3 May 1946. See also the two annexes to the above document, "International Ownership of the Ruhr Industries" and "Socialised German Ownership of the Ruhr Industries under Allied Control," PRO, FO 1049/421.

H. Freeman Matthews, of the State Department's Division of European Affairs, on 30 April, Matthews commented that "the British proposals did not seem very different from the ideas of the U.S. government." He explained that the Americans "did not like political separation of the Ruhr because this would make it almost impossible for the rest of Germany to survive economically."⁴¹ James Riddleberger, chief of the Division of Central European Affairs, indicated that the Americans preferred the outright socialization of Ruhr industries within a strictly delineated *Land*. He told Mark Turner and Edmund Hall-Patch, both members of the Foreign Office and the EIPS, that he had "made it quite clear [to the French] that the Americans were definitely opposed to political separation." Riddleberger added that "they were however quite prepared to consider some form of long term international control. [He] thought that the socialisation of industry under international control . . . might be the solution."⁴² In mid-1946, given the choice between international ownership or international control exercised over socialized Ruhr industries, the Americans preferred the latter.

By the summer of 1946, British policy on the Ruhr had gone in two directions. Stressing Britain's security interests, the Foreign Office hardened its view that the Ruhr industries remain in the hands of a *Land* amenable to international supervision. The Control Commission in Berlin, engulfed in a severe economic crisis and eager to conciliate the SPD, thought socialization feasible only within the context of a centrally based planning economy. Over the next six months, the task of British policy in Germany was to reconcile these two conflicting points of view.

CLASH IN LONDON, CLASH IN NORTH RHINE-WESTPHALIA

In the spring of 1947, British socialization policy in Germany ran aground. It was pulled in two directions. First, the political situation within western Germany no longer permitted the rather limited socialization program the Foreign Office envisioned. After soliciting the views of the French and Americans, Bevin asked the cabinet in October 1946 to approve the public ownership of the coal industry within the Land of North Rhine-Westphalia

41. "Paris Conference April 1946. Record of Conversation with Mr. Matthews on the Ruhr and Rhineland on 30th April," 6 May 1946, *ibid*.

42. Turner, "Meeting Between Mr. Riddleberger of the American Delegation and Mr. Hall-Patch and Mr. Turner," 10 May 1946, PRO, FO 371/55404. See also Riddleberger to Byrnes, 10 June 1946, NARA, RG 59, Office of European Affairs (Hickerson and Matthews Files), reel 15.

only. But conditions in Germany had changed dramatically. The economy continued to deteriorate. With the Fusion Agreement, which created the bizon on 1 January 1947, the British and Americans established central administrations and strengthened central economic controls. The British Control Commission wanted to integrate the Ruhr into this central planning system. The foreign secretary's plans did not appear to allow this. While John Hynd and the Control Commission began actively to fight the Foreign Office's wish to limit public ownership to one *Land*, the French objected with renewed vigor to any program of socialization in Germany. France and the Benelux countries raised concerns about financial compensation for Ruhr firms owned by foreign nationals. Such concerns, while raising a host of complicated technical issues, represented a fundamental diplomatic problem. When Bevin counseled delay, in February, the British were in fact without a policy.

The clash between Bevin and Hynd began in October. The foreign secretary thought *Land* ownership of the coal industry the best way to help the SPD while not frightening the Allies. He wanted to buttress the SPD because he felt it the most effective barrier to communism in Germany. But he also figured the Social Democrats had no place else to go. He did not take the "Cologne Resolutions" very seriously. "It is clear that a large measure of socialisation in Germany is inevitable, and the Germans of all parties in our Zone . . . would accept any lead which we gave them in this direction." It was nevertheless important for the initiative to come from the Germans themselves, most likely in the North Rhine-Westphalian *Landtag*. The Americans promised support as long as the British followed democratic procedure.⁴³ To objections that the Ruhr industries belonged under a central government, Bevin pointed out the obvious fact that only a *Land* government could own the coal industry because no central government existed. But quite apart from French objections to placing socialized heavy industries under the control of a central German government, he also feared that any future central government may succumb to Russian pressure. He wanted to keep Russia out of the Ruhr. "A central government with control over the Ruhr, which fell under Russian domination, would be a most serious threat to our security." Instead, public corporations under the authority

43. "CP(46)383. Germany. Memorandum by the Secretary of State for Foreign Affairs," 17 October 1946, PRO, CAB 129/13; "CM(46)89th Conclusions," 21 October 1946, PRO, CAB 128/6. Robertson told the Foreign Office that the assurance from the Americans had come from Clay. Clay later told Petersen that "this is rather a liberal interpretation of what I said to General Robertson," Clay to Petersen, CC 9661, 24 June 1947, Jeanne Smith, ed., *Clay Papers*, vol. 1, Bloomington: Fudrana University Press, 1974 p. 375.

of a *Land* supervised indefinitely by an international body ensured everyone's security.⁴⁴

Hynd objected to the Bevin plan in the cabinet when the foreign secretary was away in New York to sign the Fusion Agreement. Departing from the growing technical criticisms that such crucial industries would have to be integrated into a central planning apparatus that functioned throughout the zone, Hynd pointed out that North-Rhine Westphalia had fallen under the control of the Christian Democrats, "who could not be relied upon to give active support to a policy of socialising key industries." He suggested placing the industries in the hands of some political structure responsible for the entire British zone, such as the zonal advisory council, which might prove more amenable to Social Democratic influence. Impressed with Hynd's arguments, the cabinet asked him and the Foreign Office to submit a joint proposal.⁴⁵ When Bevin heard this, he was furious. He cabled from New York that placing the industries under any central authority would alarm France. In any event, he warned, "We must build up the Land Government. We have no conception yet of what the central government may be and we cannot assume that they would be more reliable than the Land Government."⁴⁶

The cabinet nevertheless inclined toward Hynd's views. "Though all these industries were situated in one Land," the Cabinet agreed on 13 November, "they were an asset of immense value, and were vital to the recovery of the whole Zone." Of course, no acceptable central institution existed in Germany for this task. As an appointed body of politicians, the Zonal Advisory Council would not do. The cabinet thus recommended, as a first step, "custodians" for the industries in each *Land* of the British zone.⁴⁷ The exact form of public ownership would be decided later. London issued these muddled instructions to the Control Commission in early December.⁴⁸

The inability of London to adopt a clear timetable for the introduction of public ownership in the Ruhr underscored the divergent diplomatic objectives and technical obstacles that increasingly endangered the very prospect of socialization in western Germany. Though ideologically committed to

44. "CP(46)398. International Control of the Ruhr. Memorandum by the Secretary of State for Foreign Affairs," 24 October 1946, PRO, CAB 129/13.

45. "CM(46)92nd Conclusions," 29 October 1946, PRO, CAB 128/6.

46. Bevin to Foreign Office, TelNo. 1480, 6 November 1946. See also Bevin to McNeill (minister of state), 3 November 1946, PRO, FO 800/466/46.

47. "CM(46)98th Conclusions," 19 November 1946, PRO, CAB 128/6. See also, "CP(46)422. Socialisation of the Ruhr Industries. Memorandum by Minister of State," 13 November 1946, PRO, CAB 129/14.

48. Control Office to Berlin, Sugra 772, 2 December 1946, PRO, PREM 8/520.

the public ownership of basic industries, the British had consciously used the idea of socialization as a diplomatic tool with which to support the SPD and combat the German Communists. By late 1946, Bevin and the Foreign Office found this increasingly difficult to square with their equally important goal of nurturing a security alliance with the French. But when Robertson received the latest instructions to appoint largely powerless “custodians” over Ruhr industry and thus put off the concrete implementation of public ownership, he warned that the Germans would not likely be satisfied with such a pusillanimous approach. Partly for that reason, Hynd intensified his campaign against the Foreign Office in January 1947, coinciding with the debate on socialization in the North Rhine–Westphalian *Landtag*, and urged London to embark on public ownership of basic industries on a zonal-wide basis.⁴⁹ Hynd’s activities only reinforced Bevin’s determination to focus the cabinet on the original security grounds for Britain’s advocacy of socialization in Germany. Not quite accurately, he argued on 4 February that socialization had never been intended as a means to increase the efficiency of the western German economy, but rather as a means “of ensuring that the German military leaders and the Ruhr industrialists in combination with the German Government should not again be able to exploit the Ruhr industries for military purposes.” Only by placing the Ruhr industries under the authority of the Land of North Rhine–Westphalia could the British accomplish this goal. Browbeaten by Bevin, the cabinet decided to adhere to its earlier decision to appoint custodians only. Bevin also secured his colleague’s agreement to postpone any final discussion of what form socialization might ultimately take until after the upcoming foreign minister’s conference in Moscow.⁵⁰

France and the Benelux countries nevertheless raised virulent protests about the debates taking place simultaneously in the North Rhine–Westphalian *Landtag*. Specifically, they raised difficult questions about the compensation of foreign owners of Ruhr firms. With a capital embargo and an increasingly worthless currency, the valuation of Ruhr firms and the methods of currency conversion posed almost insoluble problems. Such

49. Berlin to London, Argus 728, 6 December 1946, and Sholto–Douglas to Hynd, Argus 731, 6 December 1946, *ibid.* Robertson nevertheless also objected to Hynd’s eagerness to promise wide-ranging socialization before London had agreed on a policy. Hynd’s plan is in “CP(47)26. Socialisation of German Basic Industries. Memorandum by the Chancellor of the Duchy of Lancaster,” 19 January 1947, PRO, CAB 129/16, and Hynd, “Socialisation of the Ruhr Industries,” annex to Hynd to Attlee, 7 January 1947, PRO, PREM 8/520.

50. “CP(47)37. Socialisation of the German Basic Industries. Memorandum by the Secretary of State for Foreign Affairs” and “Public Ownership Under Land or Central Government,” 1 February 1947, PRO, CAB 129/16. “CM(47)16th Conclusions,” 4 February 1947, PRO, CAB 128/9.

technical objections, though valid by themselves, also reinforced the more principled objections to socialization in Germany that the French had long raised and the Foreign Office had long taken seriously. As a result, Bevin advised a delay of the entire project. He wanted to buy time to ascertain the exact extent of Allied interests in Ruhr firms. He added, in a letter to Attlee, that “there is no doubt that the Western Allies are thoroughly alarmed at our present socialisation proposals and are not likely to be satisfied with indefinite promises of compensation.” He wanted to “go very carefully at the moment and hold up the proposed appointment of German custodians until we have clearer ideas about the satisfaction, if any, which we can give to these Allied claims.” Attlee agreed, and the cabinet instructed the Control Commission to postpone the appointment of custodians and to collect information about Allied interests in the Ruhr industries instead.⁵¹

By the time London decided to delay socialization in the Ruhr, British officials were cultivating an SPD–CDU political alliance favorable to public ownership in the Land of North Rhine–Westphalia. Robertson had long reported that the Americans laid great emphasis on seeking German opinion. The British, meanwhile, had observed with mounting disquiet the electoral successes of Konrad Adenauer’s wing of the CDU. In December, Robertson instructed the regional commissioner in the Rhineland, William Asbury, to seek a coalition government in North Rhine–Westphalia between the SPD and the left wing of the CDU. As Christopher “Kit” Steel, head of the Political Division of the Control Commission, explained to Philip Dean of the Foreign Office, “We shall need to enlist the cooperation of all Parties in Rhineland/Westphalia to make this new system work.”⁵² This meant bypassing the apparently reactionary Adenauer. The British considered Adenauer too old school, too liberal, and too friendly to industrialists.⁵³ The Political Division wanted to build up the left wing of the CDU against him. With this in mind, Asbury managed, in the fall of 1946, to install the left-leaning Christian Democratic mayor of Düsseldorf and former Christian trade unionist, Karl Arnold, as deputy minister-president of North Rhine–Westphalia. Although Arnold did not really cut an impressive figure, he “is left CDU and would be acceptable to all parties.”⁵⁴ When debate over

51. Bevin to Attlee, 22 February 1947, PRO, PREM 8/520. “CM(47)26th Conclusions,” 6 March 1947, PRO, CAB 128/9; Massigli to Sargent, 8 February 1947, PRO, FO 371/64363.

52. Steel to Dean, 21 December 1946, PRO, FO 371/64363.

53. On Adenauer’s difficult relationship with the British, see Schwarz, *Adenauer*, vol. 1, pp. 467–78.

54. Balfour to Robertson, 22 July 1946. See also Noel Annan, “Suggested Names for Ministerpräsident Land North Rhine/Westfalen,” 20 July 1946, PRO, FO 1049/422. For an interesting account of how Adenauer outclassed his opponents in the military government, see Annan, *Changing Enemies*, especially pp. 215–19.

socialization began in the *Landtag* in January 1947, the Political Division depended on Arnold to outmaneuver Adenauer and bring the CDU to support a resolution on socialization with the SPD.

Much to their chagrin, however, the British found that neither the Christian Democrats nor the Social Democrats were in the mood to compromise. The CDU would not abandon Adenauer's ideas of introducing a system of "mixed ownership" (*Vergesellschaftung*) in the Ruhr. Adenauer and his allies repeatedly accused the SPD of wishing to trade one form of "state capitalism" for another.⁵⁵ Instead, they offered a form of public ownership in which the local, or *Länder*, government, private money, and foreign capital participated on equal bases. Adenauer contrasted this mixed form of socialization (*Vergesellschaftung*) with what he called the statist version of socialization (*Verstaatlichung*) demanded by Social Democrats. The increasing electoral fortunes of the CDU emboldened him to resist what he termed SPD extremism. As he had already told his party colleagues in October 1946, the CDU majority in the bizonne meant that "the socialization program of Mr. Agartz, the SPD, and the British Government is finished."⁵⁶ When the CDU cemented its economic, industrial, and social policies at Ahlen in February 1947, it confirmed its commitment to the mixed ownership of Ruhr industry.⁵⁷

Though Adenauer advocated a mixed ownership of heavy industry, the SPD entered the *Landtag* debate committed fully to exclusive public ownership. Agartz told the SPD *Landtag* delegation in November that "this new order of ownership in the coal industry can only be settled if title to the coal mines passes to a public authority."⁵⁸ In addition, the SPD considered action at the Land level merely a first step to socialization under a central government. Erik Nölting, the SPD economics minister in North Rhine-Westphalia, wrote to Asbury in December, that "any single Land can only decide to adopt a form of Socialisation which will not prejudice a later settlement on a uniform basis."⁵⁹ In the midst of the *Landtag* debate, the SPD delegation confirmed that "the ownership of coal is fundamentally a

55. See Pferdenges, "Die Wirtschaft in der Zeitenwende, Ansprache anlässlich einer Wahlversammlung der CDU in Köln am 6. September 1946," Rheinisch-Westfälisches-Wirtschaftsarchiv, IHK Bestand Cologne, 1/228/1.

56. "Protokoll über die Tagung des Zonenausschusses der CDU für die britische Zone in Vechta/Oldenburg vom 27. bis 28.9.1946," 1 October 1946, Stiftung-Bundeskanzler-Adenauer-Haus, Bestand 8/Band 57.

57. "Ahlemer Programm," 1–3 February 1947, Konrad-Adenauer-Stiftung, Bestand VII/004/126/1.

58. SPD-Landtagsfraktion Nordrhein-Westfalen, "Sozialisierungs-Material: die der Sozialisierung im ernannten Landtag, 2. October 1946–4./6. März 1947," BA, NL Agartz, 1365/104.

59. Nölting, "Twelve Theses on the Problems of Socialisation," 6 January 1947, annex to Asbury to Robertson, 14 January 1947, PRO, FO 1032/1648.

question that concerns all of Germany, and not just the individual *Länder*.”⁶⁰ Not many socialists felt at ease collaborating with the CDU either. Accommodating the CDU might simply take too much time. Nölting had warned of the danger of discussing the issue to death in the *Landtag*.⁶¹ Agartz did not see the point in negotiating with the CDU at all.⁶² Indeed, as Land elections approached in the spring, the SPD called for a referendum on socialization primarily to embarrass the Christian Democrats.

Robertson nevertheless sent Allan Flanders, of the Political Division, to North Rhine-Westphalia in January 1947 to get the SPD and CDU to support a general resolution in favor of the principle of socialization.⁶³ Flanders met with Nölting and Georg Hennsler of the SPD and Arnold, Johannes Albers, and Walter Strunk of the CDU’s left wing. He managed to get the CDU representatives to abandon Adenauer’s mixed ownership scheme in favor of the SPD’s plan to place the coal industry in the hands of a public corporation ultimately responsible to a central German government. Nölting agreed to introduce a resolution, drafted largely by the British on the basis of the SPD proposal, that advocated “a transfer of the ownership of the coal and Iron and Steel industries into public hands.” The SPD accepted *Länder* control as an interim measure. Only in this way could title pass from the military government to German hands. The resolution requested “the occupying power immediately to proceed with the introduction of the necessary steps in this direction in consultation with the Land Governments and the other appropriate German authorities.” Lest the impression set in that Flanders had deliberately given Adenauer the brush off, he decided to meet with the CDU leader a couple of days later in Cologne. The old and experienced Adenauer repeated to the young British political analyst his plan for the ownership of the Ruhr’s coal and steel industries. Even so, Flanders left the meeting confident that he had partially won over the wily Adenauer. “We could not resist the impression, however, that his entire economic and political outlook had remained unchanged since the early twenties and that he was completely out of touch with modern thought.”⁶⁴ To Flanders’ surprise, Adenauer managed in the ensuing days to delay a vote on the resolution drafted by the British until after the CDU had held

60. “Sitzung über Durchführung der Sozialisierung in der Kohlenwirtschaft in Düsseldorf in ‘Mannesmannhaus’ am 2. February 1947,” BA, NL Agartz, 1365/75.

61. “Sitzung des Parteiausschusses am 11. Januar in München,” FES, Bestand PV–Protokolle, 1947. SPD–Landtagsfraktion Nordrhein–Westfalen, “Sozialisierungs–Material: die der Sozialisierung im ernannten Landtag, 2. October 1946–4./6. März 1947,” BA, NL Agartz, 1365/104.

62. Agartz to Kriedemann, 23 January 1947, BA, NL Agartz, 633/14.

63. Robertson to Jenkins, Argus 753, 6 January 1947, PRO, FO 371/64362.

64. Allan Flanders, “Report on a Visit to Land North Rhine/Westphalia,” 8 January 1947, *ibid*.

its zonal conference at Ahlen. After the meeting, on 6 March, Adenauer pulled the entire CDU and the Free Democratic Party together to support a resolution in favor of mixed ownership.⁶⁵ The British had been trumped.

The debate in the North-Rhine Westphalian *Landtag* demonstrated that western German discussions over socialization had moved far beyond the original British initiative. The British were not sure they liked how the socialization debate in Germany was unfolding. They had hoped to unite progressive German opinion behind the general principle of socialization. They were not prepared for a prolonged discussion of the details. At this juncture, they only wanted to convince the Germans that they seriously intended to socialize the Ruhr's heavy industry at some point in the future. They began to fear, though, that they had opened a Pandora's box. The Germans were prepared to discuss the specific form that public ownership might take. Robertson candidly confessed to Gilmour Jenkins of the Control Office that "these expressions of [German] opinion will not for the most part be in opposition to the principle of socialisation but they are likely to attack vigorously the methods of socialisation which we propose to employ." Debate in Germany had also created the polarized atmosphere between the SPD and CDU that the British were at such pains to avoid. The SPD's demand for a referendum contributed to this polarization. Robertson worried that "during the next few months we shall find the Landtage in several Länder passing resolutions about socialization and demanding the right to act on them. Some of these may appeal to us as good, others as less good; none are likely to correspond exactly to our views."⁶⁶ Robertson's letter made a considerable impression in London. But the problem remained that the SPD had been led to believe that Britain supported the eventual nationalization of German basic industry. Although the Foreign Office repeated that "the central German Government should have no part in the ownership or control of the industries," it admitted that "the SPD might refuse to discuss the problem except on the basis of centralised control and that we might thus be led into an acute conflict with them earlier than might otherwise occur."⁶⁷

65. See Adenauer to the Kölnische Rundschau, 7 March 1947, StBKAH, 07/14, reprinted in Hans Peter Mensing, *Adenauer, Briefe, 1945–1947* (Berlin: Siedler 1983), p. 443.

66. He admitted that, although he distrusted Adenauer, many British officials sympathized with his idea of mixed ownership, partly because it offered a solution to the difficult problem of foreign interests in the Ruhr. Robertson to Jenkins, 18 February 1947, PRO, FO 371/64365.

67. Burrows to Turner, 7 March 1947, PRO, FO 943/199. In such an event, the head of the British Political Division in Berlin, Christopher Steel, warned Attlee that the SPD might invoke the Cologne Resolutions and withdraw into opposition. Steel to Attlee, C5667/194/18, 14 April 1947, PRO, FO 371/64366.

After the Moscow Foreign Ministers' Conference of March 1947, the differences between the Foreign Office and the Control Commission over socialization became increasingly acute. After many confrontational encounters with Molotov, Bevin now worried that any further delay in socializing the Ruhr industries risked "antagonizing the only democratic elements in Germany on whom it is possible to base any hope for the future."⁶⁸ During the conference, Foreign Office officials warned that "if the SPD feel that they cannot rely on us to help them introduce Social Democratic measures in practice in Germany there will undoubtedly be a greater tendency for the party to split and for some of it to listen more readily to . . . the SED."⁶⁹ But the vexed question of foreign financial interests in Ruhr firms, an issue crucial to the Benelux countries, led many officials to favor Adenauer's mixed ownership scheme, because it allowed some participation of foreign capital.⁷⁰ The Economic Department of the Foreign Office even suggested exempting firms with foreign capital of 10 to 15 percent from socialization, despite Robertson's warnings that such action "would be ill received politically by the Germans [and] . . . would almost certainly produce serious labour troubles."⁷¹ Despite wanting to help the SPD, the Foreign Office then drafted another cabinet paper that called for *Land* ownership. The draft met with protests from most economic experts in Berlin. Agartz had recently pleaded to Cecil Weir that "the socialisation of the two basic industries should not be delayed and that . . . they should be placed in the ownership of the German people as a whole instead of the ownership of a Land."⁷² Weir cabled Robertson that "in the Control Commission I imagine it would be true to say that there is no real enthusiasm for Land ownership and certainly the majority of the senior people who have considered the question here believe that central ownership would be the right thing eventually and that any categorical statement to the contrary would simply have to be unsaid in a year or two's time."⁷³ Robertson repeated the Control Commission's views in another widely circulated letter to Gilmour Jenkins in London. He reminded Jenkins that "the SPD and KPD [i.e., the Communists] on whose support we must count if we are to get

68. Bevin, "The Ruhr," 21 April 1947, annex to Bevin to the New Zealand Legation, 22 April 1947, *ibid.*

69. Burrows, "Foreign Office Minute," 21 February 1947, PRO, FO 371/64364.

70. DA Johnston to Turner, "Socialisation of German Industry: Compensation for Foreign Interests," 20 March 1947, PRO, FO 943/199.

71. Berlin to Control Office, Argus 859, 4 June 1947, PRO, FO 1032/1648. See also Economic Department, "Draft Note on the Problem of Compensation for Foreign Interests in German Socialized Industries," 16 April 1947, PRO, FO 371/64367.

72. Brownjohn to Robertson, No. 116, 12 April 1947, PRO, FO 943/199.

73. Weir to Robertson, 27 May 1947, PRO, FO 1030/344.

Land Governments to pass the necessary legislation, favour centralised nationalised ownership.”⁷⁴ Reluctantly, the Foreign Office withdrew its draft paper.

A final attempt to draft a joint Foreign Office–Control Commission proposal for the Ruhr, during the summer of 1947, illustrated the divisions in British opinion over socialization. This draft paper conceded that the economic situation in Germany made the operation of heavy industry on a centrally directed basis necessary. As a compromise, the Foreign Office and the Control Commission agreed that “the transfer of these industries to public ownership on a *Land* basis must not interfere with effective planning and control on a bizonal basis.” The paper added that “we must not lose sight [that] . . . the Social Democrats are committed to a policy of centralised ownership and [we must] avoid forcing them to join issue with us on this point.” At the same time, the appointment of individual custodians for each of the industries in question in each of the three *Länder* of the British zone represented a psychological and political measure only. These custodians were not to enjoy any real executive power.⁷⁵ The draft paper showed that the Foreign Office was engaged in a losing battle to retain subordination of these important industries to a *Land* created specifically to allow international oversight over the Ruhr. As the American diplomatic offensive against British socialization policy began, the British had in effect already concluded that socialization on a *Land* basis was untenable.

By mid-1947, British policy on socialization was a mess. While trying to insist that those industries marked for socialization remain in the hands of the *Land* especially created for that purpose, North Rhine-Westphalia, the British realized that their German allies would not accept the limitation of public ownership to the *Länder* level indefinitely. At the same time, the recognition that the German economy required strict central controls contributed to the view that the administration of these industries could only take place on a central basis. This made *Länder* control chimerical. Nevertheless, British allies in the SPD jumped the gun and advocated policies that the British could not comfortably support. Into this atmosphere marched the Americans with the proposal to hand control of the coal industry to the Germans and to shelve the question of ownership until a central German government existed.

74. Berlin to FO, BGCC 8615, 1 June 1947, PRO, FO 371/64368.

75. “Socialisation of German Industry,” Annex to PR Fraser, “Foreign Office Minute,” 16 June 1947, *ibid.*

AMERICAN INTERVENTION AND THE WASHINGTON COAL TALKS

As the internal British debate about socialization policy deepened during the spring and summer of 1947, the Americans launched a diplomatic offensive against British plans. American opposition to British plans to introduce public ownership in the Ruhr is usually ascribed to the reinvigoration of an antisocialist prejudice arising from the cold war. But the Americans acted for a number of reasons. First, they no longer feared French demands for the political separation of the Ruhr and Rhineland. Second, over the course of 1946, the State Department had come to believe that the inability of western Germany to export sufficient amounts of coal to the rest of Western Europe reflected the incompetence of British management over the Ruhr. British promises over socialization, thus, reinforced a political instability in the Ruhr that inhibited productivity. Third, the Americans did fear that British pressure for the public ownership of coal and steel in the Ruhr threatened the U.S. policy of injecting an ethos of free competition into the German economy. This sentiment also reflected American frustration with the difficulty of reconciling economic recovery with its own policy of decartelization.

Finally, the most important objection of the Americans to the specific British proposal to place publicly owned heavy industries under the authority of one *Land* had to do with the role of coal and steel in the overall German economy. Most historians have treated this official American view as simple window dressing for antisocialist American ideology. But the plans for placing authority over the Ruhr in the hands of North-Rhine Westphalia alone met with considerable unease throughout western Germany. Both the British Control Commission as well as the SPD opposed what was really the Foreign Office view. In fact, American concern over how socialization might effect the operation of an integrated bizonal economy had only grown since the Americans adopted British views over the primacy of central controls and, hence, central planning, over the entire bizonal area. It was no coincidence, therefore, that the American proposal to place the coal industry in the hands of a bizonal German authority, a proposal that would kill socialization in North Rhine–Westphalia, originated from the premier SPD economist, Viktor Agartz.

In June, the Americans suggested transferring responsibility over German coal production to a German bizonal authority under Allied supervision. Ironically, Viktor Agartz, the SPD economist reviled by the Americans, provided the basis for such a reorganization. In a letter to the Bipartite Control Office (BICO), Agartz proposed the creation of a *Norddeutsche*

Kohlenwirtschaft entrusted with the production and allocation of hard and brown coal deposits. The *Norddeutsche Kohlenwirtschaft* would also oversee technological, economic, and social policy in the coal industry. To reassure a nervous BICO, Agartz added that “the German organization should assume responsibility over planning [in the coal industry], while not deciding questions of ownership.”⁷⁶ William Draper, the U.S. economic advisor to Lucius Clay, discussed an American proposal based on the Agartz plan with Cecil Weir on 23 June. The Americans wanted to impart real ownership responsibilities to a single German trustee organization on a central, bizonal basis. That is, instead of appointing trustees in each individual *Land* as a political gesture to the Germans, “it proposes that the properties themselves and final responsibility for production and management vest in an individual Trustee.” The trustee would remain in place for five years. This implied, of course, a five-year postponement of socialization. The United States–United Kingdom Coal Control Group would replace the British run NGCC and supervise the new German coal organization.⁷⁷

This rather unexpected American intervention formed part of an increasing concern with the economic crisis in Western Europe that culminated in the Marshall Plan. Initially, the British had worried that the Americans might object to public ownership in the Ruhr. In 1946, confronted with the choice between French proposals for the political separation of the Ruhr from the rest of Germany and the British idea of socializing Ruhr industries within the confines of one *Land* overseen by an international authority, the Americans had appeared to endorse British views enthusiastically. Indeed, despite the fact that Military Governor Lucius Clay offered his own plan for the Ruhr as an alternative to French desires for dismemberment, in which he drew a distinction between stock held by foreigners and stock held by Germans but vested in the Allied Control Council, the State Department had leaned toward the British view of public industry under the authority of the Land of North Rhine–Westphalia.⁷⁸ In 1946, moreover, many American officials had concluded, as had the British, that “Germany’s

76. Agartz to BICO, “Betr.: Übernahme der Verantwortung für den Deutschen Kohlenbergbau durch eine deutsche Verwaltung,” 5 June 1947, PRO, FO 1027/13.

77. “Proposed German Coal Organisation,” 23 June 1947, PRO, FO 371/64368

78. See Clay, “A Plan for International Ownership,” n. d., NARA, RG 59, Office of European Affairs (Matthews–Hickerson Files), reel 15; Clay to War Department, CC 5797, 26 May, 1946, NARA, RG 200, box 10; Riddleberger, “The Immediate Goals of German Policy” and Riddleberger to Byrnes, 10 June 1946, both annexes to David Harris to H. Freeman Matthews, 17 September 1946, NARA, RG 59, Office of European Affairs (Matthews–Hickerson Files), reel 15.

economic problems cannot be handled on a laissez-faire basis.”⁷⁹ That is, strict public controls over the allocation of raw materials, the distribution of finished goods, and the movement of prices eliminated the distinction between public and private ownership. The sudden American suggestion that the project of socialization be laid aside for a period of five years thus came as a surprise.

Historians have generally approached American objections to socialization as a function of the growing dominance of ideological conservatives in the Truman administration arising out of the new conditions of the cold war. According to this view, “New Dealers,” American officials dedicated to root and branch reforms in western Germany, such as decartelization or socialization, lost influence in American foreign-policy decision making by 1947. One of the earliest and very eloquent expressions of this historiographical tradition was provided by James Martin, head of the American Decartelization Branch in the office of Military Government – United States (OMGUS) until 1947. Martin argued that the logic of economic recovery in western Germany, an economic recovery made necessary by the shifting of alliances in the early cold war, marginalized New Dealers in the American military government.⁸⁰ Of equal importance to ideological differences in determining the evolution of American policy in Germany, however, was American officials’ experiences on the ground in western Germany. American decartelization policy, for example, ran into serious practical difficulties that had little to do with ideological struggles taking place within OMGUS.

All the Allies, including the Americans, believed that a reactionary form of capitalism had worked to the benefit of Nazism. But the Americans had a unique view of how “reactionary capitalism” would be overcome. The Soviets and the British believed that the removal of a reactionary capitalist elite would accomplish the goal of social and political reform in Germany.

79. Riddleberger, “Comment on ‘A Discussion of Possible Constitutional Provisions for a German Federal Government,’” 8 July 1946, annex to Riddleberger to Robert Murphy, Hoover Institution–Stanford University, Robert Murphy papers, 59/19.

80. See Martin, *All Honorable Men*. See also Berghahn, *Americanisation*, pp. 84–96, Eisenberg, *Drawing the Line*. The classic account of American debates over competition is Ellis Hawley’s *The New Deal and the Problem of Monopoly: A Study in Economic Ambivalence* (Princeton: Princeton University Press 1966). Hawley argued, in effect, that the New Dealers were not necessarily wedded to competition any more than to regulation. Indeed, his account of the debates over competition in the United States during the 1930s are strikingly similar to the domestic West German debates of the 1950s. Particularly illuminating are Chapters 21 and 22. On American regulation, see Thomas K. McCraw’s work, especially *Prophets of Regulation: Charles Francis Adams, Louis D. Brandeis, James M. Landis, Alfred E. Kahn* (Cambridge, Mass.: Harvard University Press 1984), and his edited volume, *Regulation in Perspective: Historical Essays* (Cambridge Mass.: Harvard University Press 1981).

Hence, they took a considerable amount of industrial concentration for granted. The Americans approached German industry from the standpoint of competition rather than social reform and wished dramatically to reduce the extent of industrial concentration. Officially, the Allies agreed on an aggressive decartelization and deconcentration policy. At American instigation, Article XII of the Potsdam agreement stipulated that the German economy would “be decentralized for the purpose of eliminating the present excessive concentration of economic powers as exemplified in particular by cartels, syndicates, trusts, and other monopolistic arrangements.”⁸¹ Although Article XII provided a legal basis for decartelization, the Americans could not persuade the Allied Control Council to issue a stringent decartelization law. (The decartelization of IG Farben in early 1946 resulted from a specific quadripartite law that applied to Farben only.)⁸² The principal opposition came from the British. The Americans wished to have enshrined into law an objective standard whereby a firm could be said to represent an excessive concentration of economic power.⁸³ At one point, U.S. representatives in the Economic Directorate of the Allied Control Council proposed that any firm with over 1,000 employees represented a *prima facie* excessive concentration of economic power subject to deconcentration or decartelization. The British objected to any objective standard and preferred to operate on a case-by-case basis.⁸⁴

British opposition to the original American decartelization proposal foreshadowed some of the problems that U.S. policy ultimately faced. OMGUS had wanted to apply a uniform standard, based on its understanding of American antitrust law, that did not take into account what both the British and many Germans considered legitimate forms of industrial concentration. IG Farben, and even the horizontal steel concern Vereinigte Stahlwerke, represented relatively easy cases of politically notorious cartels that could be broken up. Economically, this was because the IG (*Interessengemeinschaft*) had been designed to pool profits, markets, patents, and other assets. But when it came to attacking forms of vertical integration (a policy known officially as deconcentration), the Americans ran into more difficulties. The vertical integration of coal and steel, for example, had been undertaken to control

81. “Extracts from the Report on the Tripartite Conference of Berlin (Potsdam), 17 July–2 August 1945,” reprinted in Ruhm von Oppen, *Documents on Germany*, pp. 40–50.

82. On IG Farben, see Stokes, *Divide and Prosper*.

83. See Clay to Hilldring, 5 March 1947, NARA, RG 260, records of the Decartelization Branch, box 145.

84. Clay to War Department, CC 19538, 28 November 1945, *Clay Papers* vol. 1, pp. 126–7; Bercomb to Troopers, Argus 216, 7 December 1945, PRO, BT 211/85; W. V. Gallmann, U.S. Embassy, to Bevin, 11 April 1946, Troutbeck to Turner, 25 April 1946, PRO, FO 371/55702.

production, not necessarily to pool profits or markets like a traditional cartel. (This would prove a difficult problem for many of the member companies of cartels, such as Vereinigte Stahlwerke, Gutehoffnungshütte, and Krupps.)⁸⁵ The Americans might find allies in German coal companies that did not wish to subject themselves to the control of the steel *Konzerne*, but the United States also wished to outlaw the principal mechanism whereby coal companies had traditionally protected their independence in the past, the coal sales syndicate.⁸⁶ The British, of course, also disliked the old *Konzerne*. Their solution was to accept the necessity of vertical concentration but then take the coal and steel firms into public ownership.

The bizonal decartelization law, which the Americans eventually persuaded the British to accept, represented a compromise. The increasingly clear reluctance of the Soviets to accept effective quadripartite legislation, coupled with the fusion of the U.S. and British zones, made a combined decartelization policy necessary. The Americans applied additional pressure to the British by deliberating on a unilateral decartelization law during the latter half of 1946.⁸⁷ In the end, they got much of what they wanted in a law on decartelization promulgated in the bizonal zone on 12 February 1947 (Law 56 in the American zone; Ordinance 78 in the British zone). The law prohibited any “excessive concentration of German economic power” but allowed a number of exemptions. This was because the two distinct Allied policies of deconcentration, which in general sought to abolish the vertical links between coal and steel, and decartelization, which sought to eliminate horizontal price fixing arrangements, overlapped. The Americans had already broken up IG Farben on the basis of specific quadripartite legislation they had forced through the Allied Control Council in early 1946. To include the huge chemical cartel IG Farben in the new bizonal decartelization law would set a legally significant precedent that might lead to the final dissolution of quadripartite rule. Similarly, the British had assumed control over the coal and iron and steel industries with Law 52 in early 1946. The

85. The best introduction to the development of IGs and *Konzerne* during the 1920s is Alfred D. Chandler, Jr., *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge Mass.: Harvard University Press 1990), pp. 506–13. See also Knut Nörr, *Die Leiden des Privatrechts: Kartelle in Deutschland von der Holzstoffkartellentscheidung zum Gesetz gegen Wettbewerbsbeschränkungen* (Tübingen: 1994), pp. 49–84.

86. On the coal sales syndicate, see Berghahn, *Americanisation*, pp. 149–54. See also John Gillingham, *Coal, Steel, and the Rebirth of Europe, 1945–1955: The Germans and French from Ruhr Conflict to Economic Community* (Cambridge: Cambridge University Press 1991), pp. 276, 321–2; Thomas Alan Schwartz, *America's Germany: John J. McCloy and the Federal Republic of Germany* (Cambridge, Mass.: Harvard University Press 1991), pp. 189–201.

87. Phillips Hawkins, Deputy Chief of the OMGUS Decartelization Branch, “Memorandum,” 18 December 1946, NARA, RG 260, records of the Decartelization Branch, box 145.

basis of this seizure had been Allied deconcentration policy. The British intended to introduce socialization into these industries. But they had not yet done so. Hence, the Allies had to exempt IG Farben (already governed by quadripartite legislation) and heavy industry (which fell under the later deconcentration Law 75 of November 1948) from the bizonal decartelization law. The Reichsbahn and public utilities in the British zone were also exempted.⁸⁸ The exemptions reduced the decartelization law from a general antimonopoly measure to a “fair trade practices” decree.

American reluctance to renounce quadripartite rule unilaterally in the Allied Control Council in Berlin, and the American wish to govern the reform of heavy industry in agreement with the British, meant that effective decartelization had to wait until 1947. In 1947, however, American decartelization authorities ran into additional difficulties. The OMGUS's decartelization branch, under Martin, felt particularly under siege. Martin saw himself involved in a long-standing feud with the military government's industry branch over the basic treatment of the German economy. He wanted to concentrate on the reform of German industry, the industry branch on the revival of German industry. Moreover, the unpopularity of Allied deconcentration policy, which made it difficult to recruit reliable German personnel, necessitated the increased use of American officials to gather sufficient information about German firms and German trade practices with which to begin decartelization proceedings.⁸⁹ Martin left Germany under acrimonious circumstances in mid-1947. But his successors, briefly Phillips Hawkins and then Richardson Bronson, continued his policies. But when the first decartelization proceeding began in late 1947, the Americans ran into more difficulties. The Allied decartelization authorities wanted to open proceedings against Henschel (a locomotive firm located in Kassel), Robert Bosch (a manufacturer of automotive electrical equipment and household appliances, located in Stuttgart), Siemens and Halske (the famous electrical firm), Guttehoffnungshütte, and AEG. The decartelization authorities decided to move against Henschel first, but soon found that the firm formed the centerpiece of the bizonal Economic Council's railway repair program. The British suggested a delay.⁹⁰ Allied authorities also began proceedings against the German state tobacco monopoly. Although

88. Military government, “Ordinance No. 78. Prohibition of Excessive Concentration of German Economic Power,” 12 February 1947, PRO, FO 1036/111.

89. Hawkins to John J. Barron, 11 July 1947, Bronson to Wilkenson, “Memorandum,” 22 December 1947, NARA, RG 260, records of the Decartelization Branch, box 146.

90. Bronson to U.S. member, Council of Foreign Relations, “Status of Decartelization, US Zone,” 22 November 1947, Bronson to Oxborrow, 17 March 1948, *ibid*; Clay to Draper, CC 3500, 14 March 1948, *Papers*, p. 579.

state-owned property, the Germans not unnaturally protested that this cigarette monopoly did not properly fall into the same moral category as the Hermann Göringwerke at Salzgitter. By mid-1948, all of these measures were on hold.⁹¹

Though the Americans ran into difficulties with decartelization, they became more critical of the British policy of socialization. In early 1946, U.S. officials had considered the socialization of Ruhr heavy industry a way to establish an international control over the Ruhr acceptable to the French. But during the course of 1946, they grew more critical of British management of the Ruhr coal industry. The reason for this was that the British had begun to advocate a reduction of coal exports in order to make more coal available to the Germans. The French, dependant on their agreed coal quotas from the Ruhr to fuel the Monnet Plan, objected. Initially, the Americans argued that better management techniques on the part of the British would increase coal production and thus eliminate the need for a reduction in coal exports. As Clay put it, "The operations at Minden [the location of the Administrative Office for Economics] have, on the whole, been a failure as the main effort has been directed to planning the overall economy of the two zones rather than concentrated on the export."⁹² The British responded by making the point that the coal problem could not be solved in isolation from the rest of the economy. On the one hand, the Americans ultimately conceded that the entire western German economy, forming the bizonie in January 1947, be subjected to central controls and an integrated, deliberate, planning system. But the Americans and the French also lectured the British on how to increase worker incentives in the Ruhr.⁹³ (The British, in consultation with the miners union, did introduce an incentives scheme in late 1946, as discussed in Chapter 3.)

But by late 1946 and early 1947, the Americans began an assault on the idea of socialization itself. First, as the worker incentive scheme failed to deliver a consistent increase in coal mining productivity or even a reduction

91. In Martin's account of the meeting held by Bronson to announce cessation of these decartelization proceedings, he highlighted Bronson's conservative views. See *All Honorable Men*, pp. 256–60.

92. Clay to Noce, quoted in Murphy to Matthews, 27 April 1947, NARA, RG 59, 740.0119 Control (Germany/4-2747), *FRUS*, 1947, vol. 2, p. 910.

93. On American reactions to the reduction in coal exports from the British zone in early 1946, see Galbraith to Clayton, "German Coal Exports," 20 April 1946; "Memorandum on French Import Coal Requirements from Germany: Additional Coal Imports Absolutely Essential for French Recovery," annex to Labouisse to Riddleberger, 24 April 1946. On the diplomatic discussions concerning worker incentives, see "French Proposals for the Restoration of German Coal Production," annex to "Department of State: Memorandum of Conversation," 1 May 1946; Galbraith and Rostow to Clay, 31 May 1946, annex to Murphy to Riddleberger, 8 June 1946, NARA, RG 59, 862.6362/4-246/4-2446/5-146/6-846. On French coal requirements at this time, see Hitchcock, *France Restored*, p. 67.

in social tensions in the Ruhr, the Americans began to blame the demoralization of management for the anemic productivity levels in the coal industry. British socialization policy, as well as denazification proceedings, undermined any continuity in management. James Riddleberger had come to agree that “the question of ownership of the mines had not been settled, and the managers were not certain that they could continue in their present positions under the new owners, whether the mines were publicly or privately owned.”⁹⁴ In a dramatic plea to the new secretary of state, George Marshall, Secretary of War Robert Patterson urged the State Department to pressure the British to abandon socialization:

Our people in Germany have the view, and I share it, that the need is for maximum production of coal at this time, not for experiments in socialization. As I see it, such experiments are certain to interfere with current production. If my house is on fire, I do everything I can to put the fire out, I do not engage in arguments on the state of title to the house.

The time had come to intervene.⁹⁵ As important as this practical argument, however, U.S. officials also saw public ownership in the Ruhr as a threat to the American decartelization agenda. The free-market views of Lucius Clay in this regard have been well documented.⁹⁶ But Clay drew support from James Martin and the decartelization branch. Martin had long worried of the implications on U.S. decartelization policy of forming a bizonal with the British. He warned Clay that the socialization debate of 1919 had only resulted in the continuation of industrial concentration in private hands. The negotiations taking place at the same time with the British over a bizonal decartelization law confirmed the suspicions of the decartelization branch that the British viewed socialization, not radical decartelization, as the solution to German industrial culture.⁹⁷

Placing responsibility for the operation of the coal industry in one German trustee organization offered an appealing way to get the British to postpone socialization until a central German government existed. With the ownership question shelved, so the Americans hoped, the Ruhr area could concentrate on increasing productivity. Given the British determination to introduce public ownership in the Ruhr, Robert Murphy argued

94. Riddleberger to Marshall, n.d., NARA, RG 59, 862.6362/5-1948. For an evenhanded account on how denazification affected labor relations, see Roseman, *Recasting the Ruhr*, pp. 23–58.

95. Patterson to Marshall, n.d., NARA, RG 59, 962.6362/6-1347.

96. Berghahn, *Americanisation*, p. 106.

97. See Martin to State Department, 25 October 1946; Martin to Clay, “Sale of IG Farben Properties,” 12 August 1946; Martin to Clay, “Economic Unification with British Zone,” 2 August 1946; Hawkins, “Bizonal Decartelization Law,” 22 January 1947, NARA, RG 260, records of the Decartelization Branch, box 145.

that “the trusteeship solution appears to us here as an admirable compromise which would at least in part relieve the uncertainty now exercising a most depressing influence on production.”⁹⁸ In a meeting on 19 June, Marshall, Patterson, and Secretary of the Navy Forrestal agreed that “strong representations should be made to the British Government to the effect that it must cease or defer any experiments in socialization of the German coal mines.”⁹⁹ Marshall, disturbed by the recent Moscow Foreign Minister’s Conference and having just announced the Marshall Plan, instructed William Clayton, undersecretary of state for economic affairs, to inform Bevin that “we could not sit by while the British tried out any ideas which they had of experimenting with socialization of coal mines; time does not permit of experimentation.”¹⁰⁰

In view of the British Control Commission’s opposition to *Länder*-based socialization, British officials in Berlin received the latest American initiative favorably. Weir did ask Draper why the Americans, so keen to promote decentralization in Germany, objected to socialization on a *Länder* level. Draper replied that “in the case of coal the product was so important and basic to the German economy and to European economic recovery that they did not favour . . . granting ownership to individual *Laender* in advance of the creation of a German Government.”¹⁰¹ Robertson warned Clay that the Foreign Office might reject a moratorium on public ownership lasting a whole five years, but he also wrote Bevin that “these proposals comprise a system of governmental control for the coal industry . . . which is so complete and far reaching that it would make ownership meaningless.” Although the SPD might object to a moratorium, Social Democrats might “be considerably consoled by the fact that this scheme means in fact immediate nationalisation of all that is real in ownership.”¹⁰²

As a British delegation departed to discuss coal with the Americans in Washington, the principal British economic advisor in Germany, Cecil Weir, recommended the acceptance of the American proposals. In a long letter to Robertson, Weir stressed that “the ultimate form of ownership of the German coal mines should be public ownership.” The British had gone too far simply to return the mines to their private owners. But only national

98. Murphy to Marshall, 17 June 1947, NARA, RG 59, 862.6362/6-1747, *FRUS*, 1947, vol. 2, p. 925.

99. “Minutes of a Meeting of the Secretaries of State, War and Navy,” 19 June 1947, NARA, RG 59, 811.002/1-247, *ibid.*, p. 927.

100. “Memorandum of Conversation, by the Under Secretary of State for Economic Affairs (Clayton),” 20 June 1947, NARA, RG 59, 862.6362/6-2047, *ibid.*, p. 929.

101. Steel to Robertson, No. 944, 21 June 1947, PRO, FO 371/64368.

102. Berlin to Foreign Office, no. 968, 27 June 1947, PRO, PREM 8/519.

ownership, with an internal organization that ensured an adequate amount of decentralization, could manage this key German resource. Indeed, Weir argued, “ownership by a single Land . . . would be contrary to the wishes, if they could be expressed on this issue, of the German people as a whole and would in any event put a single Land in too powerful a position in the German economy.” He thought that since no German government existed capable of carrying out “a national scheme containing a suitable amount of decentralisation,” the German political parties would accept a postponement. Provided that “the custodianship of assets is transferred to German hands,” as the American plan suggested, and that labor received adequate representation in any proposed German organization, even the SPD would accept a delay in the drive to place the Ruhr under public ownership.¹⁰³

Although many officials in London and Germany liked the American proposal, the cabinet and Foreign Office resented American pressure. The invitation to convene a coal conference in Washington appeared to the British an obvious ideologically inspired attack on British methods in the Ruhr.¹⁰⁴ John Hickerson, the State Department’s new director of European affairs, had already warned the Foreign Office that “the attitude of Congress towards any vote for increased funds for Germany . . . would be greatly influenced by this whole question of socialisation.”¹⁰⁵ Will Clayton told Bevin that “he not only agreed that the problem of future mine ownership in the Ruhr should not be determined at this time, but that a moratorium on nationalisation or socialisation plans for a period of five years should prove very beneficial in removing uncertainties now facing the mines’ management.”¹⁰⁶ Bevin did not like being pushed around. He warned U.S. Ambassador Lewis Douglas that he “had not the slightest intention of allowing the United Kingdom team to be put in the dock” in Washington. After telling the hapless Douglas to stop spreading rumors about the Ruhr around Whitehall, he added that public ownership in the Ruhr would increase production by conciliating the miners. “If we did not socialise the mines we should face the hostility of every Social Democrat in Germany, and we would play straight into the hands of the Communists.”¹⁰⁷ When Bevin

103. Weir to Robertson, July 1947, PRO, FO 1036/116.

104. Attlee to Bevin, no. 1256, 30 June 1947, PRO, FO 800/466/47/31.

105. Hoyar-Millar, “Foreign Office Minute,” 3 July 1947, PRO, FO 371/64369.

106. “Resumé of Conversation Between M. Bidault and Mr. Clayton,” 9 July 1947, PRO, FO 800/466/47/38.

107. Bevin to Balfour, no. 1469, PRO, FO 371/64371. See also Douglas to State Department, Control 3997, 12 July 1947, NARA, RG 59, 862.6362/7-1247.

agreed to send a delegation to Washington anyway, he told the cabinet that “in view of the political situation in Germany it was of the utmost importance that there should be no departure from the United Kingdom proposal for bringing the German mines under public ownership.”¹⁰⁸ Such strong reactions compelled the State Department to tone down its criticism of the British. They recognized, as Hickerson explained to Matthews, that since most western European governments had experimented with nationalization, the United States could not credibly object to similar measures taken in Germany.¹⁰⁹ In Washington, Under Secretary of State Robert Lovett sought to assure William Strang and the British delegation that the Americans had no intention of putting them on the spot.¹¹⁰ The United States wished to discuss not just ownership, but practical measures that might improve Ruhr coal production as well.

With this in view, the British did very well at the coal conference. On technical issues especially, they extracted considerable concessions from the Americans. The Americans had wanted to apply U.S. mining techniques to the Ruhr. But the British successfully pointed out that the geological realities of the Ruhr precluded U.S.-style mechanization.¹¹¹ The technical expertise of NGCC head H. E. Collins so impressed the Americans that they conceded that “the British had done an excellent job in building up output in the Ruhr from nothing, in face of conditions which had never been properly appreciated in America.”¹¹² The Americans had also wanted a dramatic increase in the export price of German coal. As the British delegation argued, however, “It was feared that an increase in the price of coal would make it impossible to hold the stability of prices generally in Germany.”¹¹³ Both delegations settled for a more modest price rise. The U.S. side promised to supply the Ruhr with additional mining and housing supplies.¹¹⁴ The British had feared that the Americans would denounce and

108. “CM(47)63rd Conclusions,” 23 July 1947, PRO, CAB 128/10.

109. Hickerson to Matthews, 25 June 1947, NARA, RG 59, 862.6362/6-2547.

110. Washington to FO, 13 August 1947, PRO, FO 371/65399.

111. Anglo-American Conversations Regarding German Coal Production, Washington D.C., 12 August 1947, “Percentage of Coal Mines by Various Methods in Ruhr-Aachen Districts,” 12 August 1947, PRO, FO 371/65400.

112. Strang to FO, no. 4762, 29 August 1947, PRO, FO 371/65401.

113. Anglo-American conversations regarding German coal production, Washington D.C., “Financial Conditions of Mines – Internal Coal Prices,” 20 August 1947, PRO, FO 371/65403. See also “Export Price of Coal,” annex to Anglo-American conversations regarding German coal production, Washington D.C., “Working Group II: Coal Export Prices,” 14 August 1947, PRO, FO 371/65400.

114. Strang to FO, no. 4453, 13 August 1947, PRO, FO 371/65399.

ridicule their policies. Yet the Americans admitted that the British had done remarkably well under very difficult circumstances.

On the delicate question of public ownership, the British took the initiative. On 14 August, Strang conceded to Willard Thorp, head of the U.S. delegation, that uncertainty over ownership had inhibited production. The British felt that the best way to allay uncertainty and to provide additional incentives for productivity was to accept the principle of public ownership unequivocally. In the absence of a central government, the mines would have to be vested in the Land of North Rhine-Westphalia. Any further delay in this project would alienate the SPD and work to the advantage of the communists. "The SPD . . . could not afford to acquiesce in the postponement of the programme, since they would undoubtedly lose ground to the Communists in the West and to the SED in the East, and this would promote unity among the more extreme left-wing parties and organisations."¹¹⁵ When ownership came up for discussion again on 21 August, William Draper argued that accepting the principle of socialization would only bring further political unrest. He felt that "the amount of political discussion which would be generated by a proposal to take an immediate decision on ownership would adversely affect coal production." The Americans objected to *Land* ownership, Draper explained, because "German coal was so vital to Germany and to the whole world that the eventual decision must be one for the Germans, and should not be settled out of hand at this critical time."¹¹⁶

As the two sides in the Washington talks did not appear to get any closer on the issue of socialization, William Strang met informally with Joseph Stillwell of the U.S. delegation on 4 September to forge a compromise. In an effort to establish a U.S.–U.K. Coal Control Group quickly, the Americans dropped their insistence on a five-year moratorium over public ownership. Instead, "the ownership of the mines shall be determined as soon as possible by [an] appropriate German representative authority on behalf of the electorate through normal democratic processes." The British conceded that such an "appropriate German representative authority" meant a central German government. Remarkably, however, the Americans agreed that

115. "Anglo–American Conversations on German Coal Production. United Kingdom Record of Discussion on Ownership of Ruhr Coal Mines on 14th Aug. 1947," PRO, FO 371/65401. See also "Anglo–American Conversations Regarding German Coal Production, Washington D.C., Summary Minutes," 14 August 1947, *ibid*.

116. "UK Record of Discussion on Ownership of Ruhr Coal Mines," 21 August 1947, PRO, FO 371/65401. See also "Anglo–American Conversations Regarding German Coal Production. Summary Minutes," 21 August 1947, PRO, FO 371/65399.

“public ownership, whether on a Land or other basis, will be acceptable as a possible solution.”¹¹⁷

The Washington Coal Conference, thus, did not settle the issue of socialization. With the creation of the U.S.–U.K. Coal Control Group and the *Deutsche Kohlenbergbauleitung* (DKBL), the British sacrificed immediate *Länder* ownership of the Ruhr’s heavy industries, but they did not give up on ultimate public ownership. The Americans scaled back their criticism of the British significantly. Even so, as the Foreign Office recognized, the British desperately needed extra American financial help in Germany. F. R. Hoyer–Millar wrote that “from our own and the European point of view it was so important to ensure active American interest in Germany’s economy and in Ruhr coal production in particular that it would certainly pay us to do everything possible to secure the good will of Congress and American opinion even at some considerable cost to ourselves.”¹¹⁸ Strang admitted to Bevin that “it must surely always have been doubtful, ever since the conclusion of the Fusion Agreement, how far we could in practice go in the direction of socialisation if the Americans definitely objected.”¹¹⁹ In their joint report to the British and American governments, though, Strang and Thorp sidestepped the issue. They recommended the creation of the U.S.–U.K. Control Group under a joint chairmanship. The DKBL would then manage the industry throughout the bizon. The Americans did not insist on a five-year moratorium on socialization. The British agreed to reserve an ultimate decision to a central government. For the moment, “The question of the ownership of the mines would not be affected.”¹²⁰ The idea that the Americans vetoed socialization during the Washington Coal Conference of August 1947, therefore, is an exaggeration.

Bevin described the Washington conference to the Cabinet as a British victory. The report “did not in any way prejudice the position of His Majesty’s Government with regard to the future ownership of the Ruhr mines.” Indeed, the Americans “had come to realise the difficulties with which the British authorities had had to contend.”¹²¹ The British, in fact, had got all that they wanted. The U.S.–U.K. Coal Control Group ensured

117. Stillwell to Lovett, “Ownership Status of the German Coal Mines,” 6 September 1947, NARA, RG 59, 862.6362/9–647.

118. Hoyer–Millar, “Foreign Office Minute,” 19 August 1947; Burrows, “Foreign Office Minute,” 20 August 1947, PRO, FO 371/65399.

119. Note for the Secretary of State, “Sir William Strang’s Conversations in Washington,” 30 August 1947, PRO, FO 371/65404.

120. Strang and Thorp, “Report on the Anglo–American Talks on Ruhr Coal Production,” 17 September 1947, *ibid.*

121. “CM(47)76th Conclusions,” 20 September 1947, PRO, CAB 128/10.

a central direction of a major industry with American political and financial involvement. Central planning of the German economy could proceed. A joint chairmanship of the U.S.–U.K. Coal Control Group ensured equal British influence. Although it was now agreed that a decision on ownership would await a central government (which, in any event, both the British and the Americans believed would choose nationalization), the Americans had agreed to halt their antisocialist campaign in Germany.

CONCLUSION

The “restoration paradigm” posits that American financial pressure forced the British, by late 1947, to abandon socialization in Germany. But what the British abandoned was public ownership under strict *Länder* control. They had wanted to see socialized firms in the Ruhr subjected to a *Land* government amenable to international supervision. By 1947, though, the devastated German economy appeared to require strict central planning. The fear arose that a carefully maintained *Länder* control of the coal and steel industries would get in the way of this necessary central planning. British officials in Germany also understood early on that the SPD and other democratic German groups envisioned a planning system for the entire country that did not permit too much decentralization. The Americans were not alone in arguing that socialization could not work under strict *Länder* control. The feeling that an ultimate decision on the fate of the Ruhr’s heavy industries would have to await a central German government was widespread.

The decision reached by the United States and Britain at the end of the Washington conference in September 1947, then, was not necessarily a decision to abandon socialization. Certainly, many American officials hoped that, given time, German enthusiasm for public ownership would wane. But most serious British officials assumed that the Germans would in the end decide to nationalize these industries. The Anglo–American compromise over public ownership later found its way into the preamble of Law 75, the legislation governing the deconcentration of West German heavy industry promulgated in 1948. When the British and American military governors vetoed socialization laws passed by the Landtage of Schleswig–Holstein in late 1947, and North Rhine–Westphalia in 1948, they did not do so out of antipathy to socialization. Rather, they vetoed what they considered irresponsible attempts on the part of politicians to play to German public opinion. They had become convinced of the impracticability of *Länder* control of these industries, and they meant to reserve the question to a future German government.

Socialization never took place in the Ruhr because the West Germans themselves decided against it. Since the West German political landscape seemed inherently favorable to the CDU, as the British realized early on, they had tried to forge general support for socialization among both the SPD and the CDU. But West German politics soon became too polarized for such close cooperation. The SPD worried that it would be considered a “government party” if it associated itself too closely with the British. Although the British at first installed an economic planning regime with the Social Democratic economist Viktor Agartz as its head, SPD enthusiasm for working with the British evaporated as the economic crisis in western Germany deepened. The obvious potential CDU majority in the west made the SPD even less willing to risk the odium of collaboration. Thus, in mid-1947, the SPD decided to leave responsibility for bizonal affairs in the new Economic Council (*Wirtschaftsrat*) to the CDU and withdraw into the opposition. Instead of a broad-based moderate to socialist political force in the middle, as Jakob Kaiser and Georg Hennisler had promised Hynd in 1945, there soon developed in western Germany a political system polarized between socialists and free marketers. The survival of the free marketers, or believers in the social market around Ludwig Erhard, explains the failure of socialization better than American intervention. American power, of course, did not go unnoticed. But the daily challenges of rebuilding Germany and the frustrations of working within an inherited and inadequate planning system contributed much more to the course of economic policy debates in Germany than clumsy American attempts at applying pressure. The origins of the social market economy, then, lay in the concrete challenges faced in reconstruction Germany from 1945 to 1948.

High Hopes and Disappointment: The SPD and the Planning Regime, 1945–47

The alternative to Ludwig Erhard's social market economy, introduced in 1948, was the Social Democratic vision of an "economic democracy" (*Wirtschaftsdemokratie*). For the postwar Social Democratic Party (SPD), an economic democracy consisted of a decentralized planning system held together by the public ownership of major industries, such as heavy industry and finance, and the institutionalization of equal union influence on those corporate bodies, such as *Industrie-und Handelskammern* (IHKs), that had traditionally regulated the German economy in the name of self-administration (*Selbstverwaltung*). The concept of an economic democracy owed much to Social Democratic thought during the 1920s, from the observation of a modern "organized" capitalism (Rudolf Hilferding) that had effectively replaced the free market, to Fritz Naphtali's advocacy of greater worker influence in his 1928 pamphlet "Wirtschaftsdemokratie."¹ But the post-1945 SPD also felt itself part of a worldwide movement toward economic planning and social democracy involving the New Deal, the Labour government, and the Monnet Plan, legitimated by Keynesian macroeconomics. From 1945 to 1947, Social Democrats found themselves in the position to transform the German economy and German industrial culture because the British appointed Viktor Agartz, a leading SPD and trade union economist, head of the central office for economics (*Zentralamt der Wirtschaft*) at Minden in the British zone. From this position, and also with SPD members occupying

1. See Rudolf Hilferding, *Finanz Kapital* (Frankfurt: Dietz 1968); Fritz Naphtali, "Debatten zur Wirtschaftsdemokratie," *Die Gesellschaft. Internationale Revue für Sozialismus und Politik* no. 3 (1929): 210–19. For a helpful summary of Hilferding's and Naphtali's ideas, see Horst Thum, *Wirtschaftsdemokratie und Mitbestimmung von den Anfängen 1916 bis zum Mitbestimmungsgesetz 1976* (Cologne: Bund Verlag 1991). See also Cora Stephan, "Wirtschaftsdemokratie und Umbau der Wirtschaft," in Wolfgang Luthardt, ed., *Sozialdemokratische Arbeiterbewegung und Weimarer Republic: Materialien zur gesellschaftlichen Entwicklung 1927–1933* (Frankfurt: Suhrkamp 1978), pp. 281–92; Bernd Brauckmüller and Reinhard Hartmann, "Organisierter Kapitalismus und Krise," *ibid.*, pp. 354–68.

the economics ministries in all the new *Länder* as they formed, the British intended the SPD to dominate the reconstruction of the economy in the crucial, industrial British zone.

Unable to capitalize on their hard-earned influence, however, the period of SPD stewardship over the economy soon became a long-lasting liability. During the 1950s, the Christian Democratic Union (CDU) succeeded in labeling the SPD the defender of the supposed *Zwangswirtschaft* (coercive control economy) in the western zones from 1945 until 1948.² But the Social Democrats also operated under the handicap that in the immediate postwar period no coherent and deliberate planning system existed. Allied and German administrators inherited the National Socialist wage, price, and allocation controls. They felt bound to retain the controls because of Nazi wartime inflationary spending. With a destroyed economy, the first task of economic planners was to distribute an inadequate amount of raw materials as equitably as possible. At the same time, Allied occupiers and prominent German economists and politicians hoped to replace the controls and regulations bequeathed by the Nazis with a reformed German economy. Until Ludwig Erhard introduced a comprehensive series of reforms in 1948, however, the reality of economic crisis prevented anyone from giving full effect to their agendas. Rather than abolishing Nazi-era economic controls, the persistent lack of any economic recovery led to a more comprehensive application of those same controls deemed essential to an economy beset by drastic and chronic shortages.

The ongoing economic crisis in Germany, meanwhile, produced a complex political atmosphere. Harkening back to memories of what they believed the “uncompleted” revolution of 1918 to 1919, Social Democrats wished to strike while the iron was hot. They wanted to effect a thorough transformation of German industrial culture before the forces of a temporarily discredited capitalism revived. Although the SPD was conscious of the power it wielded and the political legitimacy it enjoyed during the early years of the occupation, many important Social Democrats, particularly Agartz, viewed the rise of the CDU, as well as mounting criticism of Allied policies to which the SPD felt bound, as an imminent sign of a “capitalist restoration.” This unease at the return of conservative parties like the CDU, this fear of another “uncompleted” democracy like the Weimar republic, helped contribute to the rising political polarization around an antisocialist CDU and a leftist SPD that played into Konrad

2. See, for instance, Ludwig Erhard's chapter, “Die Geburt der Marktwirtschaft,” in *Wohlstand für Alle* (Düsseldorf: Econ Verlag 1957), pp. 18–48; CDU “Düsseldorfer Leitsätze” of 1949, Konrad-Adenauer-Stiftung, VII/004/126/1.

Adenauer's hands. Such a polarized debate over western Germany's economy became a reality with the SPD ouster of the officially independent Rudolf Mueller as head of the first bizonal economics administration in January 1947.

The wish of Social Democrats to move quickly also contributed to a complicated relationship with the Allies. By 1947, the Americans and British disagreed on whether to introduce socialist measures of reform in western Germany. With some reason, the Americans considered the British too close to the SPD. But though the British and the Social Democrats agreed on the ultimate goal of fostering a social democracy in western Germany, they differed dramatically over the pace of such a program. The British moved slowly to introduce such reforms as the socialization of heavy industry primarily because they did not want to accept responsibility for breaking the Potsdam agreement and hastening the division of Germany.³ The Social Democrats tended to interpret the ensuing delays as signs of a lack of will and a tendency to defer to the Americans. The British also believed that deep structural reforms in Germany could endure only if the Social Democrats built a coalition with the left wing of the CDU. London thus watched the deepening polarization of western German politics with dismay. Finally, despite the shared goal of social democracy, the SPD and the British differed profoundly on basic economic policy. Whereas the British wished the Germans to pull themselves up by their own bootstraps, the Germans quite reasonably reminded them of the need for imported raw materials and food before anything could get started. Partly as a result of these differences, though one might have expected the British to side with the SPD in disagreements with the Americans, the Allies generally stuck together in conflicts with the Germans. This contributed further to the sense of SPD isolation. Reflecting the tensions between the SPD and the British, Social Democrats offered a stern warning to the Allies in the "Cologne Resolutions," of September 1946, threatening to resign their offices if their various demands were not met. The progressive deterioration of the economic situation by 1947 led the SPD to believe the British had abandoned them to allow the Americans and Konrad Adenauer's CDU to effect the feared restoration of discredited capitalist elites.

3. Anne Deighton has argued persuasively that the British did not take the Potsdam agreement seriously and, indeed, gradually pulled the Americans in the direction of confrontation with the Soviet Union over Germany. See *Impossible Peace*. It is nevertheless important to keep in mind that the British were careful not to breach the Potsdam agreement openly. Their hesitancy to take decisive action in their zone of occupation lest it appear a unilateral abrogation of the Potsdam agreement had the unintended effect of encouraging the Social Democrats in their skepticism of British intentions.

Matters came to a head during the first half of 1947. After the SPD arranged the unceremonious ouster of Rudolf Mueller as head of the bizonal economics administration, Viktor Agartz replaced him. Agartz thus hoped to guide bizonal economic policy, as he had previously done in the British zone, in a Social Democratic direction. Yet Agartz and the SPD soon faced three major disappointments. In order to raise coal production, the Allies, in close consultation with the German coal miners union (*Industriegewerkschaft Bergbau*) introduced a set of extra incentives, called the points system. Social Democrats wished the administration of the points system to highlight the advantages of the decentralized and labor-oriented planning system. But the points system failed in its mission of increasing coal productivity and thus served partially to discredit its social democratic champions. The failure of the points system took place against the backdrop of the difficult and hungry spring of 1947, when many officials in the economics administration despaired of any economic recovery. The SPD generally took the position that the Allies would have to sponsor a currency reform and finance increased food and raw materials imports for any recovery to take place. Though hardly an inaccurate prognosis, the SPD appeared to both the British and the Americans as unwilling to adopt policies, such as adequate enforcement of existing controls, that might help the situation. Finally, during the spring, the Allies reorganized the bizonal economic council to reflect a more parliamentary body that could control, rather than simply advise, the various western German administrations. As a parliamentary body, it now reflected the electoral ascendancy of the CDU. During the summer, therefore, the SPD allowed a member of the CDU-CSU, Johannes Semler, to take over the economics administration, renamed the economics directorate, and glided into an opposition from which it was not to emerge until 1966.

Given such unfavorable circumstances, many historians have concluded that the postwar SPD lacked the maneuvering room to introduce social democracy in western Germany. It would nevertheless be a mistake to describe the Social Democrats as perennially on the defensive.⁴ The relative lack of radicalism on the part of the postwar SPD, so decried by the radical historians of the late 1960s and early 1970s, did not stem from tactical compromises with a returning capitalist system, but rather stemmed from

4. Particularly influential in this regard has been Lutz Niethammer's essay, "Strukturreform und Wachstumspakt. Westeuropäische Bedingungen der einheitsgewerkschaftlichen Bewegung nach dem Zusammenbruch des Faschismus," in Heinz Oskar Vetter, *Vom sozialistengesetz zur Mitbestimmung: Zum 100. Geburtstag von Hans Böckler* (Cologne: Bund Verlag 1975), pp. 303–58. See also Erich Ott, *Die Wirtschaftskonzeption der SPD nach 1945* (Marburg: Verlag Arbeiterbewegung 1978).

the revisionist tradition that suggested that socialism could thrive within a “bourgeois” democracy. In fact, the Social Democrats confidently offered what they considered moderate socialist solutions to the problems of the modern and organized economy. Moreover, when the SPD relinquished outright control over the bizonal economics directorate in the summer of 1947, it did so in the belief that the Christian Democrats would fail to do any better. With control over the economics portfolios of all eight *Länder* of the western zones, they were well placed to spring back to power.

CREATING THE *ZENTRALAMT FÜR WIRTSCHAFT*

In late 1945, the British created a central economic administration to advise and help the military government coordinate the reconstruction of their zone. These new offices, the German Economic Advisory Board (GEAB) and its secretariat, eventually evolved into the bizonal Economic Council (*Wirtschaftsrat*). Despite their wish to encourage decentralization and to empower *Länder*, the British deemed a central bureau capable of planning for the entire zone essential to recovery. Because of the uncertainties of quadripartite rule in Germany, however, they had to avoid imparting any real constitutional or executive power to what appeared a central institution at a zonal level. The Potsdam agreement stipulated that all the Allies together would create central institutions at a central level. Already by early 1946, of course, the possibilities for any agreement on the creation of such central administrations looked remote. Nevertheless, although the British now embarked on building administrative offices in their zone to fulfill the roles of central institutions, they did not yet want to violate the Potsdam agreement openly. They hoped that the GEAB, whose secretariat became the *Zentralamt für Wirtschaft* (ZAW), would evolve into a central economics ministry, but they only devolved executive power to it in a piecemeal fashion. Meanwhile, the Germans who ran the GEAB and the ZAW, Abraham Frowein and Viktor Agartz, respectively, clearly understood themselves to be assuming the inherited powers of the central economics ministry. The British, and later American, reluctance to impart executive power to these central institutions too rapidly soon created a delicate tension between the Germans formally responsible for economic recovery and the military governments.

By September 1945, the British military government wanted to replace the National Socialist planning system with a regime in accordance with its goals of decentralization and denazification. The Nazi system had been based on the *Gau*, the provincial administrative unit that had replaced the

relatively powerful *Länder* as a result of the Nazi *Gleichschaltung* (coordination) of 1934. For the distribution of raw materials at more local levels, the Nazis had harnessed Germany's vaunted tradition of economic self-administration (*Selbstverwaltung*). The British wanted to reintroduce strong *Länder* that in the future could assert themselves against a central German government. At the local level, they wanted to eradicate what they considered an industrialist-dominated system of economic self-administration best exemplified by the executive powers exercised by the chambers of commerce (*Industrie- und Handelskammern*). Therefore, the British eliminated the *Gauwirtschaftskammern* (*Gau* economic chambers) and instead strengthened the provincial and later *Länder* economic ministries. Although the British allowed the *Industrie- und Handelskammern* to continue to exist as advisory bodies, any local executive powers they had once exercised, such as the distribution of raw materials, would be controlled by new district economic offices directly responsible to the *Länder* economic ministries. At the pinnacle of the edifice, the British created the German Economic Advisory Board to render advice, submit plans, do the detailed work of the military government at the zonal level, and perhaps "assume executive functions at some future date."⁵

For the moment, the *Länder* economic offices were to become the main executive offices in the British zone. The GEAB simply prepared expert advice. Although consisting primarily of industrialists serving on a voluntary basis under the leadership of Abraham Frowein, the GEAB oversaw a secretariat staffed with permanent civil servants under Viktor Agartz, the prominent Social Democratic and trade union economist. The British did not want to define the functions and powers of the GEAB rigidly. Nevertheless, they intended it to "be sufficiently flexible to allow it to develop on practical lines and in such a manner as will enable it to assume executive functions at some future date if considered desirable."⁶ By early 1946, the archetypal industrialist of the British zone, Abraham Frowein, and the most prominent socialist economist in Germany, Viktor Agartz, set to work relatively amicably to create a planning system for the British zone.

5. Lt. Col. Woolmer, "Report by German Economic Advisory Board Working Party," annex to J.A.C.C. Alexander to all branches, 12 September 1945. See also "Meeting of the Economic Planning Committee at 1700 Hrs on Wednesday, 15th August 1945 at Bad Oeynhausen," PRO, FO 1025/22.

6. "Economic Division Technical Instruction No. 8: German Economic Advisory Board and Economic Offices" and "Economic Division Technical Instruction No. 9: German Chambers of Commerce – Industrie und Handelskammern," annex to Alexander to Werkmeister, 20 October 1945, BA, Z 8/1965.

Both the industrialists in the GEAB and the socialists in the secretariat expected their combined offices to become the nucleus of a future central German economics ministry. The controller of planning for the British military government, John Alexander, told Frowein that “the object of the Board was to take over in due course the major part of the planning and execution of the German economy in the British zone.”⁷ Frowein and Agartz expected the GEAB to supersede the *Länder* in order to ensure a proper distribution of raw materials, labor, and prices for an integrated economy in the British zone. In a speech at Elberfeld on 5 November 1945, Frowein told fellow industrialists that although the British had told him that the principle task of the GEAB was to help prevent the immediate problems of hunger and cold, “the advisory board and secretariat should later assume the functions of an economics ministry.”⁸ Indeed, Brigadier John Cowley, upon opening the GEAB on 11 March 1946, told the Germans that they would soon take over the planning work.⁹ Even after he had been ousted as chairman of the GEAB because of suspected ties to the Nazis, Frowein continued to consider the secretariat under Agartz a necessary central institution. “It appears to me that the central office (the later name of the secretariat) of the British zone, as opposed to the *Länder* in the American zone, is the office that can best evolve into central administrations for Germany as a whole.”¹⁰ From the beginning, German officials associated with the GEAB and its secretariat saw themselves as a central economic ministry with a claim to executive powers over the British zone.

The British, however, displayed a considerable amount of ambivalence toward the GEAB, both because of their desire to nurture strong *Länder* and also because of the uncertainties of quadripartite rule in Berlin. From the beginning, the Foreign Office had been adamant about creating strong *Länder* in the British zone. In any event, it was not clear whether central institutions for the British zone only, like the GEAB–ZAW, violated the Potsdam agreement. British officials in Germany did not know what powers they could transfer to the GEAB even if they wanted to. In early 1946, for instance, the Allied Control Council still controlled the distribution of coal over all of Germany. Handing over control of the coal industry

7. Alexander, “Record of a Meeting with Herr Frowein, Herr Werkmeister, Herr Collasius at Minden,” 23 October 1945, PRO, FO 1025/22.

8. “Vermerk über einen Vortrag von A. Frowein am 5.11.45 in Elberfeld,” 6 November 1945, annex to Wirtschaftsgruppe Eisen Schaffende Industrie to Günter Henle, 7 November 1945, BA, NL Henle 384/259.

9. “Rede des Brigadier Cowley anlässlich der konstituierenden Sitzung des Deutschen Wirtschaftsrates bei der Kontroll-Kommission für Deutschland (BE) am 11.3.46,” BA, Z 8/1965.

10. Frowein to Lehr, 5 June 1946, BA NL Agartz 633/14.

to the Germans, as the GEAB had already advised in May, was therefore out of the question.¹¹ But as quadripartite relations began to deteriorate in early 1946, the British Control Office argued for a more assertive policy in the zone. John Hynd, the chancellor of the Duchy of Lancaster and head of the Control Office, asserted in a meeting at the Foreign Office on 3 April that if cooperation with the Russians did not soon show results, “we should develop Western Germany on our own.”¹² Hynd and the Control Office wished to invest the GEAB with some real power. When the cabinet considered the first of many fundamental reevaluations of German policy on 7 May, Bevin agreed to “concentrate on constructive measures in our zone . . . and [to] refuse to be deflected from our course by the Russians.” But he also stressed the need to encourage the decentralization of Germany by eventually imparting as many powers as possible to the *Länder*. In the event of reunification, powerful *Länder* might provide the only bulwark against a Communist-inclined central government in Berlin. The cabinet decided to enhance the status of the GEAB and the *Länder* in their own zone at the same time.¹³ The secretariat to the GEAB, in particular, grew into the central economic office of the zone. But the British simultaneously prepared for the socialization of heavy industry in the Land of North Rhine-Westphalia. Thus, the relative powers of the GEAB and the *Länder* remained unclear.

The reevaluation of British overall policy toward Germany at the cabinet level coincided with a fundamental reorganization of the GEAB carried out by the Control Commission in the British zone. Allegations surfaced that Abraham Frowein had provided financial support to the Nazis in the early 1930s. Frowein angrily denied the charges and could call on Agartz to defend him. Nevertheless, the British rescinded his security clearance, and Frowein resigned as chair of the GEAB.¹⁴ Some months later, he was convicted by a denazification tribunal. The British took the opportunity of Frowein’s departure to dissolve and reorganize the GEAB in April 1946. The secretariat to the GEAB became the *Zentralamt für Wirtschaft* under Viktor Agartz, with its seat at Minden. The ZAW became “the highest economic authority in the British zone.” The military government intended to hand over executive functions to the ZAW itself on an occasional basis. In turn,

11. “Control of GEAB. Notes of Meeting Held in Deputy President’s Office on 30th May 1946,” 1 June 1946; Friedman to controller HQ staff branch and deputy president, 4 June 1946, PRO, FO 1025/23.

12. “Note of a Discussion About Germany on April 3rd,” 3 April 1946, PRO, FO 371/55586.

13. “CP(46)186. Policy Towards Germany. Memorandum by the Secretary of State for Foreign Affairs,” 3 May 1946, PRO, CAB 129/9; “CM(46)43rd Conclusions,” 7 May 1946, CAB 128/7.

14. W. Friedman, Economic Sub-Commission, to Frowein, 5/16/46, PRO, FO 1025/22.

the British demoted the GEAB to a mere advisory body to the ZAW and reorganized it into several expert committees.¹⁵ Agartz, as head of the ZAW, became the direct link between the British and the Germans over matters of economic policy.

Agartz, nevertheless, now found himself in a difficult position. He welcomed the efforts of the British to create a central economic institution to coordinate and direct the policies of the three *Länder*. He had long considered the strong *Länder* economics ministries hitherto supported by the British potential obstacles to the recovery of the zone as a whole. As he put it in a guest lecture at the University of Cologne in July, "At first, the newly founded provinces had followed an autarkic and autonomous economic policy which threatened to divide the British zone." He thought that the ZAW had been created to apply a unified set of economic principles to the zone.¹⁶ Yet Agartz continued to have grave reservations about British policy in Germany. He recognized that the relative powers of the ZAW and the *Länder* had by no means been decided. A clear line of authority did not exist in either the German or the military government's administration. "The administration of British economic policy is inorganic and totally insufficient and because of the powers of every local officer leads to intolerable complications. An economic recovery cannot be expected until this situation has found its end." The increasing unpopularity of the British in northern Germany also gave Agartz cause for concern. Chronic shortages of food, delays in socialization, and the increasing pace of the dismantling of industrial plants for reparations in the British zone did not garner popular support.¹⁷ He urged the British to do something positive in the zone, for "bad policy with regard to Germany is better than no policy at all, which is what obtains at present."¹⁸

The British soon learned, however, that Agartz and his German colleagues vehemently disagreed with them on many fundamental areas of

15. Circular, "Zentralamt für Wirtschaft und Deutscher Wirtschaftsrat für die Britische Zone," 12 April 1946; Walter Friedman, Economic Sub-Commission, to Frowein, 16 May 1946, BA, Z8/1965; Agartz to Frowein, 5 June 1947, Agartz to Cowley, 9 June 1947, Agartz to Kolb, 4 July 1946, BA, NL Agartz 1365/8.

16. "Vortrag von Herrn Dr. Viktor Agartz, Leiter des Zentralamts für Wirtschaft in der britischen Zone, über Aktuelle Fragen der Wirtschaftspolitik in der Universität zu Köln," 26 July 1946, BA, NL Agartz 633/14.

17. The increased pace of reparations in 1947 solidified the belief that the British approached Germany as an economic rival. See Falk Pingel, "Der aufhaltsame Aufschwung: die Wirtschaftsplanung für die Britische Zone im rahmen der außenpolitischen Interessen der Besatzungsmacht," in Petzina and Euchner, eds., *Wirtschaftspolitik*, pp. 41–64. See also Werner Milert, "Die verschenkte Kontrolle: Bestimmungsgründe und Grundzüge der britischen Kohlenpolitik im Ruhrbergbau 1945–1948," *ibid.*, pp. 105–19.

18. Agartz to Walter Kolb, 26 June 1946, BA, NL Agartz 1365/8.

policy. The central disagreement concerned whether Germany could recover from the war without considerable outside support. The British thought so. London had wanted to occupy the Ruhr because it was the industrially richest region in Germany. The British had not anticipated the steep costs of reviving such a complex industrial economy. Strapped for cash and wishing to avoid dependence on the Americans, they wanted the Germans to administer a strict and efficient planning system that could spur recovery without significant outside help. The Germans thought this impossible. They consistently demanded additional food and raw materials imports and considered British attempts to increase efficiency merely a ruse to decrease rations. Meeting with the four *Länder* minister presidents in the British zone to determine future policy on 19 July 1946, Brigadier Cowley reminded the Germans that the destruction of National Socialist economic institutions necessitated a considerable decentralization of economic power in the British zone. "The economic crisis nevertheless demands a workable concentration of planning in the zone." Cowley cited the ZAW as the principle economic policy body of the zone. Since the ZAW had to renounce subordinate bodies such as the *Gauwirtschaftskammern* and the IHKs, "the smooth cooperation of the ZAW and the provincial economic ministries is that much more important."¹⁹ The Germans responded to Cowley with a list of complaints. They referred to "the increasingly bad working morale, due to repeated cuts in rations, and the prevailing shortage of nearly all the most necessary consumer goods; the disastrous repercussions of this deterioration, being steadily increasing."²⁰ The message was clear. The Germans needed the extra food and raw materials that London could ill afford. The British, so the Germans argued, could not spark an economic recovery without significant outside support.

The official British "Sparta Plan" for Germany called on the Germans to do just that. The first Sparta Plan, issued in April 1946, sought a recovery "based on the minimum of appropriate German needs and, as far as possible, drawing on the available *domestic* stocks of raw materials, energy, and means of transport. The goals are to achieve the highest possible savings for the British import program, as well as the highest possible increase in exports to pay for imports." The British Control Commission, not the German planning bodies, would direct the bulk of natural resources to the coal, iron

19. Werkmeister, "Mindener Wirtschaftsbesprechungen," 19 July 1946, BA, Z8/1965. See also Weir, "Industrial Planning in the British Zone. Memorandum by the President, Economic Sub-Commission," 17 July 1946, PRO, FO 943/214.

20. Berlin to Control Office, Argus 594, 12 August 1946, PRO, FO 1034/11.

and steel, heavy chemicals, agricultural, transport, and energy industries. German raw materials had to suffice for the plan. "The strongest emphasis must be placed on the need to reduce costs to the British taxpayer to the absolute minimum and therefore to limit imports to absolute necessities." The British intended to increase the amount of coal available for export in the second quarter of 1946 by nearly 700,000 tons, from 2,450,000 to 3,148,500 tons. While reducing the amount of available coal to the electrical industries by 41,000 tons and keeping the amount of coal distributed to the steel industry constant (where it was assumed that most steel plants still had some accumulated stocks from the war years), the amount of coal available to the British zone for general use would increase by 21 percent, from 8,402,000 to 10,182,200 tons.²¹ The Germans argued that without a considerable amount of imported raw materials and food, such production targets were impossible.

The question of foreign trade further poisoned Anglo–German relations in the British zone. Each of the Allies strictly controlled German foreign trade in their zones. Export and import licences were issued after an elaborate bureaucratic process and only when sufficient hard currency reserves, usually dollars, were available for payment. The British, experiencing chronic dollar shortages like everyone else in postwar Europe, wished to limit expenditures on imports into Germany. The ZAW reflected the widespread German belief that the British intended to use these foreign-trade controls to reduce Germany to a second-class economic power. They feared that the British had an economic interest in reducing the competitive power of German industry. Indeed, the British had discussed the possibility of coordinating German foreign trade with British foreign trade to reduce direct competition. Bevin even had the vague desire of transforming the Ruhr from a producer of sophisticated manufactured products into a supplier of raw materials and semifinished goods for the rest of Europe.²² When the British seriously considered the possibility of restricting German foreign trade, however, they recognized the importance of German finished goods to the recovery of Europe as a whole. At best, then, they hoped to steer German exports to Europe and reserve international markets for the British, a strategy with wide-ranging long-term effects to the detriment of British

21. "SPARTA-PROGRAMM für Industrie-Production," April/June 1946, RWWA, Bestand IHK Köln, 1/228/2. The second Sparta Plan made it even clearer that German economic planning should protect "the British taxpayer from ever increasing costs." "II. Sparta-Plan für das 3. Quartal 1946," BA, Z 8/564.

22. "CP(46)156. The Future of Germany and the Ruhr. Memorandum by the Secretary of State for Foreign Affairs," 11 March 1946, PRO, CAB 129/9.

industry.²³ British trade experts came to admit that “we must face the fact that revived German export trade is essential not only to assist our own economy, but also to enable Germany eventually to balance her payments.”²⁴

Owing to the importance of coal exports and Allied dismantling policy, most German experts nonetheless believed the British intended to reduce Germany to the status of a simple raw materials producer. German experts and politicians spent an increasing amount of time trying to convince the Allies that Germany could only earn dollars for necessary imports through the export of finished and semifinished goods. The *Länderrat* in the American zone declared, for instance, that “the export of staple goods is in the current situation only a limited possibility. Emphasis should be laid on the export of individually crafted, high valued goods to foreign countries.” Similarly, the Hamburg *Handelskammer* argued in a memorandum to the GEAB that “imports can only be paid for through the export of those German goods [of high quality] . . . with the most highly added value [i.e., finished goods].”²⁵ To the Germans, only a complete reorientation of foreign trade policy could provide the funds to pay for necessary imports.

Soon before its dissolution, the GEAB submitted proposals to the military government in June 1946 designed to give a German administrative body authority over foreign trade. The proposal foresaw the reestablishment of contact between the individual exporter and his overseas customer. As Agartz stated in his cover letter, “In order to ensure to the widest possible extent a reduction of German indebtedness accrued or accruing on account of food and raw material imports, . . . an effective increase in German exports can . . . only be effected by way of *individual transactions*, i.e., direct transactions between the German exporter and the importer abroad.”²⁶ The GEAB asserted that, whereas traditionally raw materials had made up only 10 percent of German exports, finished products had made up 75 to 80 percent and semifinished 10 to 15 percent of German exports. They therefore

23. Alan S. Milward writes eloquently about what he considers the folly of this overall British international trading strategy in *The European Rescue of the Nation-State* (Berkeley: University of California Press 1992), pp. 345–434.

24. Board of Trade, “Report of the Inter-Departmental Committee on Co-ordination of the German Economy with the United Kingdom,” 6 November 1946, PRO, PREM 8/214. See also “CP(46)384. Economic Planning: Co-ordination of the German Economy with the United Kingdom. Memorandum by the Lord-President of the Council,” 17 October 1946, PRO, CAB 129/13.

25. *Länderrat*, “Vorschlag des Sonderausschusses ‘Aussenhandel’ für einen Export–Import Kontrollplan,” 19 March 1946. *Handelskammer Hamburg*, “Grundzüge einer Aussenhandlungsplanung für die Britische Zone,” 8 March 1946. See also “Notiz für Herrn Dr. Agartz,” 18 April 1946, BA, NL Agartz, 1365/118.

26. Agartz to deputy president, Economic Sub-Commission, 3 June 1946, BA, NL Agartz, 1365/118. Emphasis in original.

recommended the speedy reestablishment of contacts between German exporters and overseas business on the basis of high-quality finished goods. "Any impersonal form of the German offer of goods through a monopolist company [i.e., an allied import-export agency], even if the German exporter would divulge to it the names of his foreign customers, would, in the unanimous opinion of all experts, lead with certainty to a rapid failure." Instead, the Foreign Trade Department at the ZAW could oversee exports, while a joint Allied-German clearinghouse could account for the use of the two currencies.²⁷ German hopes to wrest control of foreign trade, however, were soon overtaken by Anglo-American moves to create the Joint Export-Import Agency (JEIA) as part of bizonal fusion in late 1946. The JEIA thereafter controlled foreign trade with a two-tier banking system consisting of the Joint Foreign Exchange Agency, to handle international dollar payments, and the *Gemeinsame Aussenhandelskasse*, to handle Reichsmark payments within Germany.²⁸ Foreign trade remained in Allied hands.

When the new bizonal Economic Council replaced the ZAW in September 1946, then, the ZAW's staff had failed to gain the executive powers they had expected to obtain. They believed in their constitutional primacy over the *Länder*. Yet when they tried to wrest control over the coal industry and foreign trade policy from the British, they met with disappointment. The British-inspired Sparta Plan had demonstrated the reluctance of the British to follow the basic macroeconomic advice of the ZAW. As an experiment, the *Zentralamt* seemed to have come up short.

SELBSTVERWALTUNG DER WIRTSCHAFT

Another aspect of overall economic policy and planning that helped estrange the Social Democrats from the British concerned what the Germans termed the economic constitution (*Wirtschaftsverfassung*). Unlike the economic system (*Wirtschaftsordnung*), the economic constitution concerned the relationships between institutionalized interest groups, such as business associations or unions, and the economy. In 1945 and 1946, the economic constitution referred to the extent to which private associations, such as the *Industrie- und Handelskammern* participated in the planning regime. Traditionally, the IHKs and other industrialist associations had assumed quasi-governmental

27. "Memorandum on Foreign Trade Submitted by the German Economic Advisory Board," 28 May 1946, annex to Agartz to deputy president, Economic Sub-Commission, 3 June 1946, BA, NL Agartz, 1365/118.

28. OMGUS to BdL, June 1948, NARA, RG 260, records relating to financial policy advisement, box 1.

regulatory functions under the system of economic self-administration (*Selbstverwaltung*). The Nazis had enlisted the IHKs into the planning system during the war. They had been responsible primarily for distributing raw materials to individual firms and for setting production targets for their local areas. Both the British and the Americans wanted to eliminate the German tradition of economic self-administration. They considered the IHKs and other business associations vehicles for the reactionary industrialist domination of economic affairs responsible for Germany's aggressive history. The left in Germany, however, did not see anything inherently wrong with *Selbstverwaltung*. They simply wanted to institutionalize worker participation in IHKs. They demanded equal union participation in the IHKs and the transformation of these bodies into what they termed *Wirtschaftskammern*. They wished to accord to these *Wirtschaftskammern* many of the official powers previously enjoyed by the IHKs. Their lack of success in creating *Wirtschaftskammern* over the course of 1946 and 1947 contributed to their sense of estrangement in the British zone.²⁹

By mid-1946, the British began constructing a planning system designed to distribute available raw materials to targeted industries without the help of the IHKs or other institutions of self-administration. The administration of this system depended on the British Industrial Branches, which through "industry appreciations" decided on the amount of coal and other basic supplies for each industry, and the German *Bezirks-* and *Landwirtschaftsämter*, which managed the distribution of these materials to individual firms within the respective *Land* or district. The *Bezirkswirtschaftsämter* (BZÄ) in particular played an innovative role. The BZÄs took over the numerous executive prerogatives enjoyed previously by the *Land-* and *Gauwirtschaftsämtern* under the National Socialist regime. The BZÄs also assumed the distributive powers of the local IHKs. Indeed, the *Bezirkswirtschaftsämter* corresponded territorially not to the larger governmental districts, but rather to those of the IHKs.³⁰ At first, the British did not intend officially to invite the unions into this process at the local level. They had never envisioned German unions participating with the industrialists in the quasi-governmental planning bodies that they hoped to eradicate. They expected a relationship

29. For the most in-depth account of the controversies surrounding the German tradition of economic *Selbstverwaltung*, see Werner Plumpe, *Vom Plan zum Markt: Wirtschaftsverwaltung und Unternehmerverbände in der britischen Zone* (Düsseldorf: Schwann 1987). See also Diethelm Prowe, "Unternehmer, Gewerkschaften und Staat in der Kammerneuordnung in der britischen Besatzungszone bis 1950," Petzina and Euchner, eds., *Wirtschaftspolitik*, pp. 235–54.

30. ZAW, "Staatliche Wirtschaftsorganisation und Selbstverwaltung der Wirtschaft," no date but probably June 1946, RWVA, Bestand IHK Cologne, 1/185/1; Abteilung Planung (ZAW), "Arbeitsweise des englischen Planungssystems der britischen Zone," July 1946, BA, Z8/564.

between management and labor to develop in Germany as it had in Great Britain. Once wage controls were lifted, they assumed, unions and employer's associations would engage in collective bargaining.³¹ In other words, the planning system that the British began to apply in earnest in mid-1946 aimed to replace the tradition of economic self-administration that the unions wished only to reform.

From the German side there existed a considerable amount of confusion about what role the IHKs and other industrial associations would fill in the new planning system. Abraham Frowein, the original head of the GEAB, and his colleagues had taken for granted that industrial associations would assume, at the very least, a large advisory role, if not involvement in raw materials distribution, because the GEAB did not possess the administrative machinery to do all the planning work itself. But the Control Commission told Frowein that whereas industrial associations could form, "these associations will not in future assume any official [*obrigkeitliche*] functions such as production planning or production regulation."³² In fact, along with losing the support of the British for his alleged backing of the Nazis, Frowein had already irritated them with his attempts to involve the associations more closely in the planning process. He had tried, for instance, to persuade the British and Americans to make membership in an IHK compulsory for all registered firms. The British dismissed him partly on the grounds that he intended to invite these established interest groups to work with the GEAB instead of creating independent committees of experts.³³

Yet British antipathy toward the German tradition of economic self-administration also threatened the desires of the SPD and the unions to establish an economic democracy. The unions had long believed that a parliamentary democracy alone did not protect the worker from economic domination. As Ludwig Rosenberg, union spokesman, put it, "A form of democracy restricted to the realm of parliament and politics cannot in the long run avoid the conflicts which result from the fact that there is an economic autocracy that in its economic domination controls an important

31. R. R. Walmsley, "Foreign Office Minute," 5 April 1946, PRO, FO 371/55506; Draft Ministry of Labour to Walter Citrine, TUC, n. d., annex to Myrddon Evons to Troutbeck, 29 August 1945, PRO, FO 371/46828; Extract Political Intelligence Department summary, "Letter from British Delegation," 4 December 1945, PRO, FO 371/46829; EIPS, "German Labour," 1 February 1945, PRO, FO 371/46827.

32. GEAB to Ober-President, North-Rhine Province, 12 January 1946, annex to Ober-President, North-Rhine Province, to IHK Cologne, 23 January 1947, RWVA, Bestand IHK Cologne, 1/185/1.

33. Frowein to Prof. Most, 12 March 1946, BA, Z8/4; Friedmann to Frowein, 16 May 1946, PRO, FO 1025/22; Schröder to Werkmeister, "Aktenvermerk, betr.: Abteilungsleiter-Besprechung vom 21.5.46," 22 May 1946, BA, Z 8/9.

part of modern life.” The unions favored a “double control” of economic life, a political control of parliament, and equal union participation in the organs of economic self-administration. Historically, Rosenberg and the unions regarded the ill-fated Reichswirtschaftsrat of 1919 as the working model of management–labor cooperation in the regulation of the economy. In the postwar setting, without a national government, they honed in on the transformation of the IHKs into union- and industrialist-dominated *Wirtschaftskammern*.³⁴ Agartz, as head of the ZAW, assured the unions that he favored the transformation of the IHKs into such *Wirtschaftskammern*, complete with compulsory participation in these chambers, something the British and Americans particularly hoped to prevent.³⁵ That the unions and their Social Democratic allies considered the *Wirtschaftskammern* the fundamental institution of “economic democracy” led them into conflict with the Allies.

Even without active Allied opposition, however, German industrialists resisted union demands to transform the IHKs into *Wirtschaftskammern*. From the beginning, German businessmen and industrialists active in the IHKs feared union participation would fundamentally change that institution’s character. Growing increasingly comfortable in their new postwar role as noncompulsory organizations, many IHKs warned that equal union participation would fundamentally dilute the business character of the institution. If the unions pressed too hard, the IHKs would suggest the creation of economic planning committees, with equal union and industrialist participation, outside of and supplementary to the traditional IHKs. Over the course of 1946, the idea of such planning bodies outside the IHKs became increasingly attractive.³⁶ In the Agathenburg Resolution of 4 December 1946, the IHKs of the British zone tried to reassure the unions that “they had repeatedly expressed, that businessmen and workers, as the main components of the economy, must work together closely.” To that end, they proposed new economic committees for every IHK district,

34. Rosenberg, “Wirtschaftsdemokratie: Vorschläge zum Aufbau einer wirtschaftlichen Selbstverwaltung und ihrer Stellung zu den Behörden,” December 1946, FES, DGB-Archiv, 101/11/4; “Grundsätzliche Stellungnahme zu wirtschaftlichen Fragen im Auftrage des Zonenausschusses am 8./9.Aug.1946 in Bielefeld,” 8–9 August 1946, FES, DGB-Archiv, 101/11/9.

35. GZS to Zonal Committee, “Bericht ueber der Zusammenkunft der Gewerkschaften mit dem Leiter des Zentralamtes fuer Wirtschaft Dr. Agartz in einer Besprechung ueber die kommende Wirtschaftsverfassung,” 29 July 1946, FES, DGB-Archiv, 101/11/2.

36. “Niederschrift über die Tagung der Hauptgeschäftsführer von Industrie- und Handelskammern der britischen Zone,” 8 February 1946, RWWA, Bestand IHK Düsseldorf, 70/111-00/2; “Niederschrift über die Hauptgeschäftsführer-Sitzung der Vereinigung der Industrie- und Handelskammern der Nord-Rheinprovinz,” 12 July 1946, RWWA, Bestand IHK North Rhine-Westphalia, 48/32/2.

including the equal representation of the local IHK, the local artisans chamber (*Handwerkskammern*), and the unions. That is, not only did the IHKs want to invite a third party, the artisans, to join the new economic planning committees and thereby dilute the union's influence, they wanted the committees to exist alongside the IHKs themselves. The union's economic policy committee announced the following week that they expected a parity relationship in the IHKs themselves. "Committees, which exist outside of the IHKs, do not meet with our agreement."³⁷ The unions resolved to press the IHKs into creating such *Wirtschaftskammern*. When worker and industrialist representatives met at Wuppertal on 7 January 1947, Rosenberg let the industrials know that "the *Industrie- und Handelskammern* cannot do without the cooperation of the unions. But such cooperation must be based on equality and not on a gesture. We cannot therefore agree to the creation of so-called economic planning committees, outside the *Industrie- und Handelskammern*, as articulated in the Agathenburg Resolution."³⁸ In early 1947, Social Democrats introduced a bill to create *Wirtschaftskammern* in Lower Saxony.³⁹ But by mid-1947, the *Wirtschaftskammern* continued to hang in the balance. Ultimately, the issue would be superseded by the federal codetermination debate beginning in late 1949.

As the unions and industrialists debated the future form of economic self-administration, the SPD and its trade union allies became increasingly suspicious about the makeup of the growing central administrations. The British thought they had eradicated Nazi influence by replacing the semiprivate associations participating in economic self-administration by state offices that sought advice from independent committees of experts. But many Social Democrats saw in the staffing of both many of the new offices and many more of the expert committees a creeping capitalist restoration. They feared that the British allowed "reactionary" industrialists to obtain positions of influence through the back door. Moreover, Agartz grew quite depressed at the extent to which the British military government had hired experts to help the industrial branches in Germany from the ranks of British industry. The unions, in turn, became upset that the new expert commissions, created to advise the ZAW, did not include from the start any institutionalized

37. "Agathenburger Entschliessung der Kammern vom 4.12.46;" "Entschliessung des wirtschaftspolitischen Ausschusses der Gewerkschaften vom 13.12.46," FES, DGB-Archiv, 101/11/5.

38. GZS, "Bericht über die Tagung der Vertreter der Industrie- und Handelskammern und Gewerkschaften in der Britische Zone in Wuppertal," 7 January 1947, *ibid.*

39. Rosenberg, "Bericht über die 4. Tagung des Wirtschaftspolitischen Ausschusses," 26 February 1947, "Entschliessung, angenommen auf einer Zonenkonferenz der Gewerkschaften der brit- und amer. Zone," 13 March 1947, FES, DGB-Archiv 101/11/6.

union participation on the basis of parity.⁴⁰ Particularly rankling from the left's point of view was the creation of the Administrative Office for the Iron and Steel industry (*Verwaltungsamt für Stahl und Eisen*, or VSE). The VSE was charged with the regulation and direction of the iron and steel industry. The British insisted over Agartz's objections in appointing Max Müller, during the interwar years the head of the international scrap iron cartel, to run the office. Although formally subordinate to Agartz and the ZAW, Agartz feared that Müller, who tended to operate quasi-independently of the ZAW, took orders from both him and the Control Commission, which placed too much power in the hands of the iron and steel industrialists.⁴¹ The SPD and unions felt considerably threatened by late 1946.

By the time the bizonal economic institutions began to operate, the SPD and the unions had not succeeded in introducing an "economic democracy" in the British zone. The British had assaulted the tradition of self-administration that Social Democrats wished merely to transform. By the time the British came to rely more and more on German administrations, the Social Democrats feared, the industrialists had won time to recover.

THE BIZONE, THE SPD, AND ECONOMIC POLITICS

In January 1947, the growing polarization of economic politics between the CDU and SPD in western Germany increased as the SPD engineered the ousting of Rudolf Mueller, a nonparty cabinet member from Greater Hesse, from his post as chair of the newly constituted bizonal economic council (*Wirtschaftsrat*, the bizonal successor to the ZAW) in favor of Viktor Agartz. By late 1946, much of the SPD felt it was losing control of economic policy in the western zones. Social Democrats watched with apprehension the steady electoral rise Konrad Adenauer's CDU in North Rhine-Westphalia. They began to recognize that the demographic realities of the predominantly Catholic west worked against them. They worried that unrepentant reactionary industrialists had begun to secure more influential posts in the economic administration of the British zone. Distrust of the British increased because of official reluctance to implement a socialization policy and an inability to finance the import of the food and raw materials

40. Werner Hansen to Willi Eichler, 3 August 1946, FES, DGB-Archiv 101/11/2; Hansen to Müller, 4 December 1946, Müller to Hansen, 10 December 1946, FES, DGB-Archiv, 101/11/4.

41. Agartz, "betr.: Verwaltungsamt für Wirtschaft in Minden.," 24 December 1946, BA, NL Agartz, 633/14; "Directive to Zentralamt für Wirtschaft Abteilung Stahl und Eisen (ASE) for the Takeover of Responsibility for the Operation of the German Iron and Steel Industry Within the British Zone of Germany," 30 September 1946, PRO, FO 1034/11.

considered essential to recovery. In short, the SPD began to fear that its chance of introducing a socialist system in the western zones had passed. The appointment of Rudolf Mueller to the chair of the new bizonal economic council confirmed the worst fears, that reactionaries now controlled economic policy. Although by no means a neoliberal, Mueller did not oppose socialization in principle and was not against worker participation in planning bodies. The SPD nevertheless sought to unseat him at the first opportunity. Mueller represented to the SPD a decentralization inherent in the American zone inimical to effective planning. They wished to remove him to reassert control over the western zones.

The SPD had observed with dismay the growing strength of the CDU in the British zone for some time. Demographically, the western zones posed a challenge. The SPD had traditionally derived its support from the Protestant east, not the Catholic west. Indeed, local elections held throughout the British zone in early 1946, as well as *Länder*-wide elections the following fall, confirmed the Christian Democratic ascendancy. To meet this challenge, the British encouraged grand coalition governments between the SPD and the left wing of the CDU in the *Länder* of their zone. The left wing of the CDU, the so-called Christian socialists, seemed to extend ideological bridges to the SPD. In the British zone, the Christian socialists found expression in the CDU's social policy committee under the leadership of Johannes Albers, a former Christian trade unionist. The social policy committee spoke out for the socialization of basic industry and worker participation in industrial policy.⁴² In addition, the British-installed mayor of Düsseldorf, Karl Arnold, another former Christian trade unionist, supported the work of the social policy committee and encouraged a CDU-SPD government in North Rhine-Westphalia. The Berlin leadership of the CDU underscored the Christian socialist message. As Jacob Kaiser declared to the CDU party congress in Berlin on 16 June 1946, "The entire concept of 'ownership' has been tottered over by Hitler and his war . . . A new economic and social order is required in order to deal with present day concerns. A new order, a 'social' order, is needed."⁴³ In 1945 and 1946, considerable room for compromise between the SPD and the growing CDU existed.

Unfortunately for the British strategy of uniting the SPD with Christian socialists in the CDU in North Rhine-Westphalia, many other noneconomic issues affected the relationship between the SPD and CDU. For

42. See "Aufgaben und Aufbau des Sozialausschusses der CDU," annex to Albers to Adenauer, 7 January 1947, Albers to Adenauer, 14 August 1946, StBKAH, NL Adenauer, 8/51.

43. "Rede Jacob Kaiser auf der Parteitagung der Christlichen-Demokratischen Union Deutschlands in Berlin am 16. Juni 1946," ACDP, VII, 004/127/2.

one thing, Konrad Adenauer had dominated the CDU in North Rhine-Westphalia since the Neheim-Hüsten conference on 1 March 1946. Under his guidance, when the British forced the CDU and SPD to form a coalition government in late 1946, negotiations almost broke down over religion and education policy. In fact, in the conflict over education policy, which involved the question of who should occupy the ministry of the interior, Johannes Albers's Catholicism overshadowed his socialism. Partly as a result of such conflicts in North Rhine-Westphalia, the SPD considered the CDU a confessional party guided by reactionary clerics. When Morgan Phillips, heading a Labour Party delegation, emphasized to Fritz Heine and other Social Democrats the importance of the left wing of the CDU, Heine responded that the SPD had been put off by what they considered the intolerance of Catholics within the party.⁴⁴ During the summer of 1946, the SPD also grew irritated with Adenauer's tendency to label them a governing party in league with the British. They considered this a tactic to discredit socialization. Rather than seriously entertaining the possibility of uniting with left-wing Christian Democrats to push through socialization, the SPD began to characterize the CDU as a reactionary organization bent on the restoration of pre-1945 elites. "The Social Democratic Party sees in this policy of the industrialists, whose spokesman Adenauer has become, the continuation of the worst traditions from the Weimar Republic."⁴⁵ The SPD came to view the CDU in North Rhine-Westphalia as an acrimonious clique of unrepentant industrialists and ultramontane clergy around the reactionary Adenauer.

Accordingly, the SPD became increasingly skeptical of the ability of left-wing Christian Democrats to influence party policy. They could see that Soviet pressure had eroded Jakob Kaiser's power base in Berlin and thus made an all-German CDU an impossibility. He could no longer, for this reason alone, represent a serious rival to Adenauer. Karl Arnold, mayor of Düsseldorf and a longtime Christian trade unionist, appeared inexperienced, unreliable, and someone who owed his position solely to the British. Johannes Albers, while amenable when it came to the socialization of basic industry, economic planning, and union participation in the organs of *Selbstverwaltung*, was also a staunch Catholic. He epistemologically rejected secular socialist values. Despite his Christian socialism, he insisted on a theoretical

44. "Notiz," annex to "Protokoll der Sitzung der Parteivorstandes am 12. Juli 1946 in Hannover," FES, Bestand PV, Protokolle 1946.

45. "Entschliessung," annex to "Bericht vor der gemeinsamen Sitzung des Parteivorstandes und Parteiausschusses am Donnerstag, den 22.8.46 in Frankfurt a.M.," FES, Bestand PV, Protokolle 1946.

rejection of economic materialism and a reinvigoration of Christian ethics. SPD chief Schumacher, initially open to overtures from the left-wing Christian Democrats, grew convinced that they were unable to wrest the party from Adenauer.⁴⁶ British analysts also grew frustrated with the CDU's left wing. They had originally contemplated encouraging Arnold, Albers, and Kaiser to split off from the CDU. They then decided to wait to see if the Christian socialists could eventually dominate the party. The influential analyst Allan Flanders wrote later, however, that, "It is true that so far its leaders have always persuaded themselves that they were on the verge of winning over the whole of their party to their policy of christian socialism and discarding perhaps in the process a few of their reactionary politicians like Adenauer. I have no doubt that this is an illusion though naturally a comforting one for them."⁴⁷ Luckily for the SPD, it still retained all of the *Länder* economics ministries. They owed this to the British.⁴⁸

Social democrats also worried about the impact of Anglo-American fusion on the economic administration in western Germany. They had tried hard to convince the British to institute and maintain central controls and central planning. They thought the Americans had introduced too much decentralization in their zone. The south German *Länder* were only held together by the coordinating *Länderrat* of the three minister-presidents of Bavaria, Hesse, and Württemberg-Baden.⁴⁹ When Germans from both zones began to negotiate the makeup of the bizonal economic institutions during the summer of 1946, the south German minister presidents proposed a relatively decentralized set of institutions. A main committee consisting of the three economics ministers from the American zone and three at-large representatives from the British zone would decide issues of minor importance through a simple majority. For binding legislation, an absolute majority would be required. The minority would maintain the right to present its case to the military governors.⁵⁰ This represented a considerable step backward from what the ZAW in the British zone had already become. When

46. See, for instance, Schumacher's frustration with Kaiser and Joseph Müller when they were unable to convince Adenauer to ask the SPD to create a "*Nationale Repräsentation*" in 1947 to approach the Allied Control Council about reunification, Schumacher to Hans Podeyn, 27 December 1947, FES, NL Schumacher, folder 80.

47. Allan Flanders, "Notes on German Politics," 2 October 1947, annex to Steel to J.A.M. Majoribanks, 6 October 1947, PRO, FO 1049/859.

48. See, for instance, "Note of Meeting Held at Minden, 22nd July, 1946 to Discuss Nominations for the German Head of the Economic Administration of the New Land North Rhine Westphalia," BA, NL Agartz, 1365/118.

49. On American emphases on decentralization and *Länder* powers, see Gimbel, *The American Occupation of Germany* (Stanford: Stanford University Press 1968), pp. 44–51

50. "Vorschlag der süddeutschen Ministerpräsidenten," 3 September 1946, BA, Z 8/1965.

the economics ministers from both zones met for the first time between 9 and 11 September 1946, representatives from the British zone nominated Agartz as head of the bizonal committee. The south German representatives, somewhat reluctantly, informed them that their cabinets objected to Agartz because they associated his name with “centralization, planning and socialization.”⁵¹

Viktor Agartz strongly criticized the new arrangements. The south German *Länder*, he feared, intended to institutionalize the decentralization of the American zone. He suspected that they never intended to invest any real executive authority in a bizonal coordinating body. As producers of food and consumer goods, they had an interest in escaping a control system designed to help the more industrial Ruhr. As the British zone included the bulk of western German industry and population, he objected to equal representation in the bizonal body of representatives from both zones. “As the proposals of the Prime Ministers [minister presidents] rather emphasize the interests of the *Länder*, an equal right of vote for the two zones is no longer compatible with the preponderance of the British Zone in respect to economic importance and population.”⁵² Agartz considered the British ZAW the legal successor to the Reich Economics Ministry. He envisioned the bizonal successor to the ZAW as operating atop a relatively centralized machinery. The south Germans, in contrast, seemed to champion a decentralized *Staatenbund* instead of a centralized, unified state. Agartz made his participation in the new bizonal committee, called the Economic Council (*Wirtschaftsrat*), conditional upon the British appointing three at-large representatives of their zone instead of representatives from the three *Länder* of the zone. He hoped to combat a decentralization of the council’s constitutional powers.⁵³ The bizonal council came into existence in September on just that basis, three economics ministers from the American zone and three at-large representatives from the British zone. An executive office for economics (*Verwaltungsamt für Wirtschaft*, or VAW) was established at Minden.⁵⁴

Social Democrats were not happy with the new bizonal economic council. The three economics ministers from the American zone represented on

51. “Notiz,” September 1946, BA, NL Agartz 633/14.

52. Agartz, “Comments to the Proposals of the South German Prime Ministers,” 30 September 1946, BA, Z 8/1965

53. Agartz to Kurt Schumacher, 10 October 1946, BA, NL Agartz 633/14.

54. “Preliminary Agreement on the Establishment of a German Economic Administration,” 5 September 1946, annex to “Bericht über die Erster Sitzung des Wirtschaftsrates in Frankfurt/M. vom 10.–12. September 1946,” BA, Z 1/245.

the council, Ludwig Erhard of Bavaria, Werner Hilpert of Greater Hesse, and Heinrich Kohler of Württemberg-Baden, were all either Christian Democrats or independents. They faced Agartz, Dr. Klaus Kuhnert of Schleswig-Holstein, and Erik Nölting of North Rhine-Westphalia, all of the SPD. Instead of Agartz, the council elected Rudolf Mueller, nonparty minister of economics and transportation in Greater Hesse in the American zone, as the nonvoting chair of the council and as chief of the VAW on 24 September.⁵⁵ To many Social Democrats, the appointment of Mueller seemed confirmation of the dominant influence of politicians from the American zone. As Ludwig Rosenberg, union spokesman, wrote to Cecil Weir, "To say it quite clearly: the Trade Unions are of the opinion that Dr. Mueller supports tendencies which are not in accord with the declared intentions of the Trade Unions with regard to the future and the running of industry."⁵⁶ Mueller's election provided the immediate impetus for the SPD's Cologne Resolutions, in which the party threatened to withdraw from all bizonal administrative offices, issued the following day.⁵⁷ Agartz later reported that Mueller said he did not think the council the proper body to decide upon socialization. The Economic Council was solely concerned, according to Mueller, with questions of production. He did not consider socialization a question of production.⁵⁸

Under Mueller's leadership, the Economic Council presented a plan to the military governments that reflected the relative conservative shift in its composition. Although Social Democrats and Christian Democrats agreed on the fundamental importance of an increase in food and raw materials imports, and the freedom of German producers to engage in foreign trade, the council did not mention socialization or the introduction of "economic democracy" in quasi-public planning boards. Instead, the economic council placed greater emphasis on the need to reform the price and wage controls. "Only thereby can the essential will to produce on the part of the business firm be stimulated, work for money again make sense, and the accumulation of savings and capital be encouraged." A hastened currency reform and timely debt settlement also received greater attention. "A solution to

55. "Bericht über die Zweite Sitzung des Wirtschaftsrates in Frankfurt/Main vom 23.–24. Sept. 1946," BA, Z 1/245.

56. Rosenberg to Weir, 18 November 1946, FES, DGB-Archiv 101/11/4.

57. "Sitzung des Parteiausschusses am Mittwoch, dem 25.9.46 in Köln," FES, Bestand PV, Protokolle 1946.

58. Agartz, "betr. Verwaltungsamt für Wirtschaft in Minden," 24 December 1946, BA, NL Agartz 633/14. See also Rudolf Mueller, "Hintegrund und Anfänge, – vom Zusammenbruch zur Geldreform," in Albert Hunold, ed., *Wirtschaft ohne Wunder* (Erlenbach-Zürich: 1953), pp. 307–21.

the currency question is the unavoidable precondition to overcoming the current paralysis of the economy.” Further, the tax system had ruined the incentive mechanism. Hence, “a fundamental reform of the tax system, in particular the income tax, must proceed along with the necessary reforms of the financial and productive sectors of the economy. Such a reform must restore the necessary incentives to intensive and rational work.”⁵⁹ The council did not advocate free markets and decontrol, to be sure, but Social Democrats felt that the bizonal institutions had shifted decidedly in favor of advocating the interests of industrialists over the agenda of social reform.

From the beginning, Mueller endured intense criticism from the unions and the Social Democrats. He did not go far enough in satisfying union demands for equal worker representation on the many advisory bodies attached to the VAW at Minden. Whereas Mueller proposed creating expert advisory committees alongside the various industrial branches of the Economic Council, with an equal number of industrialist and union experts, the unions wanted equal representation on a general advisory body for the Economic Council as a whole. In fact, Mueller tentatively agreed to consider union demands after a meeting with them on 10 January. But union officials nevertheless decided in private that “at present an economic policy with very clear goals must be pursued . . . Unfortunately, the views of Dr. Mueller do not possess such clarity, which leads the unions to believe that he is not the right man to direct the economic life of the two zones.”⁶⁰ The unions in turn asked the SPD to apply additional political pressure to Mueller in the council. Ludwig Rosenberg told the SPD leadership of “the unions demand to participate in the bizonal economic administration.” He encouraged the party to take the lead in pressing union demands. The SPD wished to replace Mueller with Agartz. Agartz stressed the need to ensure that Social Democrats hold all the economics portfolios in all of the *Länder*. In this way, they could then dominate *Länder* representation in the economic council and topple Mueller. The SPD’s economic policy committee had already decided to press all grand-coalition governments, which governed all of the *Länder*, to appoint a Social Democrat economics minister. Agartz now made the resumption of his leadership of the Economic Council conditional upon Social Democratic control of all eight *Länder* economics portfolios. He also demanded greater knowledge over allied plans to

59. “Gesundungsplan der deutschen Wirtschaft,” *Mitteilungsblatt des Verwaltungsamts für Wirtschaft*, 1 January 1947, BA, Z 1/244.

60. “Bericht über die Besprechung der Gewerkschaftsvertreter aus den norddeutschen und süddeutschen *Ländern* mit Herrn Dr. Mueller, Leiter des Verwaltungsamtes für Wirtschaft,” 9/10 January, 1947, FES, DGB-Archiv, 101/11/5.

dismantle German industry and more control of the council over the coal and energy industries.⁶¹ The Social Democrats decided, for the moment, not to follow through with the Cologne Resolutions.

The SPD then succeeded in ousting Rudolf Mueller from the position of chair of the Economic Council. New *Länder* elections during the fall in the American zone spawned cabinet reshuffles in which the economics ministries fell into the hands of Social Democrats. Harald Koch took over in Hesse, Hermann Veit in Württemberg-Baden, and Rudolf Zorn in Bavaria. From the British zone, Alfred Kubel represented Lower Saxony, Erik Nölting North Rhine-Westphalia, and Bruno Diekmann Schleswig-Holstein. All the members of the council now belonged to the SPD. They announced to Mueller on 16 January 1947 that they could no longer give him their confidence. "The undersigned economics ministers are of the opinion, that the leadership of the economic council must be entrusted to a person whose economic policy views and whose administrative record corresponds to the economic needs of Germany and Europe in this period of reconstruction." Mueller insisted that his successor be named immediately. With the exception of Rudolf Zorn from Bavaria, the other members of the council nominated Agartz.⁶²

Mueller's ousting sent shock waves throughout Germany and contributed significantly to the polarization of economic policy debates in the bizon. In the American zone, many German officials recoiled from what appeared a doctrinaire action taken by the Social Democrats of the British zone.⁶³ The Americans believed that the removal of Mueller and the election of Agartz had been nothing less than a British-inspired coup.⁶⁴ The CDU press service reported that some *Länder* cabinets, all composed of grand coalition governments, had not been informed about the ousting of Mueller until

61. "Sitzung des Partei ausschusses am 11. Jan. in München," FES, Bestand PV, Protokolle, 1947. See also Herbert Kriedemann, "Arbeitsbericht," 14 November 1946, about the WIPO meeting at Giessen on 5 and 6 November 1946., FES, Bestand PV, Referat Wirtschaftspolitik/01600A. To Social Democrats, Mueller embodied the decentralization of the American zone. Ironically, Mueller had his own problems getting the *Länder* in the American zones to respect the authority of the Economic Council. See Kindleberger's discussion of his meeting with Mueller, in which the head of the economics administration asked him to take action against the recalcitrant Bavarians on a number of issues. Kindleberger to DeWilde, Frankfurt no. 19, 24 August 1946, *The German Economy*, p. 119.

62. "Bericht über die 7. Sitzung des Verwaltungsrats für Wirtschaft in Minden am 16./17. Januar 1947," BA, Z 1/246. Zorn, evidently surprised by Mueller's demand that Agartz be named his successor immediately, desired to consult with the Bavarian cabinet. Overruled, Agartz was elected anyway.

63. Hans Möller to Erich Rossmann, 17 January 1947, BA, Z 1/244.

64. See Robert Murphy to H. Freeman Matthews, 27 April 1947, NARA, RG 59, 740.00119 Control (Germany)/4-2747, *FRUS* 2 (1947):909-11; Altaffer to State Department, no. 386, 29 January 1947, NARA, RG 59, 862.00/1-2947.

after the fact. The CDU delighted in emphasizing the Social Democratic justification for replacing Mueller with Agartz. In the Hamburg Senate, for instance, SPD delegate Richter had admitted that “the SPD had purposely occupied all the economics ministerial posts of the *Länder* in order to apply its economic policies. It was only logical that these economics ministers should appoint a man, Viktor Agartz, who possessed their confidence, to replace Dr. Mueller, who does not belong to any party, to lead the bizonal economic office.”⁶⁵ The SPD appeared to suggest that they could not possibly work with a nonsocialist to overcome the economic crisis western Germany now faced. Agartz’s friend, Stephen von Hartenstein, warned him that the dismissal of Mueller “was handled both in form and substance in such a way as to disturb not just the enemies but also the allies of the SPD. Your [i.e., Agartz’s] reinstatement has appeared in a much more negative light than might have been wished for.”⁶⁶ The removal of Rudolf Mueller from the leadership of the bizonal economic administration looked partisan and seemed to belittle the efforts of moderates in both parties to get along.

Viktor Agartz and other Social Democrats nevertheless continued to bemoan the presence of conservative experts in the offices of various bizonal administrations. Despite their many leadership positions in the administration of the bizonal zone, they complained that Christian Democrats and industrialists undermined them from within. They repeatedly argued that it was not fair for the SPD to be considered a government party and the CDU an opposition party. Nevertheless, by January 1947, the SPD occupied the economic ministries of all eight *Länder* of the bizonal zone and the leadership of the Economic Council. Although they stressed the fact that the inherited Nazi planning regime was not the planning regime they had in mind, they entered the year 1947 determined and confident to apply, perhaps in a preliminary way, forms of Social Democratic organization to the economy. Their first opportunity came with the points system in the Ruhr.

THE POINTS SYSTEM AND ECONOMIC CRISIS IN 1947

In early 1947, everyone agreed that an increase in the production of coal in Germany was a minimum precondition for the economic revival of not just the western zones, but of all of Western Europe. Coal remained the principle energy source for Western European industry. The Allies therefore reserved a considerable portion of German coal for export not just to earn

65. CDU-Pressedienst, “Sozialdemokratischer Parteidiktator,” 3 March 1947, Stiftung-Bundeskanzler-Adenauerhaus, NL Adenauer, Bestand 8/Band 20.

66. Stephen von Hartenstein to Agartz, 13 February 1947, BA, NL Agartz, 1365/8.

more foreign exchange, but to provide the means for reconstruction in France, Belgium, and the Netherlands, too.⁶⁷ Yet in an economy of chronic shortages, a useless currency, and a growing black market, it proved difficult not just to boost the productivity of the Ruhr miner, but to get him to show up for work at all.⁶⁸ The average miner in the Ruhr worked just three shifts per week. To address this problem, the British North German Coal Control and the miners' industrial union (IG Bergbau) worked out a points system. The points system sought to reinforce incentives among Ruhr coal miners by providing additional food and consumer goods rations for work. Because of the equal union participation in crafting the program, the points system served as an important model for the SPD of cooperation between management and labor in integrating incentives into a rational planning system.

Yet the points system achieved, at best, a modest success. The obvious flaws in the scheme put Social Democrats in a difficult position. Production increased moderately from its introduction in January until about mid-March 1947. When another food crisis developed and wildcat strikes broke out throughout the Ruhr during the spring, many of the gains in production disappeared. Only by October did the Ruhr coal industry reach the production levels of the previous December. The ensuing coal shortage, in turn, affected the rest of industry. "The [industrial] recovery that had begun in March was already interrupted in many sectors by April because of the collapse of the food market, which in turn induced a decline in coal production. The decline in coal production, in turn, had the effect of holding back industrial production throughout the summer months."⁶⁹ The real disappointment, however, was the failure of the points system to reduce absenteeism. Whereas in 1936 the absentee rate per 100 shifts had been 11.6, in September 1946 absenteeism had reached a level of 23.6 shifts per 100 man shifts. By March 1947, the points system had contributed to a reduction in absenteeism to 14.1 shifts. But in April, the rate rose to 16.2, and to 18.4 by September. Only the influx of care packages from the United States during the fall, which provided additional food and consumer goods, managed to bring down the absenteeism again.⁷⁰ The Germans quite justifiably placed

67. For an early exposition of the importance of the Ruhr as the engine of the European economy, see U.S. Department of State, "The Ruhr in the Economy of Europe," 29 March 1945. See also Gillingham, *Coal, Steel, and the Rebirth of Europe*, pp. 148–77; Hitchcock, *France Restored*, pp. 44–96.

68. On labor difficulties in the Ruhr mines, see Roseman, *Recasting the Ruhr*, pp. 23–93, 161–90.

69. Sonderabteilungs Wirtschaftsplanung, VfW, "Die Wirtschaftslage des Vereinigten Wirtschaftsgebietes im Jahre 1947," March 1948, ACDP, VII 004–005/1.

70. DKBL, "Die Kampf um die Leistungssteigerung," *Die Kohlenwirtschaft im Jahre 1947 und gegen Ende des Winters 1947/48*, March 1948, FES, DGB-Archiv 101/18.

much of the blame for the failure of the points system on the food crisis. Nevertheless, they acknowledged certain fundamental flaws in the plan that had been insisted upon by the unions. IG Bergbau and the union federation had ensured that all employees of the mines, whether underground miners or above-ground office workers, be included in the scheme. The allocation of additional rations had been made dependent simply upon showing up for work. In the end, the Social Democrats on the Economic Council conceded that there actually had been no incentive to increase the rate of productivity.

The need for some sort of special incentive regime for the Ruhr coal industry had been recognized for quite some time.⁷¹ It had proved difficult to get production increased to even half the 1936 levels. Although the severe winter of 1946–47 aggravated many problems by precipitating a transport and food crisis, the stagnation in production levels appeared across the board by September 1946.⁷² If 1936 production levels equalled 100, the total mining of coal increased between January and August 1946 from 46.8 to 49.6 only to fall to 48.4 in September and reach 49.4 again the following month.⁷³ Despite the oft repeated German belief that too much coal from the Ruhr ended up in the hands of the European Coal Organization as “reparations,” the proportion and absolute tonnage of coal exported from the British zone was reduced from over 1,000 tons per day in late January 1946 to under 500 by Christmas Eve, with the sharpest reduction occurring in October.⁷⁴ The amount of coal available for use in Germany nevertheless decreased because, as Military Governor Robertson observed early in 1947, the stocks of coal accumulated since the war had disappeared. “The key to the economy of the British and American Zones of Germany is coal . . . If they [i.e., the Germans] want more coal they must dig it out of the coal mines themselves.”⁷⁵ In the economic council’s “Economic Guide Plan

71. Already in April 1946, the French approached the Americans about providing additional rations to Ruhr miners as an incentive to boost coal production. See NARA, RG 59, 862.6362, e.g., “Memorandum on French Import Coal Requirements from Germany: Additional Coal Imports Absolutely Essential for French Recovery,” n. d., annex to Labouisse to Riddleberger, 24 April 1946, 862.6362/4-2446; “Department of State. Memorandum of Conversation,” 01 May 1946, 862.6362/5-146; Galbraith and Rostow to Clay, 31 May 1946, annex to Murphy to Riddleberger, 8 June 1946, 862.6362/6-846.

72. Here I disagree with Abelshausen, who placed the blame on the halt in the increase of production primarily on the winter of 1946–47. See *Wirtschaft in Westdeutschland 1945–1948* (Stuttgart: Deutsche Verlagsanstalt 1975), p. 35.

73. Statistisches Amt für die Britische Besatzungszone Hauptabteilung C, “Indexziffern der Industriellen Produktion für die Britische Besatzungszone, Januar–September 1946,” November 1946, BA, Z 8/192.

74. “Verwendung des Steinkohlenaufkommens in nördlichen Gebiet,” Statistischer Hausdienst, April 1947, BA, Z 8/194.

75. “Robertson, Memorandum on Coal Situation,” 5 January 1947, PRO, FO 1032/590.

1947/48,” submitted to the Anglo–American Bipartite Board in February 1947, German planners highlighted the importance of coal production because of its significance to the rest of German industry. They recommended the immediate implementation of a points system to increase incentives for individual miners.⁷⁶ The need to concentrate all available resources on the coal industry was paramount.

The lack of progress in increasing coal production had already led to acrimonious exchanges between the British and the Germans. The disagreements, in turn, aggravated differences between moderate and radical trade unionists in the bizon. The Germans believed too much coal was exported below world market prices. The British argued correctly that coal exports had been considerably reduced. German leaders, from industrialists to trade unionists, nevertheless demanded a temporary moratorium on coal exports. H. E. Collins, head of the North German Coal Control tried to explain to union representatives in October that “a complete moratorium on coal exports was . . . impossible, as coal was an export essential to pay for imports.”⁷⁷ The NGCC and the union federation agreed, however, that coal mined during special “holiday shifts” would be set aside for domestic heating purposes. They hoped thereby to alleviate heating difficulties during the upcoming winter. The union leadership, however, was embarrassed to find that IG Bergbau, the coal miners industrial union, would not agree to work the special shifts. The Communist leadership of the relatively radical IG Bergbau, Hans Agatz and August Schmidt, refused to participate in the scheme because of their distrust of British socialization policy and inadequate pay. Hans Böckler, head of the bizonal union federation, told Schmidt on 28 October that “one cannot just say ‘no’. That makes the miners look simply selfish.”⁷⁸ Nevertheless, the membership of IG Bergbau voted 205,000 to 30,000 against working holiday shifts.⁷⁹ Embarrassed, the federation issued a statement deploring “the recent behavior of IG Bergbau as utterly damaging to the entire workers movement.”⁸⁰ IG Bergbau demonstrated the difficulties moderate union leadership faced in attempting to control the most radical union in the federation. The relatively radical

76. VAW, “Economic Guide Plan 1947/48,” 19 February 1947, PRO, FO 1027/12.

77. CCG BE Secretariat, “Notes on a Conference with German Trade Union Leaders,” 14 October 1946, PRO, FO 371/55509.

78. GZS, “Protokoll der Zonenvorstands- und Zonenausschussitzung am 28.10.1946 in Bielefeld,” FES, DGB-Archiv, 101/11/1. IG Bergbau claimed that an announcement of extra food rations had arrived too late and that British willingness to increase pay by 20 percent was too far under union demands of 30 percent.

79. Weir to Jenkins, BGCC 16130, 21 November 1946, PRO, FO 1036/118.

80. Zentralamt für Wirtschaft, “Innenpolitik: Bergbausonderschichten vom Gewerkschaftsstandpunkt gesehen,” 25 November 1946, BA, Z 8/1965.

culture of IG Bergbau would later force the more moderate union leadership and Social Democrats to accept a points system not entirely to its liking.

British planners began thinking about adding extra incentives to the coal miners wage packets in middle to late 1946. E. F. Schumacher, economic advisor to the military governor, suggested supplementing existing wages with increased rations for food and consumer goods. As he saw it, the problem was how to get miners to work more than three shifts per week. Schumacher argued that increasing wages would not help. "Since the money wage which he earns on three shifts is [generally speaking] enough to pay for his rent and his food ration, the wages he earns on subsequent shifts provide no incentive. They are in excess of what can be bought on the rations and are insignificant in relation to the prices charged in the 'grey' or 'black' markets." Instead, Schumacher recommended an increase in rations for food and consumer goods. Even if miners did not use the extra food for themselves but for their families, the extra rations would increase the "marginal utility of the fourth-shift wage." As he explained, "the economic incentive works best when the miner feels that his work enables him to obtain desirable goods and that he can dispose of these goods in accordance with his own personal needs and preferences."⁸¹ Extra rationing, not money wages, were needed to provide the necessary incentives in the Ruhr.

The introduction of a points system became increasingly urgent as the year 1946 drew to a close. The Economic Council had established the Coal Working Party (*Arbeitsgruppe Kohle*, or AGK) under Erik Nölting, economics minister in North-Rhine Westphalia, to expedite coal production. The AGK recommended in late November that some priority in food rationing be given to miners.⁸² Accordingly, the North German Coal Control (NGCC) and IG Bergbau negotiated directly at the Villa Hügel in December 1946 to iron out the contents of a points system. The NGCC agreed to provide extra rations of bacon, bean coffee, and sugar and to offer extra ration points for a wide array of consumer goods. The NGCC nevertheless argued the need for some internal differentiation in the allocation of points and extra rations. That is, underground miners deserved more

81. E. F. Schumacher, "Memorandum on Coal," June 1946, PRO, FO 1036/118. Agartz also cautioned that "it does not seem advisable to try and solve the problem of decreased wage incomes by decree or by initiating a voluntary increase in wages." Only general revival of trade and industry could ease the coal shortage. "To achieve this end imports of raw materials and increased allotments of coal and power will be indispensable." Agartz to Economic Sub-Division, 10 August 1946, BA, Z8/18. See also Weir, "Industrial Planning in the British Zone. Memorandum by the President, Economic Sub-Commission," 17 July 1946, PRO, FO 943/214.

82. "Bericht über die Arbeiten der AGK bis zum 22.11.1946," annex 1 to "Bericht über die 6. Sitzung des VRW am 23.11.1946," BA, Z 1/245.

rations than office workers. But IG Bergbau successfully insisted on the equal inclusion of all employees in the scheme. All parties agreed that the distribution of extra rations be made dependent on shifts worked, rather than an individual's rate of productivity. Thus, the points system assumed the role of a "shift premium" rather than as an incentive toward productivity. Nölting, head of the AGK, declared the points system operational on 16 January 1947.⁸³ Social Democrats on the Economic Council felt a bit awkward by the circumstances under which the points system had materialized. They felt uncomfortable about the lack of internal differentiation in the scheme. They had not been fully informed about the deliberations between the NGCC and IG Bergbau. Nevertheless, Social Democrats within the economic administration felt compelled to support the program.⁸⁴

Yet almost from the start, food shortages endangered the program's success. At first, the coal mines managed to boost production. By 28 January, daily production of 222,771 tons was achieved.⁸⁵ The hoped-for goal of 300,000 tons seemed in view. The unusually harsh winter, however, impeded the steady import and distribution of food. Soon, the food supply dwindled. While miners received extra rations, nonminers in the Ruhr saw their rations cut. The NGCC received reports on 27 January that the flour and bread supplies in the Essen area were too low to meet rations. Soon strikes broke out, all of which IG Bergbau told the NGCC it had not authorized.⁸⁶ By mid-February, IG Bergbau sought to control the mounting anger by protesting that not enough bacon had been set aside by the British for the scheme. The unrest in the Ruhr put Nölting and the AGK in a difficult position. Although he officially sympathized with IG Bergbau, Nölting tried to make clear that "many . . . thought that, considering the emergency situation of the German people, IG Bergbau had already gone too far in its demands for the miners and that it could only deflect criticism if it now did everything in its power to ensure the success of the Points System."⁸⁷ In a meeting on 1 March, Nölting told British regional

83. Ernst Deissman, "Bericht an die Mitglieder des Verwaltungsrats für Wirtschaft des amerikanischen und britischen Besatzungsgebietes über das Bergarbeiter-Punktsystem," 5 March 1947, ACDP, NL Müller-Armack, I/236/048/1; "An die Mitglieder des . . . über das Bergarbeiter-Punktsystem," n. d., BA, NL Henle, 384/331.

84. Agartz to Schumacher, 4 February 1947, BA, NL Agartz 633/14.

85. Nölting, "Bericht der Arbeitsgruppe Kohle Düsseldorf für die 8. Sitzung des Verwaltungsrats für Wirtschaft in Minden am 31.1. und 1.2.1947," annex 1 to "Bericht über die 8. Sitzung des VRW in Minden," 31 January 1947, BA, Z 1/246.

86. Weir to Turner, BGCC 1890, 4 February 1947, PRO, FO 1036/119; Wendt to Military Government Dusseldorf, 6 January 1947, RWVA, Bestand IHK Essen, 28/460/8.

87. Nölting, "Tätigkeitsbericht der Arbeitsgruppe Kohle für die 9. Sitzung des Verwaltungsrats für Wirtschaft, Minden, am 19./20.2.1947 in Minden, Anlage 3," BA, Z 1/246.

commissioner Asbury that the miners feared “the extra rations granted them under the point system were merely being taken from the general allocation, so that their families and other industrial workers suffered.”⁸⁸ As the food situation grew worse, the NGCC and the AGK relied on IG Bergbau to control the political situation in the Ruhr.

IG Bergbau decided that the best way to control this potentially explosive situation was to call a twenty-four-hour hunger strike for 3 April. The internal German food distribution system, of course, had broken down both because of the winter freeze and the Economic Council’s inability to procure enough food from the American zone.⁸⁹ As Christopher Steel, of the British Political Division, reported to the Foreign Office, “The net result was that the ordinary consumer in the Ruhr who had been getting practically no meat or fats for weeks was cut heavily on his exiguous quota of bread.”⁹⁰ The number of wildcat strikes throughout the Ruhr increased steadily. Women, protesting the lack of rations for miner’s families, blocked the entrances to the mines. IG Bergbau decided to control the excitement by calling for an organized twenty-four-hour strike. “IG Bergbau thought that the continuing spread . . . of the wildcat strikes would do more harm than the attempt to organize a one-time protest.”⁹¹ The hunger strike took place on 3 April. The Easter holidays followed immediately, resulting in a considerable statistical decrease in coal production for the early part of April 1947.

The Ruhr hunger crisis brought the level of resentment between the Allies and the Germans to a fever pitch. Both the Americans and the British complained of German inefficiency, incompetence, and, at times, lack of seriousness. They believed that the fundamental cause of the food crisis had been the economic council’s inability to collect and allocate food efficiently. As Bevin informed Attlee, “I understand that there is no real shortage of food, but that the disturbances are due to deficiencies in the German organisation in the zone.”⁹² The Germans, although prepared to acknowledge the shortcomings in the planning system that allowed many farmers, particularly in the American zone, to escape their obligations under food production

88. “Stoppages of Work at Mines. Notes on Meeting Held in Regional Commissioner’s Office,” 1 March 1947, PRO, FO 1013/35.

89. See, for instance, Viktor Agartz’s confrontation with the Bavarians, in “Bericht über die 8. Sitzung des Verwaltungsrats für Wirtschaft in Minden am 31.1.1947,” BA Z1/246. On this point, Lucius Clay agreed with Agartz, “Protokoll über die interne Besprechung mit General Clay aus Anlass der Länderratstagung am 15.4.1947,” BA, NL Erich Roßmann, 1011/25.

90. Steel to Foreign Office, TelNo. 548, 5 April 1947, PRO FO 1049/857.

91. Ernst Deissmann, “Bericht der Arbeitsgruppe Kohle,” annex to “Bericht über die 11. Sitzung des Verwaltungsrats für Wirtschaft in Minden am 1./2.5.1947,” BA, Z 1/246.

92. Bevin to Attlee, No. 459, 29 March 1947, PRO, FO 800/466/47/19.

quotas, nevertheless complained that the level of critical imports into Germany was too low to allow any economic recovery. Both socialists and the unrepentant industrialists felt this way. When the Bipartite Board (BICO) reduced the amount of coal reserved for domestic household use in mid-1947 to make up for the shortfalls occasioned by the strike of 3 April, the Germans renewed their calls for a coal moratorium. When William Draper and Cecil Weir, the Anglo-American economic advisors and the respective heads of the Bipartite Board, met with the council in early June to discuss the impact of the strikes, Draper complained that the Germans were “not facing facts.” Weir added, not entirely accurately, that the British had been compelled to introduce this points system to conciliate the Germans. They were now disappointed that “they [the Germans] had devoted their time to discussing the reduction in the issue of household coal in July and the question of suspending coal exports instead of turning their minds to the vital and constructive question of how coal output could be restored to a proper level without delay.” Alfred Kubel, SPD minister of economics in Lower Saxony, retorted that the Allies had no real appreciation for the conditions under which the German administration operated. To him, “the real trouble was the shortage of food.”⁹³ Later, when Lucius Clay remarked in passing at a *Länderrat* meeting in Frankfurt that he had seen many able-bodied men taking to the waters instead of working, Minister President Rheinhold Maier of Württemberg-Baden responded angrily that “one can surely not suggest that the German people are lazy.”⁹⁴ On 28 June, Cologne industrialists tried to convince Lord Pakenham, the new head of the British Control Office, that a full coal export moratorium was needed to restore the German economy to health. If not achievable, then “coal exports must be kept to a minimum, indeed, in the own interests of the world economy.”⁹⁵ The Germans certainly did not feel themselves responsible for any decrease in coal production.

With great effort, the *Arbeitsgruppe Kohle* prevented a direct industrial confrontation between the military governments and IG Bergbau. The miners and the military governments had gotten into an additional quarrel about whether the striking miners had a right to rations for the strike day, 3 April. After much intense negotiation, the AGK managed to persuade the NGCC and IG Bergbau to institute an extra shift on Corpus Christi day, 5 July.

93. Weir to Robertson, 16 June 1947, PRO, FO 1049/1009.

94. “Interne Besprechung mit General Clay am 1. Juli 1947,” BA, NL Erich Roßmann, 1011/25.

95. “Knappe Zusammenstellung der mit Lord Pakenham am 28. Juni 1947 in Köln besprochenen Angelegenheiten,” 30 June 1947, annex to Pünder to Greiss, n. d., RWWA, Bestand IHK Köln, 1/201/6.

The extra shift would restore the lost rations. (The miners had agreed to this partly because the upcoming Pfingsten holidays gave them an incentive to stock up on Schnapps and cigarettes.) The whole agreement almost came to naught, however, because Catholic workers objected to working on Corpus Christi day and missing the solemn Corpus Christi day march. The dioceses of Cologne, Münster, and Aachen had already advised Catholic workers to stay home in protest. The cabinet of North Rhine-Westphalia arranged a meeting with Cardinal Frings, Archbishop of Cologne, but too late for him to make an announcement to Catholic workers to attend the special shift. Ernst Deissmann, deputy head of the AGK, thereupon scurried along to Cologne with a borrowed moped to talk to Frings. He persuaded the Cardinal to encourage Catholic workers to go to the mines during his next Sunday mass. Frings agreed, and coal production reached a level of 208,000 tons on the holiday and, for the moment, ended the dispute between the military governments and IG Bergbau.⁹⁶

The AGK had just barely managed to contain a potentially explosive situation in early 1947, but the hunger and production crisis of the Ruhr during the spring of 1947 nevertheless unleashed a cauldron of frustration from German administrators. In a widely circulated paper by the director of planning at Minden, Günther Keiser wrote that the German economy suffered from a vicious downward cycle of low production that could only be broken through immediate and massive aid from the Allies. The stocks of raw materials that had made a limited recovery possible in 1946 had now run out. The distribution system could not meet the increased demands for raw materials. The need for firms to consume much more coal than during prewar years just to heat their plants and to maintain their machinery had added to the demand of unavailable raw materials. The lack of coal and other equipment inexorably led to a decrease in coal production itself, which reinforced the vicious downward cycle in production. "The bitter daily struggle over raw materials, failing machinery, nonexistent fuel, the 'paper-war' with the authorities, etc., absorb the greatest energies of the businessman and eventually stifle all initiative." This frustrating situation had led businessmen simply to try to survive, not to produce more. "Because not enough is produced, not enough will be produced" had become the most prominent, albeit negative, mantra in German industry. The impossibility of attaining needed resources through normal channels also led to an increasing circumvention of the planning regime. "The situation has arisen that an ever

96. "Bericht der Arbeitsgruppe Kohle," annex to "Kurzbericht über die 12. Sitzung des VRW in Minden am 11., 12. und 13.6.1947," BA, Z 1/246.

greater amount of economic life takes place outside of the planning system and the state increasingly loses any influence over the economy.” The Allies kept demanding that the Germans control the economy more effectively. But only a totalitarian state could impose such a necessary control. Instead, Keiser concluded that only an immediate currency reform, extra food imports, tax reform, additional imports of raw materials, and additional coal imports, that is, action by the military governments, could restore German economic health.⁹⁷

Keiser’s thinking found expression in a letter of the economics and agricultural executive agencies subordinate to the Economic Council to the Bipartite Board. The council had become frustrated with its inability to effect change in the German economy. It complained bitterly of the tendency of the Bipartite Board to blame German administrators for the growing crisis. “What was in the power of German administrators has been attempted. . . . But the German governmental offices have not been in the position to fulfill the fundamental preconditions for a German economic recovery.” The council considered the fundamental preconditions to consist of a permanent solution to food shortages and a currency reform. Both the importation of food and an eventual currency reform were the responsibilities of the military government. Only after the allies had acted could an effective planning regime be put in place.⁹⁸

By mid-1947, the experience of the points system had further discouraged the SPD from cooperating with the Allies. The points system had been intended not just to increase coal production, but to demonstrate the ability of unions, German administrators, and Allied military personnel to work together to overcome the economic crisis in a consensual manner. But the food shortages that sparked a production crisis, together with the difficult behavior of IG Bergbau, heaped discredit upon the SPD vision for a planned economy.

THE WITHDRAWAL OF THE SPD FROM THE ADMINISTRATION

Disappointment over the unsatisfactory progress of the points system in the coal mining industry only added to the increasing disenchantment of the

97. Keiser, “Die deutsche Wirtschaftsnot,” 3 July 1947, BA Z 1/703. A. J. Nicholls argues that this document was authored by Leonard Miksch and thus constituted an attack on controls. See *Freedom with Responsibility*, pp. 168–9. Neither Keiser nor Miksch’s name appears on the document, but the thinking is consistent with Keiser’s frequent arguments at the time and in the *Sonderstelle Geld und Kredit*.

98. Strassmann (VfW), Dietrich (VELW) and Schlange-Schöningen (VELW) to BICO, 3 July 1947, BA, Z 1/703.

SPD with bizonal economic arrangements. Rudolf Mueller's removal and Agartz's "reinstatement" as chair of the Economic Council had represented a considerable victory for the Social Democrats. But Agartz made his service conditional upon the *Länder* obeying and implementing directives from Minden. Despite the fact that all *Länder* economics ministries were in the hands of Social Democrats, it proved increasingly difficult to establish the council's supremacy over the *Länder* because its powers remained unclear. For instance, when the food crisis broke during the spring, Agartz tried to increase his procurement powers over the relatively agricultural *Länder* in the American zone. Bavaria protested to the Bipartite Board. BICO felt compelled to remind the Economic Council that it possessed advisory powers only, that is, the military governments issued the decrees. Similarly, when the Economic Council tried to extend the scope of the planning regime to encompass all stages of manufacturing up to the end consumer, an endeavor in which it had Allied support, the council ran into the objections of the *Länder*. The *Länder*, and primarily the Land of North Rhine-Westphalia, represented by the other great Social Democratic economist, Erik Nölting, wanted partially to legalize the black market trading of firms that took place after the initial distribution of raw materials. Such trading had become known as the compensation economy (*Kompensationswirtschaft*). Finally, the accelerated pace of dismantling during the spring and summer of 1947 aroused the furor of the SPD and the unions. They considered dismantling further evidence of Britain's supposed desire to cripple an economic rival. Thus, when the Allies transformed the economic council into a bizonal quasi-parliament in which the CDU held a majority, the central offices appeared more and more a political liability. Agartz had become ill and resigned. When the CDU insisted on appointing one of its own in his place, the SPD glided willfully into opposition.

The inherent conflicts between the *Länder* and the bizonal economic council were apparent from the very beginning. During his short tenure as chair of the Economic Council, Rudolf Mueller proposed the Ordinance on the Control and Allocation of Commodities (*Warenverkehrsordnung*) to define the regulatory powers of Minden. The council would "issue binding regulations on control, especially with regard to supply, manufacture, distribution, storage, sale and consumption of" all commodities of trade and industry not available "in sufficient quantities in order to guarantee an orderly maintenance of production or meeting of the normal requirements of the population." The *Warenverkehrsordnung* was meant to establish the economic and planning supremacy of the council over the *Länder*. The proposal implied that the chair of the council, Mueller, and later Agartz,

would act as a bizonal minister of economics empowered to issue binding regulations throughout the western zones. Yet the council, represented as it was by members of the *Länder* governments, did not want to accord to the chair unlimited powers to issue economic decrees. "The Economic Council desists from according a general empowerment for the Chairman to issue binding regulations, but gives him simply the right to issue in emergency situations temporary decrees which require the retroactive ratification of the Economic Council."⁹⁹ When the council approved the *Warenverkehrsordnung* on 15 December 1946, the chair had a right to issue regulations for the bizonal zone only with the support of the decentralized Economic Council. *Länder* authority remained strong.

When Agartz took over as chair of the Economic Council in January 1947, he was determined to establish the authority of his office over the bizonal economy. He worried in particular about the growing tendency of firms to circumvent existing controls. The deepening economic crisis during the winter of 1946–47 suggested to him the need for stronger controls and a more efficient distribution system. The slight recovery experienced during 1946 had been based, he thought, on the survival of accumulated wartime stocks. As winter set in, these stocks ran out. The pressures on the already inadequate system of distribution dependent on frozen waterways grew to a breaking point in early 1947. Firms ran out of basic raw materials like coal and steel. In 1946, steel companies in the bizonal zone managed to produce only 40 percent to 50 percent of their quotas of mining supplies primarily because their stocks of coal and steel scrap had run out.¹⁰⁰ This meant, in turn, that the coal industry lacked equipment essential for an increase in productivity. In mid-1947, the *Industrie- und Handelskammer* Bochum complained that smaller companies now barely received their official allocation of coal.¹⁰¹ As the distribution system effectively ceased to function, many firms began to trade directly with each other for the raw materials and supplies they could not get through normal channels. This became known as the compensation economy. In early March 1947, the bizonal Iron and Steel Office, (*Verwaltungsamt für Stahl und Eisen*), even allowed firms close to collieries to take more than their official quota because firms far away

99. "Ordinance on the Control and Allocation of Commodities (*Warenverkehrsordnung*), Appendix 2, 5th Meeting of ECE 13/14 Nov. 1946;" "Bericht über die 5. Sitzung des Verwaltungsrats für Wirtschaft in Frankfurt/Main am 13./14.11.1946," BA, Z 1/245.

100. BECG, "Supplies of Steel and Steel Products for the Mining Industry in the Combined Zones," 29 January 1947, PRO, FO 1027/28.

101. Wendt to Brockhausen, Hauptgeschäftsführer der IHK Bochum, 3 June 1947, RWVA, Bestand IHK Essen, 28/460/9.

from the collieries had no chance of obtaining their quotas anyway.¹⁰² But the compensation economy threatened to undermine an equitable planning system. The unions were particularly upset about it. Agartz was determined to eradicate it.

Yet when he attempted to extend the authority of Minden beyond raw materials distribution, Agartz ran into the resistance of the military governments mobilized by the *Länder*. Already during the first month of the points system, Agartz had encountered difficulty in getting the Bavarians to supply northern Germany with adequate amounts of food and consumer goods.¹⁰³ The reluctance of the Bavarians to cooperate threatened the whole scheme. He therefore asked the Economic Council to give him special emergency powers to issue decrees for food procurement on 19 February 1947. When the Bavarians objected to that and an additional decree concerning energy law in March, BICO intervened to clip the wings of the council. In a letter to Agartz, Brigadier Cowley reminded the council that “no authority exists in German Civil Government which can issue a law binding in both Zones.” The Economic Council was an advisory body to the military government. Only the military government had the power to issue decrees. When Agartz met privately with Cowley, the British official assured him that “we will provide for all orders resolved by you to be passed quickly.” The Americans, however, were known to have insisted that as no central German government yet existed, “legislative authority, where it exists, rests with the legislative bodies of *Länder* of US Zone.”¹⁰⁴

The inability of the Economic Council to assert its authority over the *Länder* reignited the debate within the SPD about whether the Social Democrats should invoke the Cologne Resolutions of the previous September and withdraw from all bizonal offices. When Agartz informed the members of the presidium of Cowley’s letter on 13 March, he complained about the obstructionist tactics of the Bavarians. He wondered publicly whether it was worth it to continue in the bizonal offices. Karl Meitmann, SPD head in Hamburg, agreed and argued that “we should demand that our central economic offices acquire executive powers. If [they] refuse, we should draw the appropriate conclusions and carry out the Cologne Resolutions.” Fritz

102. VSE, “Report for the Month of March 1947,” 15 April 1947, PRO, FO 1027/29.

103. For the authoritative study of food policy in occupied Germany, see J. E. Farquharson, *The Western Allies and the Politics of Food: Agrarian Management in Postwar Germany* (Leamington Spa: Berg 1985).

104. “Bericht über die 9. Sitzung des Verwaltungsrats für Wirtschaft in Minden am 19./20.2.1947;” Cowley to Agartz, 12 March 1947; “Minutes of the Joint Meeting of ECE with Members of MilGov,” 21 March 1947, annexes to “Bericht über die 10. Sitzung des Verwaltungsrats für Wirtschaft in Minden am 21.3.1947,” BA, Z 1/246.

Heine added that “one day the time will come to carry out our threats.” Kurt Schumacher and his deputy Erich Ollenhauer, however, did not yet think the time was right to break with the military government. They managed to contain the uproar. Ollenhauer tried to play down the unrealistic expectations with which the SPD had approached the bizonal offices. In any event, he argued, the British had given their informal assurances that the Bipartite Board would in future support the initiatives of the Economic Council. In the end, the Presidium contented itself with the plan that Schumacher would protest the lack of power of the economic council to the military government in Berlin. In April, however, a new problem emerged when the Communists scored considerable victories in the most recent works’ councils elections by associating the SPD with the military governments. Fritz Heine and Georg Hennsler again suggested withdrawing from leading positions in the Economic Council in order to steal the Communist’s thunder. But Ollenhauer’s opposition to the radicals hardened. “It is our unchanged policy to lead and guide bizonal economic policy. Headquarters [*das Büro*] is of the unanimous view, not to give up the bizonal office, even if Agartz cannot himself remain in his office.”¹⁰⁵ Despite the Communist-dominated works councils in the Ruhr, steady electoral gains of the CDU, and the demoralization of Agartz, the SPD leadership intended to stick with the bizonal offices.

In fact, Agartz soon succeeded in extending the powers of the economic council when he persuaded BICO to accept a new comprehensive distribution control system. Up to mid-1947, the planning regime had encompassed raw materials production and distribution. Many firms and end consumers never received their agreed quotas of finished product. The compensation economy had sprung up partly to overcome these difficulties. To remedy this problem, Agartz and his staff proposed to set quotas for the end consumer (*Endverbraucherkontingierung*).¹⁰⁶ The end consumer would obtain the requisite ration and determine which manufacturers would produce his product. The Economic Council thus controlled raw materials production, distribution, and the final allocation of the end product. *Endverbraucherkontingierung* would end the compensation economy and cement the authority of the Economic Council over the western zones.

105. “Sitzung der Parteivorstandes am 13. und 14. März 1947.” “Sitzung des Parteivorstandes am 22. und 23.4.1947 in Bad Meinberg,” FES, Bestand PV, Protokolle 1947.

106. BECG, “Meeting to Discuss the New Iron and Steel Distribution Scheme Proposed by VAW,” 29 April 1947, PRO, FO 1027/28.

The council's attempts to extend the control system through *Endverbraucherkontingentierung* entailed certain implications for the SPD. The development of the compensation economy among firms lent a certain legitimacy to the practice of circumventing controls that the mysterious black market lacked. Through *Endverbraucherkontingentierung*, Agartz had opted to increase the scope of the controls to eliminate what many on the left considered an inherently immoral compensation market. But some in the SPD feared that by extending controls to the end consumer, Agartz was associating himself with the increasingly unpopular control system that Social Democrats themselves wished to jettison at the first appropriate opportunity. Agartz encountered the most serious opposition to his idea of *Endverbraucherkontingentierung* from the North Rhine-Westphalian SPD. Erik Nölting considered it best simply to legalize, and thereafter oversee, the growing compensation economy. In a bill introduced into the council on 2 May, he reassured the left that compensation was to be allowed "only if the practice is necessary to keep the firm in business for the next six months." The compensation economy could not, for example, encompass raw materials distribution. In addition, any measures of compensation would require the approval of state authorities. "Thus use of all goods for compensation purposes is to be reported by the firm in question on a monthly basis according to regulations laid down by the *Länder* economic administrations." A firm could use only 3 percent of its products in this way. Far from a full legalization of the compensation economy, Agartz nevertheless feared that Nölting's proposals would undermine his new system of *Endverbraucherkontingentierung*.¹⁰⁷ In this instance, he could also count on the moral revulsion of the left against the very principle of compensation. Nölting pointed out that extending controls to the end consumer could discredit the concept of planning. He argued that though the entire economy should be subjected to a planning system, "[planning] does not mean . . . that all individual initiative need be taken away. Within certain defined boundaries, individual initiative can and should be allowed to develop." The economic policy committee nevertheless rejected his proposals.¹⁰⁸ The unions in particular were very much against them. Rosenberg had already made it clear "that the Unions must insist, that no kind of 'compensation' practices be officially sanctioned. We remain against any circumvention of

107. "Bericht über die 11. Sitzung des Verwaltungsrats für Wirtschaft in Minden am 1./2.5.1947," "Entwurf II (Nordrhein-Westfalen)," BA, Z 1/246.

108. "Wirtschaftspolitische Tagung der Sozial-Demokratischen Partei Deutschlands am 19. und 20.6.1947 in Bad Wildungen." "Wesentliches von der wirtschafts-politischen Tagung in Bad Wildungen," 19 and 20 June 1947, FES, Bestand PV, Referat Wirtschaftspolitik/01600A.

controls of production and distribution, and therefore also against any form of the Black Market, be it called 'black', 'grey', or 'compensation'."¹⁰⁹ The *Endverbraucher* system thus remained in place.

The SPD felt under additional pressure because of the intensified pace of dismantling in the bizon in 1947. Dismantling angered the trade unions and embarrassed the Social Democrats. The unions had attempted to arrive at a moderate position with regard to the dismantling of important industrial firms. They sought to distinguish between firms ripe for destruction because of their role in the war economy and firms important to economic recovery. "The unions also recognize their duty to pay reparations and are completely in favor of eliminating war capabilities in industry. The unions, however, cannot support the unnecessary destruction of property of value to the people as a whole and that is absolutely critical to the construction of a future peaceful economy." By November 1946, the unions resolved to work out an official policy on dismantling, and in the meantime demanded that the supposed random and destructive form of dismantling be halted until the conclusion of a peace treaty.¹¹⁰ Objections to dismantling intensified as Communists came increasingly to dominate works councils. The works councils became radicalized as their firms were slated for closing. IG Metall issued protests about the dismantling of August Thyssenhütte in early 1947. The union federation also protested the dismantling of the shipbuilding industry in Bremen in March. In April, union spokesmen announced that they were "concerned about the development and application of dismantling policy in all of Germany, particularly in the British zone." The British authorities, particularly in the Political Division, cautioned that dismantling could force the German left into outright opposition.¹¹¹

Finally, when the Allies reorganized the Economic Council in July 1947 into a sort of quasi-parliament that reflected electoral strengths in the bizon, the SPD faced a greatly strengthened CDU. Agartz resigned his post as head of the VAW because of illness. In the new Economic Council, a

109. Rosenberg to Bosing, 19 April 1947, FES, DGB-Archiv, 101/11/7.

110. GZS, "Bericht für Rundfunk und Presse. Sitzung des gewerkschaftlichen Zonenausschusses vom 30. Mai bis 1. Juni 1946 in Bielefeld," 3 June 1946, FES, DGB-Archiv 101/11/2. GZS, "Wirtschaftspolitischer Ausschuss der Gewerkschaften in der Britischen zone. Bericht über die Sitzung am 8. und 9. November in Brackwede b. Bielefeld," 14 November 1946, FES, DGB-Archiv, 101/11/3.

111. Der Betriebsrat der August Thyssenhütte AG an den Landtag des Landes Nordrhein-Westfalen, Annex to IG Metall to Adenauer, 22 January 1947, StBKAH, Bestand 8/Band 6; Rosenberg to Dr. Reifferscheidt, VfW, 11 March 1947, FES, DGB-Archiv, 101/11/6; "Entschließung des Kongresses des Deutschen Gewerkschaftsbunds am 22.-25. April 1947 in Bielefeld," FES, DGB-Archiv, 101/11/7; Allan Flanders, "Memorandum on the Possible Withdrawal of Political Parties from Responsibility," n. d., annex to Steel to Burrows, 8 April 1947, Steel to Foreign Office, TelNo. 548, 5 April 1947, PRO, FO 1049/857.

group of directors, not unlike a cabinet, would oversee the administrations of economics, finance, transport, and agriculture. The SPD made its participation in a bizonal coalition government with the CDU conditional upon possession of the economics portfolio. When the nominated candidates for the directorate went to the council for approval, the CDU objected to the Social Democrat nominee for the economics administration, Alfred Kubel. Erwin Schoettle, the SPD delegation leader, argued that the council had to reject or accept the list of nominations as a whole, not individually. Franz Holzapfel, CDU delegation head, accused Schoettle of delivering an ultimatum designed to get the SPD all the important ministries while still a minority party. "The SPD has occupied all eight economic ministries in both zones. It is for the CDU, without doubt the largest party, no longer possible to allow itself to be shut out of economic policy." The SPD responded to Holzapfel by rejecting cooperation with the CDU and resigning itself to the opposition. Upon the withdrawal of Kubel's name from consideration, the CDU nominated Johannes Semler of Bavaria. Schoettle saw in the new situation an "emerging right-wing majority" hostile to social democracy. "During the most recent days, a clear though not too strong right wing majority has emerged in this chamber. It has shown that it will force through its will under any circumstances."¹¹² Yet the decision of the Social Democrats to hand over responsibilities to the CDU and assume the role of a constructive opposition represented the end result of mounting frustration at the state of affairs in the bicone during its tenure in the leading positions of the German administration. Despairing of their ability to introduce a socialist planning system, disillusioned with the kindred British, and cognizant of the CDU's electoral strength, they took the calculated risk that the Christian Democrats too would fail. They could hardly know they would remain in the opposition for nineteen years.

CONCLUSION

The disillusioning experience of running the planning regime in western Germany from 1945 to 1947 proved a complicated legacy for the SPD that the CDU fully exploited during the Adenauer era. Social Democrats became depicted as defenders of a *Zwangswirtschaft* that had inhibited economic recovery before the arrival of the Deutsche mark. Social Democrats

112. *Wirtschaftsrat des vereinigten Wirtschaftsgebiets (Amerikanisches und Britisches Besatzungsgebiet in Deutschland)*. *Wörtliche Berichte und Drucksachen des Wirtschaftsrates des Vereinigten Wirtschaftsgebietes 1947–1949* (Munich: R. Oldenbourg 1977), pp. 26, 36–77. See also "Aktennotiz, Betr.: Zwei-Zonen-Wirtschaftsrat," 26 July 1947, FES, NL Gerhard Kreyszig, 062.

have claimed ever since that the controls in place during the occupation did not represent the *Planwirtschaft* that socialist theorists during the 1940s and 1950s had wished to introduce. For them, the ideal conditions never materialized. At the time, however, the SPD considered its prominent role in the economic life of at least the British zone during 1946 and 1947 a grand opportunity to introduce a system of decentralized planning based on state control of raw materials and finance. Social Democrats confidently expected to institutionalize equal worker participation in those autonomous organs traditionally used in economic self-administration. By occupying the economics ministries of all eight *Länder*, and the leadership of the economic council after ousting Rudolf Mueller, they boldly claimed economic leadership in the western zones.

Yet the SPD soon grew frustrated for a variety of reasons. The party doubted the British intention to socialize the basic industries of the Ruhr and London's overall plan to "socialize" German economic life. The Social Democrats could not establish the constitutional authority of the central institutions over the *Länder* upon which they depended to institute a coordinated planning system. As the health of the already precarious economy declined during 1946 and 1947, Social Democrats, along with many Christian Democrats, came to believe that only an increase in food and raw materials imports and an immediate currency reform could fulfill the preconditions for a recovery. In other words, until the Allies alleviated the drastic state of affairs in western Germany themselves, no social democratic planning regime could do any good. By 1947, fearing the increasing influence of just those industrialists and Christian Democratic politicians whom they held responsible for Germany's discredited past, the SPD threw up its hands and glided into an opposition from which it did not emerge for nearly twenty years.

The currency and economic reforms did not take place for another year. In the interim, ironically, the CDU oversaw the most successful stage of the planning regime. Under Johannes Semler, the Economic Council continued and intensified a massive railroad track and wagon rebuilding program and launched an initiative to repair the public utility network. The council's actions helped to restore an infrastructure that had so woefully broken down during the food crisis of the spring of 1947. The CDU, to an extent, made the planning regime work. But as expectations of a currency reform grew, an increase in the hoarding of goods became a problem. Hoarding provided the immediate impetus for the debate over how to reform the control system when a currency reform finally took place. As this debate unfolded, Ludwig Erhard, as chair of the body charged with arriving at the

official German proposal for a currency reform, the *Sonderstelle für Geld- und Kredit*, introduced and popularized the theoretical arguments for decontrol long discussed by critics of Germany's collectivist traditions, such as the Freiburg School of economists. When the CDU, following the nonparty Ludwig Erhard, introduced free-market reforms in June 1948, they followed a positive policy. That is, the CDU, rather than the SPD, embarked on dramatic changes to overcome the economic catastrophe.

Ludwig Erhard, the CDU, and the Free Market

On 20 June 1948, the Anglo–American military government introduced the Deutsche mark into the American and British zones. On the same day, Ludwig Erhard, the as yet politically independent bizonal director of the economy, released a series of consumer goods from the price controls that the Nazis introduced in 1936. The introduction of the free–price mechanism represented the first step on West Germany’s path toward what became known as the social market economy by the following year. When Christian Democrats met in Düsseldorf in June 1949, they fully embraced Erhard’s free market policies and entered into the first Bundestag campaign as defenders of the *Marktwirtschaft* against the hated *Zwangswirtschaft*. Henceforth, the social market economy served as the CDU’s economic policy and as a model against which Christian Democrats could contrast not only the National Socialist command economy, but the East German Communist experiment as well.¹

The CDU’s adoption of the free–market social market economy represents one of the most controversial topics of postwar German history. Until mid-1947, Christian Democrats had embraced the idea that the experience of Nazism discredited free–market capitalism. Driven by the so-called Christian socialists, the CDU adopted many of the same measures as the SPD to reform the economy, from the socialization of heavy industry to increased worker influence in industry, in the Ahlen Program of February 1947.² The subsequent shift from a left-wing Christian socialism to the

1. For an “official” CDU interpretation of the introduction of the social market economy, see Erhard, *Wohlstand für Alle* (Düsseldorf: Econ Verlag, 1957).

2. See “Das Ahlener Wirtschaftsprogramm für Nordrhein–Westfalen vom 3. Februar 1947,” in Ossip K. Flechtheim, *Dokumente zur parteipolitischen Entwicklung in Deutschland seit 1945* (Berlin: Verlag H. Windler 1963), pp. 53–58; Ambrosius, *Durchsetzung der sozialen Marktwirtschaft*, pp. 14–24, 32–37; Nicholls, *Freedom with Responsibility*, pp. 238–9; Uertz, *Christentum und Sozialismus in der frühen CDU*, Stuttgart: Deutsche Verlagsanstalt 1981.

relatively liberal social market economy has often been interpreted as part of a general retreat from radical structural change in favor of a consciously adapted capitalism under the guidance of the Americans.³ In other words, international developments are held in large measure to explain the adoption of Erhard's policies. However fruitful it may be to embed an analysis of the western Germany economy entirely in a transnational framework, such an approach may lead one to underestimate the important domestic exigencies that influenced the course of events. When examining the adoption of the social market economy, one must appreciate the conjuncture of international, particularly western European, requirements, and German political agency.⁴

This is particularly the case when attempting to understand the development of the CDU. It is difficult to understand the shift within the CDU away from Christian socialism to a more conservative and, indeed, antisocialist posture without emphasizing the role of Adenauer. To be sure, even without Adenauer there was much to divide Christian and Social Democrats and, hence, much to prevent the creation of a broad coalition for structural change that the British deemed essential for enduring social reform. But as chairman of the CDU in the critical Land of North-Rhine Westphalia, Adenauer was in an advantageous position to define CDU economic and industrial policies. By skillfully mollifying the left-wing Christian socialists through such instruments as the Ahlen program, he worked to nurture an increasingly polemical economic policy debate between the CDU and the SPD.

Even more than Adenauer, Ludwig Erhard represents an example of a decisive conjuncture of international economic circumstances and the almost accidental influence of an individual. A little-known economist at a textile industry research institute before 1945, Erhard became economics

3. The more radical "restorationist" school, of course, followed a crude economic determinism that ascribed the failure of reform to the antisocialist prejudices of the Americans. In a more sophisticated manner, Charles Maier credited European Christian democracy with adapting capitalism at midcentury by taking democratization and the concomitant social issues into account, thereby achieving a stabilization not unlike that achieved, under different circumstances, after the World War I. See his "The Two Postwar Eras and the conditions for Stability in Twentieth-Century Western Europe," *American Historical Review (AHR)*, (1982), pp. 327–52. Maier's arguments are in part related to Andrew Shonfield's classic celebration of the mixed economy in *Modern Capitalism: The Changing Balance of Public and Private Power*, (Oxford: Oxford University Press 1965). Shonfield discounted the West German social market economy by pointing to the importance of associations in restricting the scope of the market, pp. 239–97.
4. In my use of the concept "conjuncture," I draw on Pierre Vilar. "It is, then, worthwhile not only in economic but also in 'general' history to inquire into the overall, spontaneous economic tendencies which bring complex factors into play: while the decisions of individuals and legislative initiatives have their part to play, their significance and especially their effectiveness, depend on the 'conjuncture' in which they are located," *A History of Gold and Money, 1450–1920* (London: Verso 1976), p. 40.

minister in Bavaria in 1945 largely because the Americans had a difficult time finding appointees to staff high government positions who could survive a denazification tribunal.⁵ After losing his post to the Social Democrat Rudolf Zorn in the cabinet reshuffle that resulted in the ouster of Rudolf Mueller as chairman of the economics administration in early 1947, Erhard benefited from his newfound prominence and became the head of a western German body of economists charged by the bizonal economic council with drafting the official German proposal for a currency reform. When Johannes Semler, the director of the economy after the reorganization of the economic council in the spring of 1947, following the departure of Agartz, insulted the Americans by characterizing U.S. economic aid to the western zones as “chicken feed,” his position as director of the economy fell open. Quite by default, largely owing to Adenauer’s behind-the-scene’s efforts to forge a coalition in the economic council between the CDU and the liberal Free Democrats (FDP), Erhard was appointed director. Within the space of three years, a relatively obscure textile industry researcher had become Germany’s de facto economics minister.

Though his rise to prominence was largely accidental, Erhard was particularly well suited to take advantage of the economic and political circumstances of western Germany during 1948. When he ushered in the social market economy by abolishing many price controls, in June 1948, Erhard benefited from the convergence of three crucial developments. First, his predecessor, Johannes Semler, had largely succeeded in rebuilding the devastated transportation and power infrastructure of the bizonia within the framework of economic planning. Second, the Americans had committed themselves, with the Marshall Plan, to providing the crucial preconditions of recovery for which German administrators had long demanded. Third, and most important, both the Americans and the British were willing to tolerate audacity on the part of the Germans. They had long grown tired of German complaints that economic recovery could only commence at the initiative of the Allies. When Erhard became director of the economy, he immediately announced a set of principles (*Leitsätze*) that took the initiative away from the Allies. Drawing on the arguments of the so-called neoliberal or Freiburg school of economists, Erhard wished to dismantle the control economy inherited from the Nazis and replace it with a genuinely competitive system that would, in fact, realize social ends better than a socialist

5. For a highly critical account of Erhard’s career up to 1945, see Hentschel, *Erhard*, pp. 9–41. For a more sympathetic view, see Nicholls, *Freedom with Responsibility*, pp. 151–4. For a short and handy biography, see Volker Laitenberger, *Ludwig Erhard: Der Nationalökonom als Politiker* (Göttingen: Muster Schmrtdt 1986).

planning economy. Whatever the theoretical merits of this social market economy, the decontrol of prices did ensure the success of the Allied currency reform of 20 June 1948 by bringing consumer goods to market and producing an incredible, though difficult to measure, boost in psychological confidence.⁶ Furthermore, decontrol took away crucial powers of the military government. Though many Germans, including the Social Democrats, advocated decontrol as a long-run goal, only Erhard dared to embark on such a course decisively and in conjunction with the long-awaited currency reform.

At first, it seemed as though the reforms might fail. Even so, the turbulent aftermath of the currency and economic reforms helped to bring the CDU and Erhard closer together. Despite his assurances to the contrary, the loosening of controls sparked an inflationary period that threatened the success of the new currency, the Deutsche mark. In an atmosphere of general outrage against a cabal of “price profiteers” (*Preiswucher*), much of the CDU joined in widespread calls for an independent pricing authority that would have the power to reverse some of Erhard’s decisions. But the intense campaign against Erhard launched by the Social Democrats and their trade union allies, culminating in the general strike of 12 November, helped to polarize the political atmosphere around him. Adenauer realized, while trying to manage political crises in North Rhine-Westphalia and Lower Saxony, both of which centered in large measure on the policies of the economics director, that Erhard represented the only choice for the CDU if it wished to avoid a grand coalition and heavy industry’s socialization at the bizonal level. Therefore, the CDU in the Economic Council threw its support behind him. When the director of agriculture, Hans Schlange-Schöningen, also of the CDU, unleashed a crisis by suggesting a reintroduction of price controls in some areas, the Christian Democratic delegation to the economic council sought to bury the dispute. The CDU courtship of Erhard culminated in Adenauer’s invitation to him to speak in front of the CDU in Königswinter on 25 February 1949.

Meanwhile, Erhard, politically independent until the first Bundestag election in 1949, moved closer and closer to the CDU. As opposition to his policies mounted in late 1948, he called on his supporters in the economics profession, the neoliberal school of economists, to defend his free-market

6. Though Hentschel is largely critical of Erhard, he does maintain that Erhard’s deregulation of prices was appropriate to the conditions of 1948; see especially *Erhard*, pp. 213–15. For a vigorous defense of decontrol in 1948, see Buchheim, “Die Notwendigkeit einer durchgreifenden Wirtschaftsreform zur Ankurbelung des westdeutschen Wirtschaftswachstums in den 1940er Jahren,” in Dietmar Petzina, ed., *Ordnungspolitische Weichenstellungen*, pp. 55–65.

policies as a “social market.” Although the Free Democrats demonstrated a greater ideological affinity to him, Erhard believed that only his presence, along with the backing of the Christian Democrats in the Economic Council, could preserve West Germany’s path to the free market. He believed that his membership in the CDU was essential to cement the long-term support of the Christian Democrats for such a market economy. When the CDU met in Düsseldorf in June 1949 to announce formally a election platform for the coming Bundestag election, it embraced Erhard’s social market economy.

KONRAD ADENAUER’S CDU

By the time the new bizonal economic council convened in late June 1947, Adenauer dominated the CDU by invoking the deliberately vague Ahlen Program. As the leading voice in a political party encompassing manual workers, white-collar workers, and professionals, he had tried to limit the elaboration of specific economic policies to offering an alternative, moderate agenda of social and economic reform. To him, the Ahlen Program represented a compromise between Christian socialism and conservatism. In 1946 and 1947, he had not so much outmaneuvered leading Christian socialists like Jacob Kaiser of Berlin by providing an alternative vision to Ahlen, but rather by reminding other CDU leaders, particularly in the southern *Länder*, of the divisive potential of Kaiser’s basic agenda. As Gerold Ambrosius argued, “Adenauer was determined not to aggravate . . . the differences within his party regarding the future socio-economic order and thus not to endanger his own claim to leadership.”⁷ The Ahlen Program, passed in February 1947, appeared the very embodiment of Christian socialist principles. But Adenauer used the program to limit the ability of leading Christian socialists in the British zone, such as Johannes Albers and Karl Arnold, to develop Christian socialist principles any further. When the new economic council convened and the SPD refused to enter into a grand coalition that did not accord the Social Democrats control over the economic directorship, he placed his faith in the more conservative council to develop Christian Democratic economic policies.

Historians have generally assumed that Christian socialism represented a real alternative to the Adenauerian CDU. Christian socialists within the CDU, such as Kaiser, Albers, or Arnold, might have reached agreement with the SPD on a host of necessary social reforms, including heavy industry’s socialization. But the extent to which Christian socialists provided a bridge between the SPD and the more conservative wing of the CDU is unclear.

7. Ambrosius, *Durchsetzung der sozialen Marktwirtschaft*, p. 43.

To be sure, calls for rapid socialization and economic planning abounded in the founding statements of Christian Democratic parties throughout Germany in 1945. For instance, the leading Berlin organization under Andreas Hermes declared in June 1945 that “the incalculable misery of our people forces us to employ the methods of strict planning in order to reconstruct our economic life, to secure work and food, clothes and a home.”⁸ But the overwhelmingly Christian socialist rhetoric of the early CDU concealed important differences with Marxist-inspired socialism. For example, Christian socialists did not offer a structural or class-based interpretation of the German past. Rather they blamed the horrors of Nazism on the gradual loss of a Christian moral and ethical sensibility in German culture. They hoped to revive the lost Christian ethos that the “materialistic” ideologies of liberalism and socialism had undermined. The belief in socialization originated from the perceived need to replace “liberal capitalistic” values with communitarian impulses. As Eberhard Welty stated in the extremely influential Christian socialist pamphlet *Was Nun?* “It is necessary to reorganize public affairs in German lands according to the principle of a ‘christian community-oriented order’.”⁹

Although Christian socialists readily entered into the grand coalition *Länder* governments with the SPD that both the Americans and the British had insisted upon since 1945, the fundamental epistemological difference between themselves and the Social Democrats provided plenty of room for conflict. When the British tried to negotiate a grand coalition government in North Rhine-Westphalia after local elections in late 1946 in order to engineer a bipartisan resolution in support of the principle of socialization, negotiations almost broke down not over economic or industrial policy, but rather over who received the ministry of the interior. The ministry of the interior controlled the schools and, thereby, religious education. The grand coalition did come about, but the conflict over schools left residual bitterness and helped to close CDU ranks behind Adenauer in the important Land

8. “Aufruf an das Deutsche Volk,” 26 June 1945, pp. 27–30. Similarly the Cologne CDU, before Adenauer joined, declared that “property relations have to be reordered according to the fundamental principles of social justice and the needs of the community.” “Kölner Leitsätze,” September 1945, pp. 34–36. The Frankfurt branch of the CDU argued that “the precondition of all economic planning is the preservation of all rights to freedom and the shaping of the community in accordance with the principles of human dignity.” “Frankfurter Leitsätze,” September 1945, pp. 36–45, in Ossip K. Flechtheim, ed., *Dokumente zur parteipolitischen Entwicklung*, vol. 2.
9. Eberhard Welty, *Was Nun? Grundsätze und Hinweise zur Neuordnung im deutschem Lebensraum*, 1946. In a way, such beliefs were similar to Adenauer’s denunciation of the “materialist” world views of the twentieth century, see his *Erinnerungen 1945–1953* (Stuttgart: Deutsche Verlagsanstalt 1965), pp. 48–62. On the vagueness of Christian socialist impulses, see Ambrosius, *Durchsetzung*, pp. 14–24.

of North Rhine–Westphalia.¹⁰ None of this, of course, prevented Christian socialists from offering an olive branch to the SPD by professing loyalty to the vague concept of socialization. But the affinity depended on the vagueness.

At the same time, no one embodied vagueness better than Adenauer. As leader of the CDU first in North–Rhine Westphalia and then the British zone, he faced the task of building a political party in the most industrialized region of Germany replete with dedicated Christian socialists and relatively liberal Protestants.¹¹ Although connected to the Catholic establishment in and around Cologne, he tried to understate the Christian (and mostly Catholic) basis of the new party. He did not want to scare off Protestant and more secular minded liberals. He observed with apprehension the work of the Christian socialists in the British zone and built a complicated relationship with the most prominent Christian socialist in the zone, Johannes Albers of Cologne, who chaired the powerful CDU social policy committee. Although initially he encouraged Albers because he thought the former Christian trade unionist might prevent the establishment of a unified trade union movement under Social Democratic auspices, Adenauer also established a rival economic and social policy committee, cochaired by his close friend and Cologne banker, Robert Pferdmenges, to draft an overall economic policy for the British zone¹² (the eventual Ahlen Program). He worried that Christian socialists such as Albers did not appreciate the extent to which the CDU had to appeal to nonsocialist voters. Hence, to conservatives he stressed that the CDU favored social reform, not socialism.¹³

To that end, Adenauer urged the Christian socialists in the British zone to reawaken the Christian trade union movement and combat what he considered the monopoly of the Social Democrats over the rhetoric of social reform. He told Albers directly that “you will either enhance the influence of the christian element within the *Einheitsgewerkschaft* or you will found a new christian trade union movement.”¹⁴ Albers assured Adenauer

10. On the dispute over the *Land* ministry of the interior, see Adenauer to Asbury, 25 November 1946, Adenauer to Amelunxen, 23 November 1946, Adenauer to Asbury, 5 December 1946, StBKAH, NL Adenauer, 8/20.

11. A helpful summary of the political history of the CDU is in Noel Cary's *The Path to Christian Democracy: German Catholics and the Party System from Windthorst to Adenauer* (Cambridge, Mass.: Harvard University Press 1996), pp. 147–271.

12. Adenauer to Pferdmenges, 22 April 1946, Adenauer to Betz of the *Rheinische Post*, 27 July 1946, StBKAH, NL Adenauer, 8/53.

13. Adenauer to Petersen, 1 September 1945, StBKAH, NL Adenauer, 8/5; Adenauer to Dr. Karl Scharnagl, 21 August 1945, Hauptstaatsarchiv Düsseldorf, 26/1027; Adenauer to Maria Sevinich, 26 May 1946, StBKAH, NL Adenauer 8/7a, reprinted in Hans-Peter Mensing, ed., *Adenauer Briefe 1945–1947*.

14. Adenauer to Albers, 8 April 1947, StBKAH, NL Adenauer 8/51.

that the social policy committee felt committed to offering an alternative to the trade union–SPD alliance. Its socialism rested on the basic tenet that “the CDU is a Christian party. A Christian party cannot be unsocial.” Although Albers certainly saw his social policy committee as a strong force for social reform within the Christian Democratic Union, he also vehemently opposed the materialistic ethical basis of even the Social Democratic variant of Marxism. “We must combat the publicity work of the Marxists with our own systematic propaganda work [*Schulungsarbeit*].”¹⁵ In time, Adenauer grew disenchanted with Albers partly because the social policy committee failed in this central task.¹⁶

Adenauer’s prestige as a Christian Democrat received a further boost by British efforts to introduce socialization in North Rhine–Westphalia. As leader of the CDU in this *Land*, his importance to overall British policy in Germany became self-evident. The British, of course, tried to bypass him, first by elevating the hitherto little-known Christian trade unionist and appointed mayor of Düsseldorf, Karl Arnold, to the post of deputy minister president (he became minister president in June 1947) and then trying to get the CDU to support a SPD resolution for socialization behind Adenauer’s back.¹⁷ After he outmaneuvered the British and introduced a CDU resolution of his own, the British decided to deal with him. The upshot of all this was that Adenauer effectively became the CDU spokesman for all of Germany on the issue of socialization.¹⁸ This phenomenon in turn helped to enhance the prestige and importance of the Ahlen Program, which technically bound only the CDU of the British zone.

Jacob Kaiser and the Berlin CDU represented the most serious threat to Adenauer’s supremacy in Germany as a whole. Kaiser and Adenauer differed on what long-term stance the CDU ought to take on foreign policy. Whereas Adenauer had quite early advocated unequivocal commitment to the West at the possible expense of German reunification, Kaiser saw

15. Johannes Albers, “Aufgaben und Aufbau des Sozialausschusses der CDU,” annex to Albers to Adenauer, 7 January, 1947, StBKAH, NL Adenauer, 8/51.

16. See Adenauer to Arnold, 29 April 1946, StBKAH, NL Adenauer 8/51.

17. See Balfour to Robertson, 22 July 1946 and Noel Annan, “Suggested Names for Ministerpräsident Land North Rhine/Westfalen,” 20 July 1946, PRO, FO 1049/427; Adenauer, “Aktennotiz,” 19 August 1946, StBKAH, NL Adenauer, 8/20. Adenauer tried to convince Arnold of the inevitability of fundamental conflict between the CDU and the SPD. See Adenauer to Arnold, 1 July 1946, StBKAH, NL Adenauer, 8/51, in *Adenauer Briefe 1945–1947*, pp. 272–3. On Arnold in general, see Detlev Hüwel, *Karl Arnold: eine politische Biographie* (Wuppertal: Hammer 1980).

18. Note, for instance, Allan Flanders’s reluctant decision to consult Adenauer over the socialization debate in the North Rhine–Westphalian Landtag. Allan Flanders, “Report on a Visit to Land North Rhine/Westphalia,” 8 January 1947, PRO, FO 371/64362. See also Adenauer to Dr. Hermann Katzenberger, 6 December 1946, StBKAH, NL Adenauer 8/56, *Adenauer Briefe 1945–1947*, pp. 378–80.

Germany as a bridge between East and West. He also wanted the CDU to become a German “Labour” party, incorporating elements of both Christian socialism and social democracy. Adenauer suspected Kaiser of trying to undermine his own position in the British zone. He believed Kaiser encouraged Carl Spiecker to form a new center party in the British zone out of the left wing of the CDU. Spiecker himself told Adenauer on two occasions “that the Center Party must become a party of the middle which will include the left CDU and the right wing of the SPD.”¹⁹ But Kaiser’s premature claims to authority over all the CDU in Germany annoyed Christian Democratic leaders throughout the western zones.²⁰ Adenauer skillfully exploited their growing resentment. Meeting at Stuttgart on 3 April 1946, western CDU leaders rejected Kaiser’s claim to supremacy. They also, significantly, objected to many of his central Christian socialist-inspired tenets, such as the assertion that “Germans must arrive at a synthesis between East and West,” that the “bourgeois epoch” had ended, or that “the Communist Manifesto was a classic work.”²¹ Kaiser last tried to defend his position at Königstein on 5 and 6 February 1947. He argued that only he could represent CDU interests to the Allied Control Council for the simple reason that the ACC sat in Berlin. But Adenauer accused him of appropriating for himself authority over the *Länder* organizations. In a formal vote, the rest of the CDU–CSU working party for Germany (*Arbeitsgemeinschaft*) refused to appoint Kaiser party leader.²² After the Königstein meeting, he ceased to represent a serious threat.

Thereafter, the Ahlen Program became a brilliant instrument with which Adenauer could wave off attempts to define CDU economic policy more

19. Adenauer, “Akttenotiz,” 15 March 1946, StBKAH, NL Adenauer, 8/68. Spiecker repeated to Adenauer the center’s long-term strategy at a meeting the following April. Adenauer, “Akttenotiz,” 13 April 1946, StBKAH, NL Adenauer, 8/55.
20. See Adenauer’s letter to Karl Scharnagl in which he derided Hermes’s attempts to organize an all-German CDU congress in Heidelberg, 7 February 1946, StBKAH, NL Adenauer 7/3, reprinted in *Adenauer Briefe, 1945–1947*, pp. 152–4.
21. “Akttenotiz,” meeting in Stuttgart, 3 April 1946, StBKAH, NL Adenauer, 8/5. See also Adenauer to the Executive of the CDU–CSU of the American and British zones, StBKAH, NL Adenauer, 8/6, in *Adenauer Briefe, 1945–1947*, pp. 231–2. After the Stuttgart meeting, from which Kaiser was excluded, he wrote to Adenauer in disbelief. Adenauer replied that “that there are increasing doubts in the west as well as in the south about Berlin and also to a certain extent the direction of Berlin.” Kaiser to Adenauer, 5 May 1946, Adenauer to Kaiser, 24 May 1946, StBKAH, NL Adenauer 8/52.
22. See “Zweite Sitzung der Arbeitsgemeinschaft, Königstein, 5./6. Februar 1947,” ACDP, NL Hilpert I/021/007/1, “Die CDU und Königstein,” 26 February 1947, “Arbeitsgemeinschaft CDU/CSU–Vorstandssitzung am 5./6. Februar 1947,” BA, NL Kaiser 58; “Sitzung des Arbeitsausschusses der CDU aller Zonen,” 8 February 1947, StBKAH, 8/59, all reprinted in Brigitte Kaff, ed., *Die Unionsparteien 1946–1950. Protokolle der Arbeitsgemeinschaft der CDU/CSU Deutschlands und der Konferenzen der Landesvorsitzenden* (Düsseldorf: Droste 1991), pp. 19–58.

clearly. The concept of mixed ownership of heavy industry, formally approved at Ahlen, represented a compromise position on public ownership between a Christian socialist philosophical and ethical denunciation of capitalism and the more conservative impulse to oppose socialism in the CDU. Adenauer initially had attempted a direct assault on socialization. At the first CDU conference he chaired, at Neheim-Hüsten on 1 March 1946, he had tried to restrain the momentum toward a general program of socialization. He argued that the “question of the socialization of parts of the economy is not an appropriate question, because the German economy is not yet free.”²³ But pressure from Christian socialists forced him to develop the concept of mixed ownership (*Vergesellschaftung* or *Gemischtwirtschaft*) that later found its way into the Ahlen Program.²⁴ After the Ahlen meeting, he introduced a proposal for mixed ownership into the North Rhine-Westphalian *Landtag* as an alternative to outright state ownership.²⁵ Thereafter, he used the Ahlen Program to restrain any further attempts by Christian socialists to expand upon CDU policy. In mid-August, for instance, Albers and the social policy committee submitted a new “Reichsprogramm.” According to Albers’s proposals, the economic and social misery wrought by war “emanates, in the end, from an ever stronger and deliberate denial of fundamental Christian principles.” The committee saw in national socialism the ultimate consequence of this lack of religious sensibility. Economic policy, therefore, had to prevent all forms of economic domination. “Therefore the economy should be run on collective lines [*Gemeinwirtschaft*] and, to a certain extent, property and power relationships should be subject to the necessary planning of the economy.” While most firms would remain in private hands, heavy industry would be nationalized and administered through the organs of self-administration [*Selbstverwaltung*].²⁶ Adenauer responded to Albers’s proposal by casting himself as the true defender of Ahlen. He criticized Albers’s formulations as too vague, while the Ahlen Program “is quite clear on which sectors of the economy should be socialized.” Whereas Albers

23. “Neheim-Hüsten,” 1 March 1946, ACDP, Bestand Wirtschaftspolitik, VII/004-126/1.

24. Adenauer to Pferdenges, 22 April 1946, StBKAH, NL Adenauer 8/53; “Das Ahlener Wirtschaftsprogramm für Nordrhein-Westfalen vom 3. Februar 1947,” reprinted in Ossip K. Flechtheim, ed., *Dokumente zur parteipolitischen Entwicklung in Deutschland seit 1945*, vol. 2, pp. 53–58; Adenauer to Anton Betz of the *Rheinische Post*, 27 July 1946, StBKAH, NL Adenauer 8/53, in *Adenauer Briefe 1945–1947*, pp. 293–4.

25. “Antrag der Fraktion der CDU des Landtages. Stenografischer Bericht über die 5. Vollsitzung des Landtages Nordrhein-Westfalen vom 4. bis 6. März 1947,” FES, DGB Archiv, 101/1; Adenauer to Maria Sevenich, 12 December 1946, StBKAH, NL Adenauer 8/7a, *Adenauer Briefe 1945–1947*, pp. 391–4.

26. “Entwurf zum Reichsprogramm der CDU und CSU zur Neuordnung der Wirtschaft,” 16 August 1947, annex to Albers to Adenauer, 20 August 1947, ACDP, VII-004-400/3.

mentioned “nationalization” (*Gemeinwirtschaft* or *Verstaatlichung*), Adenauer insisted that the Ahlen Program had advocated “mixed ownership” (*Vergesellschaftung*) only.²⁷

Adenauer’s paramount influence over the development of CDU economic policy was cemented by his correct evaluation of the growing power of the bizonal economic council. He did not himself decide to sit in the economic council, because he did not want to leave the North Rhine–Westphalian *Landtag*. Yet when the Allies transformed the economic council into a quasi-parliament, in mid-1947, Adenauer recognized, unlike the SPD, the fundamental importance of capturing the bizonal directorship of the economy for the CDU. It is interesting that he became much more amenable to cooperation with the SPD in North Rhine–Westphalia.²⁸ He even welcomed Erik Nölting’s continuation as the economics minister of North Rhine–Westphalia because he thought *Länder* offices had declined in importance. As he wrote to the CDU executive board at Remscheid, “I don’t think that the economics ministry will be that important in the future, because the real decision making power is now in the economic council.” He added that “the CDU . . . is the strongest party in the economic council and this makes the building of an anti-Marxist majority possible. I am convinced that the CDU delegation will . . . give expression to our economic views.”²⁹ Adenauer made clear to the CDU delegation head to the economic council, Friedrich Holzapfel, that “the people expect positive work from the Council.” He even suggested that the CDU consider “which parts of the control regime [*Zwangswirtschaft*] can be dismantled. The non-socialist majority in the Economic Council must work in this direction.”³⁰ By mid-1947, Adenauer and the CDU considered the Economic Council the main game in town. The bet paid off.

JOHANNES SEMLER

The new Economic Council, which met for the first time in late June 1947, took some time to decide the direction of economic policy. The possibility existed that the SPD and the CDU might duplicate on the bizonal level

27. Adenauer to Albers, 25 August 1947, ACDP, VII-004-400/3; Zonenausschuß der Christlichen Demokratischen Union Informationsdienst, Nr. 17, “CDU-eine Partei des Rechts? Kein Parteiegoismus, sondern Verantwortung,” 21 August 1947, ACDP, VII-004-127/2.

28. Adenauer to Arnold, 3 June 1947, Adenauer to Arnold, 23 May 1947, Adenauer, “Verhandlungen über die Bildung einer Regierung in Nordrhein–Westfalen,” 23 May 1947 Arnold to SPD Landtag Delegation, 26 May 1947, annex to Arnold to Adenauer, 27 May 1947, StBKAH, NL Adenauer, 8/63.

29. Adenauer to CDU Executive, Remscheid, 20 July 1947, StBKAH, NL Adenauer, 8/53.

30. Adenauer to Holzapfel, 2 September 1947, StBKAH, NL Adenauer, 8/52.

the grand coalitions that governed all of the *Länder*. But by this time the SPD in the council, led by Erwin Schoettle and his deputy Herbert Kriedemann, had become convinced that the CDU was a vehicle for a reactionary ascendancy inspired by Konrad Adenauer. They demanded the economics directorship for Alfred Kubel, SPD delegate from Lower Saxony. Friedrich Holzapfel, head of the CDU delegation and a close ally of Adenauer, refused to consider Kubel on the grounds that the SPD already occupied all eight of the *Länder* economics ministries. Awarding them the bizonal directorship of the economy, when the SPD was electorally weaker than the CDU, would mean giving the Social Democrats complete control over the bizonal economy. On this point, talks between the two parties ended and the SPD withdrew into what it termed a constructive opposition.³¹ After much internal debate, the CDU nominated Johannes Semler of Bavaria in early September 1947.

When Semler, of the Bavarian Christian Social Union (CSU), took over as the director of the bizonal economy, he faced many of the same fundamental problems that Viktor Agartz had faced. Abandoning the Nazi wage and price controls might become feasible in the distant future, but the persistent shortages of raw materials, food, and consumer goods made state rationing essential for the time being. Moreover, Semler shared Viktor Agartz's and the military government's belief in the importance of the recovery of West German heavy industry to the general recovery of the economy. As he told the Economic Council on 5 September, "the maintenance and the reconstruction of basic industries is correctly considered the precondition for the recovery of the German economy." The capital goods industry in the Ruhr would continue to receive preferential treatment in the allocation of raw materials for its factories and extra rations for its workers. Apart from this focus on heavy industry, Semler intensified a program begun under Agartz to rebuild railway stock and thus repair the transportation infrastructure that had broken down the previous winter. An unusually dry summer reduced the supply of hydroelectricity to many plants critical to the export campaign. Semler planned to divert additional coal to utilities to pick up the slack. The new and renamed economics administration (*Verwaltung für Wirtschaft*, or VfW) vowed to continue its efforts to reform the points system in the Ruhr so that the coal industry might finally reach the elusive and long-stated goal of 300,000 tons of coal mined per day. Finally, Semler announced his intention to maintain the end-consumer rationing system

31. "Aktennotiz. Betr.: Zwei-Zonen-Wirtschaftsrat," 26 July 1947, FES, NL Kreyssig, 62; Schumacher to Georg Berger, 7 August 1947, FES, NL Schumacher, 72; "Telefongespräch: Dr. Adenauer-DENA," 30 July 1947, StBKAH, NL Adenauer, 8/61.

introduced by Agartz earlier in the year. The relative consumer freedom introduced by the system could not, however, aggravate existing disproportions in the economy. Any control system had to protect the weaker sectors of the economy. "As laudable as it is to use the end consumer rationing system to give the economy a certain freedom of action and to allow customers to choose their own suppliers, so is it also important, considering the weaknesses of our economy as a whole, to take care that . . . certain sectors do not suffer unduly."³² Semler, thus, intended to refine and strengthen the planning system.

The food crisis of early 1947 had demonstrated the importance of effective distribution to the bizonal economy. The severe winter froze waterways and placed pressure on a bombed out and scarcely rebuilt railway system. The VfW under Semler strengthened the railway repair program begun under Agartz to prevent another distribution breakdown. The VfW needed to increase the number of working locomotives by nearly 45 percent. Allied level-of-industry plans for Germany still prohibited the construction of new locomotives. The VfW thus contracted four major firms (Kraus Maffei, MAN, Maschinenfabrik Esslingen, and Henschel) to repair damaged locomotives that languished in Reichsbahn junk yards. To the 198,000 freight cars available in the bizonal area in June, the VfW wished to add at least 200,000, 100,000 of which were stranded in other European countries. Under the Transport Crisis Emergency Plan, the VfW allocated 20,000 more tons of steel on a quarterly basis to companies making new freight cars.³³ By the time of Semler's dismissal, the VfW had managed to increase the number of railway cars in operation to 235,000 and planned to repair a further 70,000 by the end of the year.³⁴

The points system, the incentive-based scheme for the coal industry, introduced in January 1947, needed to be adjusted if the goal of 300,000 tons of daily production were to be reached. The system, designed to reduce absenteeism, awarded miners additional rations merely if they showed up for work, not for increased productivity. The VfW had long criticized the points system for this reason. The reduction of absenteeism had reached its

32. The information and quotations above are taken from two speeches Semler delivered to the Economic Council on 5 September and 11 October 1947. "Bericht des Direktors der Verwaltung für Wirtschaft, Dr. J. Semler, vorgetragen in der Sitzung des Wirtschaftsrats am Freitag, den 5. September 1947," BA, NL Henle 384/333. "Protokoll der erweiterten Fraktionssitzungen am 11. und 12.10.1947," BA, NL Henle 384/319.

33. VfW, "Reichsbahnreparaturprogramm-Maßnahmen auf dem Industriesektor," 8 August 1947, BA, NL Henle, 384/340.

34. "Sitzung des Ausschusses für Wirtschaft, 15. und 16. Januar 1948," and "Ausschuss für Wirtschaft—Sitzung am 9./10. Dez 1947," BA, NL Henle, 384/314.

limits by mid-1947 (even if one discounted the food crisis and concomitant strikes of the spring as an aberration). By June, productivity had slipped back to levels lower than in 1946. Ernst Deismann told the Economic Council in August that “in many, especially younger miners, there is a certain discontent, disinterestedness, and an unwillingness to work that prevents them from realizing their potential productivity.” He urged the military government to award a productivity premium, because “the VfW considers a stronger association between the awarding of points and rations and productivity . . . absolutely essential.”³⁵ In addition, the VfW had become concerned with the extent to which miners received special treatment in the allocation of consumer goods and food in an overall economy of shortages. As Günther Keiser, of the planning department of the VfW, put it before a session of the economic policy committee, “It must finally be recognized, that every instance of preferential treatment for a certain group of workers in a certain industry cannot be undertaken just for itself and that every such measure has a widespread psychological effect on the rest of society.” But the military government worried that a dramatic change in the points system might produce a social explosion in the Ruhr.³⁶ By March 1948, the Allies coupled the existing system with incentives for productivity called the *Ansparn* plan.

The reconstruction of the bizonal electric utility system represented perhaps the greatest success of Semler’s tenure at the VfW. Quite apart from war damage, most of the prewar electricity supply had come from central German territories in the Soviet zone and Silesia. The dry summer also reduced energy supplies from hydroelectric plants. For these reasons, average losses to the bizonal zone amounted to 3,670,200 kilowatts. With the bizonal zone’s commitment to the revival of the capital goods industry, an increasing proportion of a dramatically reduced supply of electricity went to heavy industry. Supplies for household use declined precipitously. To remedy these shortfalls, the VfW bolstered coal-based electricity by increasing the hard coal allocation to the electricity industry. At the same time, they launched a long-term program to build and repair water-based utilities.³⁷ Eventually, Marshall Plan counterpart funds completed the project.³⁸

35. Dr. Ernst Deismann, “Stellungnahme und Vorschläge des Verwaltungsamtes für Wirtschaft in Minden zur Reform des Punktsystems,” 5 August 1947, BA, NL Henle 384/331.

36. “Ausführungen von Herrn Dr. Keiser, Verwaltung für Wirtschaft, Im Wirtschaftsausschuss vom 11.1.1948,” annex to “Protokoll Nr. 12: Sitzung, Ausschuss für Wirtschaft, 11./12. Februar 1948,” BA, NL Henle 384/314. For additional details, see Roseman, *Recasting the Ruhr*, pp. 59–93.

37. Min. Dir. Schalfjew, “Die Energieversorgung des vereinigten Wirtschaftsgebietes,” annex to “Protokoll Nr. 6: Ausschuss für Wirtschaft – Sitzung am 27. Oktober 1947,” BA, NL Henle, 384/314.

38. Schalfjew to the Deutsche Städtetag, “Finanzierung des Elektrizitäts-Programm,” 11 April 1949, BA, Z 013/1175.

At the heart of the planning regime, however, stood the distribution and control system. Much of the CDU envisioned, as a long-term goal, the dismantling of price controls and the reintroduction of the market mechanism.³⁹ But the VfW under Semler wanted to continue the mixture of state distribution of raw materials (*Herstellerkontingentierung*) and the end-consumer rationing system (*Endverbraucherkontingentierung*) championed previously by Agartz. State planning, of course, was inherent in Semler's entire concept of reviving the capital goods industries. As Günther Keiser, head of the Planning Department, never failed to emphasize, the shortage of consumer goods made rationing inevitable. The VfW hoped that the end-consumer rationing system, practiced primarily in textiles and in which the end consumer received a ration and then chose the retailer himself, would increase the production of needed consumer goods by allowing the market to function, in effect, at the manufacturing and wholesale levels.⁴⁰ As the currency reform grew obviously nearer, however, the hoarding of consumer goods and food became a problem. Both the military government and the VfW decided to enforce the control regime strictly. To combat hoarding, as Semler put it, "we cannot hesitate from applying, if necessary, very strict measures."⁴¹ Far from wishing to dismantle the control regime when hoarding appeared, the CDU wished to strengthen it.

The emergence of hoarding and an ever growing black market, of course, brought to the fore the most important issue planners faced as they awaited a currency reform: prices. Hoarding and the black market simply demonstrated the inadequacy and unreality of official prices expressed in terms of a worthless currency. The price controls had been based on figures from 1936. The planning authorities had repeatedly adjusted prices since 1946 to keep pace with the black market. By late 1947 and early 1948, planners feared that unrealistic official prices might endanger the currency reform by sparking an inflation, but they could exert no direct control over the prices of the most important products in the bizon, coal and steel. Because these two products exercised the most profound impact on the economy as a whole, the Allied Control Council, and then the bizonal military government, reserved the right to set official prices. The most contentious price

39. "Personal Report from British Chairman Bipartite Control Office for Week Ending 22 November, 1947," 22 November 1947, PRO, FO 1030/47.

40. VfW Sonderabteilung Wirtschaftsplanung, "Bewirtschaftung und Produktionslenkung der Textilwirtschaft," 1 March 1948, FES, NL Weisser, 437.

41. "Kurz-Protokoll: Sitzung des Ausschusses für Wirtschaft am 2. September 1947," BA, NL Henle 384/314. See also Potthoff, "Kurzbericht über die Sitzung des Wirtschaftsausschusses am Dienstag, dem 2. und Mittwoch, dem 3. September 1947," 8 September 1947, FES, NL Gerhard Kreyssig, 76.

issue between the Allies and the German authorities concerned the price of coal. Ruhr coal sold for RM15 per ton, while world prices were often quoted at RM31 per ton. The low price for German coal seemed to many Germans a thinly disguised form of reparations primarily for the benefit of France. The average production costs during 1947 of RM30 per ton added an extra burden to bizonal authorities who had to make up the difference through subsidies (by mid-1947 this amounted to about RM1.3 billion per annum). The VfW hoped that an increase in miner productivity might lower production costs, but it did not think it possible to reduce production costs to much below RM25 per ton, and that was only if daily production rose to 400,000 tons. Hence, the bizonal authorities requested as early as March an increase in the coal price. Despite the political value of labeling allied pricing policy reparations, however, the Germans recognized the probable effect of a dramatic rise in the price of coal on other major industries in the western zones, such as iron and steel, that depended on coal. Hence, during the Semler period, the authorities recommended a rise in the prices of controlled iron and steel products first during early 1948, with a considerable rise in the price of coal to follow immediately before the currency reform.⁴²

By the end of 1947, it appeared as though the VfW's concentration on basic industries in the western zones had paid off. According to official statistics, general industrial production had risen from 33 percent of 1936 levels obtained in 1946 to 43 percent of 1936 levels by the end of 1947. The most dramatic increase had occurred, not surprisingly, in the coal industry, where production had reached 73 percent of 1936 levels by the fourth quarter of 1947. The increases in production continued into the early months of 1948. But the high numbers for the coal industry concealed more modest increases in other industries. By the end of 1947, the iron and steel industries had only reached 29 percent of 1936 levels, the chemical industry had remained stagnant at 47 percent for most of 1947, and most consumer goods sectors had reached 30 percent or remained below even that level.⁴³

When food shortages reemerged in the bicone in early 1948, Semler's relationship with the Allies deteriorated rapidly. The expectation of a

42. "Sitzung des Ausschusses für Wirtschaft am 3. September 1947," BA, NL Henle, 384/314; "Bericht des VfW an den Wirtschaftsausschuß des Wirtschaftsrats über Eisen- und Kohlenpreise," 2 October 1947, Walter Strauss, "Die Kohlenpreiserhöhung," 12 January 1948, BA, NL Henle 384/340. See also Kindleberger to John C. de Wilde, 5 August 1946, in Kindleberger, *The German Economy*, p. 28

43. VfW, "Die Wirtschaftslage des Vereinigten Wirtschaftsgebietes im Jahre 1947," ACDP, VII-004-005/1.

currency reform in the near future had also encouraged farmers, particularly in the southern *Länder*, to hoard food. Unwilling to sell for a worthless currency, the Reichsmark, farmers sought to subvert the control system.⁴⁴ The ensuing conflict between the bizonal agricultural authorities and farmers aggravated the constant political crises facing the CSU in Bavaria. Semler, a member of the CSU, sought to place the blame for the so-called potato crisis on the Allies. In a speech before the CSU at Erlangen on 4 January 1948, Semler focused attention on the supposed Allied reluctance to import more food. He insinuated that the Americans blamed the recent food crisis on the German distribution system in order to save money: "They want to lessen the costs to the American taxpayer and Mr. Clay perhaps wishes to enjoy a nice exit at our expense." The American inability to understand the consequences to the western zones of having lost access to the overwhelmingly agricultural east revealed a desire on their part, Semler argued, to escape responsibility for the division of Germany. "What have they done for us? . . . They send us corn and chicken feed and we pay for it dearly – they are not gifts."⁴⁵ The characterization of American aid as "chicken feed" got Semler into quite a bit of trouble.

Semler's speech at Erlangen punctuated a rocky relationship he had with both the Americans and the British. He could plausibly maintain that he met with some success as the director of the bizonal economy, but he had also indulged in increasingly shrill attacks on the Allies. He had long criticized what he considered to be Allied policies that undermined his efforts to bring about a recovery. He told the *Kölnische Rundschau* on 16 January, for instance, that the British had destroyed the German iron and steel industry.⁴⁶ In the *Neue Zeitung*, on 9 January, he vented his frustration about allied reluctance to change the points system. "The coal miners, he said, get 3,500 calories a day while, 100 meters away, the worker in a steel factory gets nothing."⁴⁷ In the wake of the Erlangen speech, the SPD took the opportunity to call for his head.⁴⁸ The Allies dismissed him on 24 January, claiming that "the general tone of your criticisms is not objective, but indicates an attitude

44. See, for instance, "Interne Besprechung der Ministerpräsidenten mit General Hays am Dienstag, den 13.1.1948," BA, NL Rossmann, 25; Farquharson, *The Western Allies and the Politics of Food*.

45. "Rede des Direktors des Amtes für Wirtschaft des Vereinigten Wirtschaftsgebietes, Dr. Semler, am 4.1.1948 zu Erlangen vor dem Landesausschuss der CSU," BA, NL Henle, 384/333. See also Adenauer to Long, 17 January 1948, StBKAH, NL Adenauer 8/61.

46. "Ausführungen Dr. Semlers zur Lage in der deutschen Eisenindustrie," *Kölnische Rundschau*, 16 January 1948.

47. *Neue Zeitung*, 9 January 1948.

48. "Ist Dr. Semler ein 'verdammter Erzlügner'? SPD-Abgeordneter verlangt Amtsenthebung – Die Erlanger Rede und das memorandum des Direktors für Wirtschaft," *Rheinische Post*, no. 4, 14 January 1948.

of malicious opposition towards the occupying powers.”⁴⁹ In many ways, Semler merely gave expression to the mounting lack of confidence in the Allies representative of many Germans across the political spectrum. They had become increasingly suspicious of Allied intentions toward Germany and, indeed, allied competency in bringing about a recovery. Adenauer, bewildered by what he considered a fundamentally unwise intervention into the internal affairs of the Economic Council, commented that they had succeeded only in making Semler the most popular man in Germany.⁵⁰ Semler’s successor, Ludwig Erhard, would owe much of his success to his disinclination to working closely with the Allies and his ability to present them with successive *faites accompli*.

LUDWIG ERHARD AND THE “GUIDING PRINCIPLES”

The military government followed Semler’s dismissal with another reorganization and enlargement of the Economic Council. The Allies doubled the size of the council to make it more like a parliament. A new *Länderrat*, with two representatives from each *Land*, served as an upper house. An executive committee, consisting of the various directors with a presiding Oberdirector, became a quasi-cabinet.⁵¹ This reorganization grew out of the wide-ranging London agreements concluded by the three western Allies in preparation for a west German state. The Allies wanted an enlarged Economic Council with greater parliamentary legitimacy to prepare the economy for a currency reform. Yet as they entered the new Economic Council as the largest political party, the CDU wanted to continue Semler’s emphasis on heavy industry and the end-consumer rationing system. After much confused negotiation, they reluctantly nominated Ludwig Erhard to the directorship of the economy. Erhard thought that the currency reform could only work if price controls were dismantled. The free-price mechanism, he argued, could enforce a level of competition sufficient to prevent an inflationary spiral and protect the integrity of the new currency. Under Erhard, the VfW had to shift focus and devote its attention to the production of consumer goods in the remaining months before the currency reform in order to ensure that enough goods existed to meet pent-up demand. Erhard’s agenda

49. BICO to Semler, 24 January 1948, BICO to Koehler, 26 January 1948, PRO, FO 1025/39.

50. Adenauer, “Aktennotiz,” 28 January 1948, ACDP, VII-004-396/1.

51. “British Military Government Ordinance No. 126: Bizonal Economic Administration,” 9 February 1948, Ruhm von Oppen, ed., *Documents on Germany*, pp. 268–75; Heinrich Potthoff and Rüdiger Wenzel, eds., *Handbuch Politischer Institutionen und Organisationen 1945–1949* (Düsseldorf: Droste 1983), p. 190.

thus departed significantly not just from that of Agartz, but from Semler as well. To lend force and prestige to his arguments, he called on the “neoliberal” school of economists, such as Walter Eucken, Alfred Müller-Armack, Leonard Miksch, and, from a distance, Wilhlem Röpke. He invited these economists to sit first on the *Sonderstelle Geld und Kredit*, the body he chaired since late 1947, to come up with proposals for a currency reform, and then, in greater measure, the advisory board to the VFW (*Wissenschaftliche Beirat*). The CDU in the Economic Council, facing polemical attacks from the SPD, soon threw its support behind the officially independent Erhard. On 20 June 1948, the day of the currency reform, Erhard freed most consumer goods from price controls. The free-market had begun.

At first, Semler’s dismissal reopened the possibility of a grand coalition between the CDU and the SPD at the bizonal level. Indeed, the absence of any clear successor to Semler encouraged much of the CDU delegation to the Economic Council, against Adenauer’s wishes, to consider working with the SPD. But at a meeting of its executive committee, held in Kassel on 18 February, the SPD decided against pursuing any coalition with the CDU at the bizonal level. Backed by the SPD’s principal economic policy spokesman on the council, Gerhard Kreyssig, Schumacher declared that the principal task of the SPD was to “make evident the polarized opposition . . . SPD policy in Frankfurt [i.e., the council] must direct itself against the class interests of the wealthy with the primitive yet clear slogan, ‘we are for the hungry.’” Kreyssig, in fact, wanted to abandon “constructive opposition” and go on the offensive in the Economic Council. He thought the SPD should embarrass the CDU on the hoarding question and renew calls for heavy industry’s socialization.⁵² This new confrontational style also found expression in a separate SPD response to the announcement of Marshall Plan aid.⁵³ When the British political division intervened after the Kassel meeting to persuade the social democrats to pursue a coalition with the CDU in the Economic Council, SPD members Gustav Dahrendorf and Georg Henssler told them that while they personally disagreed with the dogmatic tone of the Kassel meeting and had urged Schumacher to adopt a more subtle and conciliatory approach, any agreement with the CDU was now impossible.⁵⁴ Believing the Christian Democrats inherently hostile to

52. “Aktennotiz. PV, P-Ausschuss und Wirtschaftsrats-Fraktion in Kassel, 18. Februar 1948,” 21 February 1948, SOPADE, “Die Sozialdemokratie und der neue Wirtschaftsrat,” Nr. 147, 16 March 1948, FES, NL Kreyssig 62.

53. “Die Fraktion der SPD erklärt zu dem Bericht des vorsitzendes des Verwaltungsrats Dr. Pünder über die Arbeiten die zum europäischen Wiederaufbauplan,” n.d., FES, NL Schumacher, 226.

54. The British blamed the CDU for the lack of cooperation between it and the SPD. Cecil King, of the German Liaison Branch, told Hilary Young of the Political Division, that “the CDU group in

any form of central economic planning, the SPD determined to maintain a polar opposition.

Ironically, the CDU delegation to the Economic Council did not consider the dismantling of the planning system advisable at this time. To embark on decontrol would require a fundamental shift in economic policy. As chair of the *Sonderstelle Geld und Kredit*, Erhard was well-known as an advocate of consumer goods production and as a champion of the deregulation of price controls. But the CDU did not want to shift emphasis away from capital goods. When the CDU delegation met with State Secretary Walter Strauß, who ran the VfW on an interim basis after Semler's dismissal, on 23 February, he encouraged the Christian Democrats to make a clear long-term choice between a free or tied (*gebundene*) economy. Strauß nevertheless also encouraged the delegation to continue Semler's policy of preferences for the production goods sector. "Professor Erhard is of the opposite opinion. But only through heavy industry can we meet with success. The work of the CDU must be to make this necessity clear." In addition, the CDU-CSU expert on the upcoming currency reform, Paul Binder (also a leading candidate for Erhard's job), emphatically articulated the conventional wisdom that the Allies needed to ensure proper stocks of raw materials and food for the success of the currency reform. No one believed at this stage that emphasis on German consumer goods production could bring success.⁵⁵

The actual nomination of Ludwig Erhard for the post of director of the economy has remained a bit mysterious to this day.⁵⁶ He was not the initial candidate. At first, the possibility of an agreement with the SPD exposed divisions within the CDU that Adenauer sought to overcome by calling attention to the recent SPD statements at Kassel. The Kassel meeting reinforced and legitimized Adenauer's view that a coalition with the SPD was impossible. The delegation then tried to recruit Walter Strauß and Otto

the Economic Council is composed of people who on the whole are working against the occupying powers, and the SPD group of people . . . on the whole are prepared to work with them." Cecil King to Young, 26 February 1948, Herbert Kriedemann evidently voiced to a mutual friend of Duncan Wilson the widespread SPD suspicion that "Germany had again missed the necessary social revolution. In his view the CDU was effectively guided by its right wing only, and that Adenauer and company were quite ready to sabotage the whole idea of central economic planning from Frankfurt." Wilson to King, 1 March 1948, PRO, FO 1049/1431.

55. Staatssekretär Dr. Walter Strauss, "Die Arbeit der VfW," 23 February 1948, Annex to "23. Februar 1948, 10.00–19.30 Uhr: Sitzungsprotokoll," reprinted in Rainer Salzmänn, ed., *Die CDU/CSU im Frankfurter Wirtschaftsrat. Protokolle der Unionsfraktion 1947–1949* (Düsseldorf: Droste 1988), pp. 142–5; Dr. Paul Binder, "Die deutsche Währungsproblem," *Deutschland-Unions-Dienst*, 17 March 1948.

56. Hentschel suggests that the CDU accepted Erhard as director of the economy in return for the Free Democrats acceptance of Hermann Pünder as Oberdirektor. See *Ludwig Erhard*, p. 53; Nicholls, *Freedom with Responsibility*, p. 207.

Seidel, but both declined to serve. The CDU delegation then convened a four-man commission, which included Robert Pferdmenges, to negotiate with the FDP over a successor to Semler. Only when the FDP insisted on Erhard on 1 March did the CDU reluctantly vote for him. He was duly appointed director two days later.⁵⁷

Erhard had already participated in plans for the currency reform as chair of the *Sonderstelle Geld und Kredit*, convened by Director of Finance Alfred Hartmann, in the fall of 1947. The *Sonderstelle* included experts from across the political spectrum. With the exception of the neoliberal Leonard Miksch, who already worked in the pricing department of the VfW, the *Sonderstelle* contained many neoliberals who now participated directly for the first time in the formulation of German economic policy. These neoliberal economists gradually associated the decontrol of prices with what Alfred Müller-Armack had recently termed a “social market economy.”⁵⁸ Chief among such economists was Walter Eucken of the University of Freiburg, the celebrated leader of the “Freiburg School” and an important ally of Erhard in the *Sonderstelle* and later in the federal economics ministry until his death in 1950. Günther Keiser, head of the planning department of the VfW, also sat on the *Sonderstelle* and became the most important critic of Erhard’s enthusiasm for early price deregulation. While drawing up the so-called Homburger Plan, the official West German proposal for a currency reform named after the location of the *Sonderstelle*, Bad Homburg, the *Sonderstelle* engaged in a series of expert debates as to what the economic system (*Wirtschaftsordnung*) should look like to ensure the success of the upcoming currency reform.⁵⁹

All the members of the *Sonderstelle* agreed that the fundamental goal of economic policy following a currency reform had to be price stability and the prevention of inflation. Erhard suggested that the abandonment of price controls might enforce a state of competition that could keep the price level low. In any event, discontinuing the rationing of consumer goods and

57. “20 Januar 1948: Bericht aus der Fraktions-sitzung,” ACDP, NL Dörpinghaus I-009-016, pp. 121–22; “24. Februar 1948, 20.15–23.00 Uhr: Sitzungsprotokoll,” pp. 147–48; “1. März 1948, 9.00–11.30 Uhr; Sitzungsprotokoll,” pp. 154–55; “1. März 1948, 20.45–1.00 Uhr: Sitzungsprotokoll,” pp. 156–57, in Salzmann, *Die CDU/CSU in Frankfurter Wirtschaftsrat*. Adenauer’s absence when Erhard was finally appointed on 3 March may have been due to the fact that his wife, Gussie, had died on the same day. In any event, the British still thought as late as 1 March that Seidel would succeed Semler. “Personal Report from British Chairman, Bipartite Control Office, for Week Ending 28th February 1948,” 1 March 1948, PRO, FO 1030/47. See also “Suche nach Kandidaten,” *Telegraf*, 28 February 1948; “Einstimmig Wiedergewählt,” *Deutschland-Union-Dreust (DUD)*, 24 February 1948.

58. See, for instance, Müller-Armack, “Die Wirtschaftsordnung Sozial Gesehen,” *ORDO* I (1948).

59. See Hays to Department of Army, December, 1947, NARA, RG 260, records of the Finance Division, records pertaining to the establishment and operation of currency policy, box 17.

allowing consumers to buy what they wanted when they wanted held out the best prospect for inducing a psychological bond to the new currency. Günther Keiser, in contrast, cautioned against a hasty deregulation of consumer goods prices. The fundamental preconditions for the success of a free market had not been met. Decontrol would cause inflation because the economy could not produce enough goods to meet the expected levels of pent-up demand. To increase the amount of consumer goods now up until the currency reform would necessitate such a reliance on raw material imports, and hence a greater reliance on the Allies, that might starve the capital goods industries upon whose health the economy as a whole depended. Rationing controls on consumer goods would hence remain necessary until a sufficient amount of goods had become available to prevent inflation. In support of Erhard, the leading neoliberal on the *Sonderstelle*, Eucken, argued that Keiser's contention that preconditions had not been met for deregulation mistook a crisis in distribution for a crisis in production. The technical problem of increasing production in both capital goods and in agriculture had largely been overcome. But distribution to the end consumer had failed because price controls and rationing assumed that the state could guide distribution. Eucken argued that in order for the currency reform to succeed, the price function, and hence the distributive function, of money had to be restored. The free-price mechanism would guide distribution better than rationing and quotas. Neoliberals soon received a boost with a widely read article by the most prestigious neoliberal of all, Wilhelm Röpke. Writing in the *Rheinische Merkur* on 13 December, Röpke specifically attacked the thinking of Keiser. He argued that price controls maintained since the mid-1930s had skewed the true value of goods and hence had distorted economic reality. The black market stepped into the breach by according traded goods their true value. "If we maintain the command economy (*Zwangswirtschaft*), then we maintain the world of economic fantasy, and other than a redistribution of income and property relationships we achieve nothing for the health of the economy that only a reestablishment of order and incentive in the economy can achieve." Along with engaging in his usual polemics against Germany's "collectivist" traditions, Röpke emphasized the need to foster true economic reality through the free-price mechanism.⁶⁰

As director of the economy, Johannes Semler worried that the *Sonderstelle* moved too quickly in advocating the decontrol of prices. In a joint meeting with most high officials of the Economic Council on 14 January

60. Sonderstelle Geld und Kredit, "Protokoll über die 13. Sitzung von 6. November 1947," BA, Z 32/2; Wilhelm Röpke, "Abkehr, nicht Fortsetzung," *Rheinischer Merkur*, no. 47, 13 December 1947.

1948, Semler admitted that he would support decontrol if the currency reform did not take place until 1 January 1949. The VfW needed at least that much time to increase the supply of consumer goods to meet the expected levels of pent-up demand. But as the VfW was now still very busy rebuilding the transportation infrastructure to forestall another breakdown in the distribution network, a dramatic shift to consumer goods production could not take place in time for a currency reform that would occur, as largely expected, in midsummer 1948. Without enough consumer goods on the market by June, only rationing could prevent inflation. If price deregulation took place immediately after the currency reform in June, he warned, "The result would be chaos."⁶¹ Most observers, such as Semler and Keiser, believed that the end-consumer rationing system would eventually supply the market with enough consumer goods to allow price deregulation at some point after the currency reform. Oberdirector Thomas Pünder's first speech to the Economic Council thus suggested the gradual abandonment of controls as a distant goal.⁶²

The expert debates of the *Sonderstelle* continued in the Advisory Board (*Wissenschaftliche Beirat*) to the director of the economy. Founded by Semler, the advisory board first met on 23 January 1948, one day before the director's dismissal in the wake of his Erlangen speech. The board did contain some Social Democratic economists, such as Gerhard Weisser, Erik Nölting, and the young Karl Schiller. But Semler had also invited leading neoliberal economists like Alfred Müller-Armack, Franz Böhm, Adolf Lampe, as well as Eucken.⁶³ Under Erhard, the advisory board became a vehicle for the Freiburg School. It recommended the early deregulation of prices and the introduction of a social market.⁶⁴ The majority of the advisory board concluded in a memorandum, dated 18 April, that "a currency reform only makes sense as long as it is coupled with a fundamental shift in the direction of economic policy." To that end, the board advised that "the function of the price . . . be restored to the greatest extent possible."⁶⁵

As the new director of the economy, Erhard followed the advisory board's recommendations and announced his guiding principles (*Leitsätze*) of

61. Sonderstelle Geld und Kredit, "Protokoll über die 34. Sitzung vom 14.1.1948," BA, Z 32/4. See also Sonderstelle Geld und Kredit, "Protokoll über die 15. Sitzung von 12.11.1947," *ibid*.

62. Speech of Dr. Pünder to the Economic Council, 16 March 1948, ACDP, VII-004-006/1.

63. "Gründung eines wirtschaftswissenschaftlichen Beirats bei der Verwaltung für Wirtschaft," 14 January 1948, BA, NL Henle, 384/340. See also Nicholls, *Freedom with Responsibility*, pp. 181–2.

64. Helmut Meinhold, "Bericht über die 2. Sitzung des Wissenschaftlichen Beirats bei der Verwaltung für Wirtschaft am 29. Febr. und 1. März 1948 in Königstein," 22 April 1948, FES, NL Weisser, 437.

65. "Gutachten des wissenschaftliches Beirats bei der Verwaltung der Wirtschaft," 18 April 1948, Hoover Institution – Stanford University, Friedrich von Hayek papers, 18/40.

economic policy in a major speech to the Economic Council on 21 April 1948. He called for the decontrol of as many consumer goods as possible in conjunction with the currency reform. The deregulation of prices required that the VfW and the Economic Council devote most of their attention in the meantime to the revival of the consumer goods industry. The emphasis on coal and steel had led to a limited, yet artificial, recovery. Disproportionate emphasis on heavy industry had diminished incentives. "We have run the risk of repeating this mistake again and again. I am therefore convinced that it is high time to change course and apply the same planning regime as much to the consumer goods industries in order to bring the hitherto neglected workforce to higher levels of productivity." After twelve years of price controls, Germans needed the free choice of consumer goods to give work meaning. "The decisive fact is that a people, which has lived in a state of emergency and spiritually has been brought to the edge of despair . . . cannot be presumed, and should not be presumed, willing to work for nothing in return, for a nominal wage with no real content." For those who worried about the very real problem of finance for the production goods industry, Erhard promised that Marshall Plan aid would come to the rescue.⁶⁶

The SPD reacted to the imminent reintroduction of the free market in different ways. Social Democrats had never wished to defend what they considered a crude National Socialist planning system. The technical debate about the feasibility of decontrol did not necessarily imply that one economic order (*Wirtschaftsordnung*) had been chosen over the other. Indeed, many Christian Democrats feared that Erhard was too dogmatic and too anxious to deregulate prices before the economy was ready. The atmosphere of the *Sonderstelle* and of the advisory board (*Wissenschaftliche Beirat*) had been unpolemical and professional (*sachverständig*). To be sure, Gerhard Weisser, the leading Social Democrat on the board, felt increasing pressure from neoliberals to engage in a fundamental debate over the future *Wirtschaftsordnung*. He nevertheless carefully separated his disagreement with Christian Democrats about basic policy from his views on the technical question of price controls, in which he agreed with Semler, Strauß, and Keiser.⁶⁷ Similarly, Harold Koch, the important SPD minister of economics

66. Erhard, "Der Weg in die Zukunft. Rede vor der 14. Vollversammlung des wirtschaftsrates des Vereinigten Wirtschaftsgebietes," 21 April 1948, in Karl Hohmann, ed., *Ludwig Erhard: Gedanken, Reden, und Schriften* (Dusseldorf: Econ Verlag 1988), pp. 38–62; Hentschel, *Ludwig Erhard*, pp. 66–68; Nicholls, *Freedom with Responsibility*, pp. 208–9.

67. See Weisser, "Thesen zur Ordnung der Wirtschaft nach der Sanierung der Währung. Vorlage für die 2. Sitzung des Wissenschaftlichen Beirats der Verwaltung für Wirtschaft," February 1948, FES, NL Weisser 437.

and transport in Hesse, warned Erhard to avoid early decontrol without engaging in polemics. "It is recognized, that a certain loosening of controls after the currency reform is desirable, and that a dynamic and constructive movement [*Lenkung*] of prices replace the crude price stop." He nevertheless warned that "an abandonment of state price regulations should take place only gradually. We must be certain that price authorities can, if necessary, intervene quickly when the movement in prices assumes an unpleasant economic or social character."⁶⁸ On a nakedly political level, though, the SPD faced the possibility that the Christian Democrats would use the experience of the Nazi command economy to discredit planning in general. SPD politicians in the Economic Council worried about the "shameless demagogues in every possible corner including the 'expert' advisory board . . . who exploits difficult problems of state economic planning to foster in the public the impression, that state planning is to blame for the shortages of nearly all goods."⁶⁹

The dilemma facing the SPD found expression at a crucial meeting held at Bad Vilbel on 3 June, where Social Democrats gathered to arrive at an official position on the impending regime of decontrol. They tried to speak out against complete decontrol. They hoped nevertheless to draw a distinction between the Nazi *Zwangswirtschaft* and their long-term desires for a *Planwirtschaft*. "The social democratic party is clearly not in favor of maintaining the current command economy. This must be said, so that it cannot be said, social democracy supports the command economy. But an abandonment of controls can only take place in time when enough goods have been produced." The SPD favored the continuation of the end-consumer rationing system because it promised space for the market to function and could produce the necessary goods that would allow decontrol down the road. But the Social Democrats also believed the CDU and the VfW wanted to sabotage the control regime in order to win support for deregulation.⁷⁰ They argued that a hasty dismantling of the price control system might endanger the new currency with a new inflation. But they also clearly worried that if Erhard met with success, the CDU would intensify its efforts to associate the SPD with the hated *Zwangswirtschaft*, bequeathed by the Nazis.

68. Koch to Erhard, 17 June 1948, FES, PV Referat Wirtschaftspolitik/01610B; DGB, "Lockerung der Bewirtschaftung," Annex to DGB to Kriedemann, 29 May 1948, FES, NL Schumacher 233; Weisser to Ollenhauer, 14 February 1948, FES, NL Weisser 839.

69. Kriedemann, "Rundschreiben Nr. 7/48," 24 May 1948, FES, NL Kreyssig 62.

70. "Arbeitsbericht: Tagung des wirtschaftspolitischen Ausschusses am 3.6.1948 in Bad Vilbel," FES, PV Referat Wirtschaftspolitik/01600A.

If the SPD worried that the CDU misrepresented the responsibility of planning for the economic crisis in which western Germany found itself, they also willingly subjected the CDU to strident attacks on the issue of hoarding. They introduced an antihoarding bill into the economic council on 10 March 1948. Hoarding had become a widely acknowledged problem in the months leading to the currency reform. Producers were reluctant to part with goods for Reichsmarks when they could receive Deutsche Marks in just a few months time. Although hoarding appeared a particularly heinous antisocial form of behavior during an era of widespread shortages, most officials and politicians knew the problem was complicated. Nobody knew how to measure the amount of hoarding. For instance, how much of the hoarded material consisted of finished consumer goods deliberately withheld from the market or of producer goods not fully utilized until the currency reform?⁷¹ Despite such analytical difficulties, the SPD introduced a stringent bill into the Economic Council that defined hoarding widely. The bill called for an inventory in the Bizone of “all stocks of raw materials, fuels . . . semi-finished goods and finished goods . . . which will be regularly subject to inspection [*fortan laufend überwacht*].” The VfW could seize any unregistered stocks as hoarded goods. The bill established penalties of up to five years imprisonment and fines of up to RM 1 million. The SPD envisioned the creation of *Länder* antihoarding offices because they did not trust the VfW under Erhard to enforce the bill effectively.⁷² With this bill, the SPD hoped to embarrass the CDU and expose Erhard.

Despite misgivings, the CDU accepted the antihoarding bill. Erhard had originally suggested in his speech on 21 April that hoarding during the final months of the planning regime might even ensure that enough consumer

71. The role of hoarding in providing an illusion of economic growth after the currency and economic reforms is critical to Werner Abelshäuser's argument that neither measure was decisive in initiating West Germany's postwar economic growth cycle. See Abelshäuser, *Wirtschafts in Westdeutschland*. Knut Borchhardt and Christoph Buchheim argue that much of the hoarded material did not consist of finished consumer goods, but rather of allocated raw materials and producer goods hoarded but not used until the currency reform. See “Die Wirkung der Marshallplan-Hilfe im Schlüsselbranchen der deutschen Wirtschaft,” in Hans-Jürgen Schröder, ed., *Marshallplan und Westdeutscher Wiederaufstieg* (Stuttgart: F. Steiner 1990), pp. 119–49.
72. “Initiativantrag der Fraktion der SPD für ein Gesetz zur Enthortung der gewerblichen Wirtschaft und zur Verhütung künftiger Warenhortung (Enthortungsgesetz),” Drucksache Nr. 208, *Wörtliche Berichte*, vol. 4, pp. 382–88. The SPD's antihoarding bill was part of a renewed offensive in the Economic Council, agreed in Kassel on 18 February, that included criticism of council's response to Marshall Plan aid and renewed calls for socialization in the North Rhine-Westphalian *Landtag*. Gustav Dahrendorf and Herbert Kriedemann also told the British on 10 March that they saw a great opportunity of splitting the CDU on the hoarding issue. See “Summary of Conversation with Dahrendorf and Kriedemann on 10th March, 1948,” PRO, FO 1049/1431; “Die Landesleitung der SPD in Hessen,” 17 January 1948, FES, NL Schumacher 231; “Enthortung als Wahlthema,” *Deutschland-Union-Dreust (DUD)*, 17 April 1948.

goods appeared on the market immediately after the currency reform. When first considering the SPD bill in March, the CDU delegation agreed with Erhard that although hoarding represented a disturbing injustice, “it must also be recognized that a complete deprivation of the commercial economy of its stocks would also endanger the coming currency reform.” Erhard later testified that the SPD bill would require a huge bureaucracy. During the next month, the CDU tried to persuade the SPD to investigate only suspected cases of hoarding rather than to require a tiresome and bureaucratic collection of inventories.⁷³ The SPD pressed on with its bill to stigmatize the CDU as sympathetic to “antisocial” hoarders. As Herbert Kriedemann, deputy head of the SPD delegation to the Economic Council, stated in a circular, “Despite the bourgeois party’s early opposition to the law and especially the fact that the director of the economy’s made it known in every possible way that he considered a radical dehoarding measure before the currency reform undesirable, the law passed with a large majority.”⁷⁴ The SPD version won.

In the midst of the hoarding controversy, Erhard set to work to introduce legislation that would empower him to eliminate price controls. He ordered Leonard Miksch, of the price department, to draft the basic legislation. As one of the few neoliberals working in the economics administration at this time, Miksch had long advocated the decontrol of prices. He argued that the situation in western Germany had changed dramatically since the British reinforced the planning regime in late 1945 and early 1946. Whereas it had made sense at first to maintain controls and to concentrate resources on the revival of heavy industry, the growing black market (the importance of which had not been sufficiently appreciated in 1945 and 1946) had undermined the ability of the bizonal agencies to function as efficient distributors of raw materials. The currency reform had to not just reduce the amount of money in circulation, but to restore the function of money as well. “In short, one can argue that the decisive moment is not the quantitative reduction in the amount of currency, but rather the restoration of the money function.” The so-called theory of preconditions, represented by colleagues such as Günther Keiser, overlooked the distributive significance of money. Only

73. “Sitzung des Ausschusses für Wirtschaft am Dienstag, den 13. April, 1948,” 14 April 1948, BA, NL Henle 384/314; Kuhlme to Henle, 12 April 1948, BA, NL Henle 384/332; “15. März 1948, 14.00–19.00 Uhr: Sitzungsprotokoll,” “13. April 1948, 19.30–22.15 Uhr: Sitzungsprotokoll,” in Salzmann, *Die CDU/CSU in Frankfurter Wirtschaft*, pp. 162–64, 174–77.

74. Kriedemann to the Landtag Delegations, “Rundschreiben Nr. 5/28,” 20 May 1948, FES, NL Schumacher, 229; “Sitzung des Ausschusses für Wirtschaft am 20. April 1948,” BA, NL Henle 384/314; “Review of Developments on the German side of the Bizonal Economic Organization,” 30 April 1948, PRO, FO 1049/1432.

the free-price mechanism could empower the new money to replace the black market. Miksch and his boss, Heinrich Rittershausen, began to argue in early 1948 that the free-price mechanism could and should be introduced. In his draft legislation, Miksch sought to shift the emphasis of policy to the principle of the free movement of prices while allowing exceptional controls on essential consumer goods.⁷⁵

The bill Erhard introduced to the Economic Council on 1 June, the "Guiding Principles Law" (*Leitsätze-gesetz*), empowered the director of the economy to release all goods from price controls, with the exception of coal and steel, as he saw fit. Erhard saw the primary function of economic policy as establishing the principle of free competition. The control of socially essential goods represented the exception, not the rule. (Moreover, as he was the director of the economy and not of agriculture, he could not release food from price controls anyway. For that he needed the cooperation of the bizonal director of agriculture, Hans Schlange-Schöninghen.)⁷⁶ The SPD demanded that the Economic Council establish a supervisory board and require Erhard to apply for approval to this board to release any goods from controls. But the CDU delegation was only prepared to support a supervisory board that could review Erhard's decisions after he had made them.⁷⁷ With this weaker supervisory board, Erhard's bill passed the council. The *Länderrat*, or upper house, still deliberated on the bill as the currency reform took place, on 20 June. Erhard released a collection of consumer goods from price controls anyway. He then announced the new dramatic shift in German economic policy in a radio speech on 21 June. Although many had argued that an economy of shortages would produce inflation if

75. Miksch, "Bemerkungen zur Frage der Währungsreform," 17 February 1948, Miksch and Rittershausen, "Die Währungsreform in neuen Licht," 10 March 1947, Miksch, "Entwurf: Grundsätze der Wirtschaftspolitik für die der Währungsreform folgende Uebergangsperiode," n.d., BA, Z 8/233. To adequately prepare for the currency and economic reforms, Erhard wished to focus on consumer goods production. See "Protokoll der 7. Besprechung der Wirtschaftsminister des Vereinigten Wirtschaftsgebietes mit dem Direktor der Verwaltung für Wirtschaft am 19.3.1948 in Frankfurt/M.-Höchst," BA, Z 013/1049. He also assured the CDU that socially critical goods would remain under controls: "24. Mai 1948, 15.00–19.20 Uhr: Sitzungsprotokoll," in Salzmann, ed., *Die CDU/CSU in Frankfurter Wirtschaftsrat*, pp. 197–200.

76. "Antrag des Verwaltungsrats. Entwurf eines Gesetzes über die wirtschaftspolitischen Leitsätze nach der Geldreform," Drucksache 331, *Wirtsche Berichte*, (WB), vol. 4 (1 June 1948): pp. 559–60.

77. "Sitzung des Ausschusses für Wirtschaft am 10./11. Juni 1948," BA, NL Henle, 384/314; *WR Berichte*, vol. 2, pp. 653–64; "17 Juni 1948, 22.–22.50 Uhr: Sitzungsprotokoll," Salzmann, *Die CDU/CSU im Frankfurter Wirtschaftsrat*, pp. 229–32; "Sitzung des Ausschusses für Wirtschaft," 17 June 1948, BA, NL Henle, 384/314; "Antrag des Ausschusses für Wirtschaft. Entwurf eines Gesetzes über die Leitsätze für die Bewirtschaftung und Preispolitik nach der Geldreform," Drucksache 338, 17 June 1948, *WR Drucksachen*, vol. 4, pp. 570–1. Fritz Tarnow of the DGB wrote to all the parties of the council arguing that the DGB was entitled to half of the seats on the supervisory board. Fritz Tarnow to VfW, VfEL, *Länderrat*, Köhler and all delegations to the Economic Council, 22 June 1948, FES, NL Schumacher, 232.

price controls were abandoned, he assured his listeners that “I am, in fact, of the conviction, that a consolidation of our economy will usher in a trend of price declines. . . .” The severe reduction in the supply of money forced firms to compete that, in turn, forced some firms to rationalize their operations and others to utilize their excess capacities. These processes, he argued, would facilitate price reductions. While acknowledging the possibility of a capital shortage, he nevertheless considered “the cleansing capabilities of a minor deflation essential in order to force businesses, along with the enforced dehoarding of their stocks, into even greater rationalizations.” In any event, the Marshall Plan, he believed, would fund the capital market for the time being. In conclusion, he assured his radio audience that the new freedom of choice that he had established in the economy served as a fundamental precondition for the new democratic order on the horizon.⁷⁸

FROM INFLATION TO DÜSSELDORF

Erhard introduced what became known as the social market economy on 20 June 1948. Coinciding with the currency reform, he hoped that the deregulation of prices would prevent a new black market and hence protect the integrity of the new Deutsche Mark. His reforms, however, were threatened by a serious inflation. Despite dehoarding, not enough consumer goods made it to market to soak up the available currency. His critics in both the *Sonderstelle* and the advisory board had warned him of such a possibility. Popular discontent with the new inflation brought forth calls for strict measures against “price profiteers,” a new price-control office, and a general strike on 12 November directed against Erhard himself. Amidst the tumult, Erhard and his defenders developed the new argument that the inflation represented a natural process whereby the West German internal market needed to adjust to world prices. Only by maintaining the free-price mechanism could this necessary adjustment take place.

The CDU, facing attacks from the SPD and the unions, rallied around the embattled director. Many Christian Democrats had been skeptical of Erhard’s plans to eliminate price controls as early as the Allied currency reform. Even Adenauer was not entirely unsympathetic to the criticism leveled at Erhard in late 1948. But in the heated and polarizing atmosphere that Erhard encouraged and relished, Adenauer and the rest of the CDU found themselves defending the “Frankfurt policies” against the denunciations of the

78. Erhard, “Der neue Kurs,” Radio speech, 21 June 1948, in Erhard, *Gedanken, Reden, und Schriften*, pp. 63–76. See also Francomb to Foreign Office, 965 Basic, 11 November 1948, PRO, FO 1049/1190.

SPD and the unions. When prices broke in early 1949, and despite a serious capital shortage and high levels of unemployment, Erhard and his allies in the CDU appeared vindicated. When the first Bundestag campaign began in late summer 1948, Adenauer and Erhard formalized their successful alliance against socialism. The “Düsseldorf Program,” adopted in September, established the CDU as the principal defender of what was now known as the social market economy.

Far from worrying about inflation, Erhard and his supporters had worried about the deflationary potential of the currency reform. The reform amounted to an 80 percent reduction in basic cash and bank deposit balances. But only 10 percent would be converted into the new currency, the Deutsche Mark. The Allies planned to block another 10 percent till the end of the year. Debt was likewise reduced by 80 percent, with only 10 percent payable and the remaining 10 percent subject to a moratorium. In short, RM10 became DM1.⁷⁹ Although they did not know the specific terms of the currency reform until June, the Germans knew of its likely impact. They had assumed, however, that the Allies would issue an “Equalization of Burdens Law” (*Lastenausgleich*), which might soften the effects of the currency reform on the most disadvantaged. When they heard in early June that the Allies expected the Germans to pass, in the near future, their own *Lastenausgleich* law in the form of a capital levy, they panicked. They could not agree to one in time. Severe deflation now appeared inevitable.⁸⁰

The immediate aftermath of the currency reform nevertheless seemed to lend credence to Erhard’s policies. The psychological effect of full storefronts attributed to the decontrol of prices gave the VfW cause for celebration.⁸¹ The reforms had unleashed a considerable increase of 20 to 40% in the production of producer and intermediate goods, primarily steel and metallurgical products (see below).⁸² But far from succumbing to a deflationary

79. “Currency Reform in the Western Zones of Germany,” annex to Bevin to Attlee, 16 June 1948, PRO, FO 800/467/48/25. See also Backer, *The Decision to Divide Germany*, pp. 111–22.

80. “4 June 1948, 11.00–20.30 Uhr: Sitzungsprotokoll,” Salzmann, *Die CDU/CSU im Frankfurter Wirtschaftsrat*, pp. 206–16. For a recent and excellent study of the *Lastenausgleich*, see Michael L. Hughes, *Shouldering the Burdens of Defeat: West Germany and the Reconstruction of Social Justice* (Chapel Hill: University of North Carolina Press 1999). The technical reasons for the American reversal on an “equalization of burdens” law to coincide with the currency reform are more complicated than the political and moral arguments at the time suggested. The Allies also imposed a heavily progressive tax schedule that they thought might redistribute wealth in a similar way. See the interesting discussion in Clay to Royall, March 1948, *Clay Papers*, vol. 2, pp. 592–4.

81. VfW, Sonderabteilung Wirtschaftsplanung, “Die psychologische Reaktion des Publikums auf die Währungsreform,” 28 July 1948, BA, NL Henle, 384/340.

82. “Bericht über die Tätigkeit der Verwaltung für Wirtschaft—Amt für Stahl und Eisen—VSE—III. Quartal 1948,” December 1948, Rheinisch-Westfälisches-Wirtschaftsarchiv, Bestand IHK Cologne, 1/322/1.

Table 4.1. *Levels of Industrial Production in the Bizone (1936 = 100)*

Industry Groups	1948		1949	Change in January 1949 From 1948 in %	
	Jan.	Dec.	Jan. (Prelim.)	Jan.	Dec.
Workdays	26	25	25		
Overall production	47	79	80	+70.2	+1.3
Production minus energy	41	74	76	+85.4	+2.7
Overall producer goods	61	83	86	+41.0	+3.6
Coal	73	89	90	+23.3	+1.1
Potash and salt	90	108	108	+20.0	0
Petroleum	127	160	160	+26.0	0
Petroleum processing	50	67	73	+46.0	+9.0
Coal matter	57	79	88	+54.4	+11.4
Chemicals	46	76	79	+71.7	+3.9
Electricity	142	166	169	+19.0	+1.8
Gas	58	80	81	+39.7	+1.3
Basic investment goods	34	68	66	+94.1	-2.9
Iron ore	80	115	115	+43.8	0
Metal goods	32	58	64	+100.0	+10.3
Stone and earth	37	76	67	+81.1	-17.8
Iron and steel	25	51	52	+108.0	+2.0
Iron, steel, and casting	31	64	66	+112.9	+3.1
Nonferrous metals	24	61	71	+195.8	+16.4
Scrap metals	38	84	82	+115.8	-2.4
NP castings	66	110	110	+66.7	0
Flat Glass	71	127	127	+70.4	0
Sawmill and wooden goods	59	99	104	+76.3	+5.1
Finished investment goods	35	73	74	+111.4	+1.4
Machines	39	71	72	+84.6	+1.4
Automobiles	20	69	69	+245.0	0
Electrical goods	68	165	171	+151.5	+3.6
Fine mechanical and optics	48	98	94	+95.8	-4.1
Consumer goods	40	73	77	+92.5	+5.5
Fine ceramics	46	97	97	+110.9	0
Concave glass	74	132	135	+82.4	+2.3
Paper products	38	69	72	+89.5	+4.3
Rubber products	60	102	101	+68.3	-1.0
Tires	42	101	105	+150.0	+4.0
Conveyer belts	274	485	226	-17.0	-53.4
Sole materials	168	262	245	+45.8	-6.5
Other hard and soft rubber goods	49	72	76	+55.1	+5.6
Leather products	33	58	61	+84.8	+5.2
Shoes	41	76	79	+92.7	+3.9
Textiles without Man-made fibers	32	62	65	+103.1	+4.8
Man-made fibers	87	192	211	+142.5	+9.9

Source: VFW, "Die Wirtschaftliche Lage im Januar 1949," BA, Z 013/1047.

spiral, as Erhard had feared particularly after he learned that the military government would not impose a *Lastenausgleich*, pent-up demand for consumer goods threatened to spark an inflation. Soaring demand for textiles, particularly shoes, gave cause for concern. A shortage of raw hides and cotton on world markets, coupled with a 30 cents per DM exchange rate, made raw materials for shoes and textile manufacturers more expensive than had been expected. Where controls were still technically in place, they were often ignored, thus encouraging a further upward trend in prices.⁸³ Deliveries of raw materials and wholesale goods began to slow down. "Compensation" and the black market reemerged to speed distribution.⁸⁴

Erhard had also not expected the rapid rise in unemployment, which became apparent in the months after the reform. (Unemployment levels, of course, rose even higher in 1949 when deflation set in.) Whereas unemployment actually held steady or even declined in the most industrial areas of the bicone, such as North Rhine-Westphalia, Hessen, and Württemberg-Baden, the number of jobless increased dramatically in the *Länder* with most of the expellees from the Sudetenland, Poland, and East Prussia. Bavaria and Lower Saxony, for instance, experienced dramatic increases in unemployment in the latter months of 1948. In Schleswig-Holstein, unemployment increased from 18,600 in May to over 100,000 in November.⁸⁵ There was some case to be made, and Erhard and the VfW certainly made it, that this unemployment represented a structural, or extraordinary, phenomenon that did not imply the failure of Frankfurt's overall economic policy. The bulk of the expellees from the east had been shepherded into primarily agricultural *Länder*. When the decontrol of prices forced employers to shed excess staff in order to compete, the newly unemployed in these agricultural *Länder* could not find other jobs as easily as the workers in the more industrial *Länder*. Erhard explained that counterpart funds from the Marshall Plan could legitimately be used to alleviate such "structural" bottlenecks. But whether his policies contributed to unemployment or not, the director of the economy could not escape the blame.

Along with growing unemployment, the serious reemergence of inflation in late 1948 gave rise to a sense of moral indignation that threatened to undermine Erhard's policies. Erhard and his supporters, such as Alfred Müller-Armack, tried to argue that the inflation had been caused by the

83. VfW, "Die Wirtschaft nach der Währungsreform," 12 July 1948, VfW, "Die Wirtschaft nach der Währungsreform," 20 September 1948, BA, Z 013/1038.

84. VfW, "Die wirtschaftliche Lage im Oktober 1948 . . ." 10 November 1948, VfW, "Die wirtschaftliche Lage im November 1948 . . ." 9 December 1948, BA, Z 013/1040.

85. *Ibid.*

elimination of subsidies to many consumer goods industries and the need to adjust to the world prices from which West Germany had been protected for so many years.⁸⁶ But to many observers the inflation was simply the work of price profiteers. In the months before the reform so much attention had been focused on hoarders. As Erhard had predicted, the reforms seemed to have brought many previously hoarded goods onto the market. But now with the dramatic rise in prices, the very same people who had been accused of hoarding now appeared to be profiteering at the people's expense. Cries arose both for a law against price profiteering, which even Adenauer urged Erhard to support, and for a new price office (*Preisamt*) designed to reimpose controls on goods thought prematurely deregulated.⁸⁷

The twin difficulties of growing unemployment and inflation that Erhard now faced emboldened the SPD to seek his downfall. Before the reforms, the SPD had approached the technical question of price deregulation in an ambivalent and hesitant manner. But now they focused on the inflation to discredit Erhard's free-market policies. At a meeting of the party executive at Springe on 2 and 3 August, the SPD, while reiterating its opposition to the Nazi-era *Zwangswirtschaft*, called upon the CDU to accept the consequences of having moved too quickly. "The lack of judgement displayed by the director of the economy in determining the capabilities of the economy has led to a reckless deregulation of prices . . . These measures have delivered the great majority of the people into the hands of price profiteers [*Preiswucher*]." ⁸⁸ As the principle backers of the antiprofitereing bill and the price office, SPD members hoped to expose the CDU as supporters of a bankrupt and heartless economic policy. As Herbert Kriedemann, deputy head of the SPD delegation to the Economic Council, wrote to Social Democratic *Länder* ministers "The party executive wishes our delegation in the economic council to direct attention to the repercussions of Erhard's price policies." ⁸⁹ Social democrats could count on the full support of the unions as reports poured in that local union organizations in Bavaria and North Rhine-Westphalia had staged strikes against profiteers and

86. See Erhard, "Zur Kritik an der neuen Ordnung. Rundfunkansprache, 6. August 1948," *Gedanken, Reden und Schriften*, pp. 70–76; Müller-Armack, "Zur Sicherung der Marktwirtschaft," *Tagespiegel*, 28 September 1948, Edmund Kaufmann, VfW, "Soziale Marktwirtschaft," n.d., *Wirtschaftsverwaltung*, ACDP, VII-005-059/1.

87. Adenauer to Erhard, 9 August 1948, LES, NL Erhard, I/1/1.

88. SOPADE, "Die Sitzung des SPD-Vorstandes in Springe," 6 August 1948, FES, Bestand PV, Protokolle 1948.

89. Kriedemann to *Länder* ministers, 7 August 1948, FES, Bestand PV, Referat Wirtschaftspolitik/01610B; Kriedemann to SPD Franconia District, 18 August 1948, FES, NL Schumacher 231.

threatened to embark upon a general strike.⁹⁰ After failing to unseat Erhard in a no-confidence motion in the council on 18 August, Kriedemann nevertheless wrote local-level SPD functionaries, "I hope that all the local party organizations devote all their resources to demonstrating to the public the responsibility of the CDU for the rise in prices, the inadequate supply of goods necessary to basic living standards . . . in short, to the danger posed to basic living that faces most of the people."⁹¹ By early fall 1948, the SPD felt confident that Erhard's policies had failed and had heaped discredit on the idea of the free market.

Though close to the SPD, the unions approached the whole question of price and wage controls in a more complicated manner. The unions wanted, of course, to influence wage rates. They wanted to do this through the reestablishment of collective bargaining and the release of wages from the controls introduced in 1936. The Allies had instituted a 15 percent across-the-board wage hike immediately before the reforms to ameliorate the expected deflationary effects of the currency reform. Erhard did not have authority over wage controls, and they were not freed from controls until November. Partly because of the earlier wage hike, the unions were more relaxed about price deregulation than was the SPD. But they soon realized that growing inflation, coupled with the continuation of wage controls until November, translated into a decrease in real wages. Popular unrest, as in Bavaria and North Rhine-Westphalia, became a distinct possibility. The unions argued that either price controls had to be reintroduced, which was not very likely, or that progress had to be made in eliminating wage controls. While the SPD thus concentrated on trying to make the case for a reimposition of at least some controls, the unions agitated for the elimination of remaining wage controls.⁹²

Throughout 1948, the unions also suffered from internal divisions that threatened the existence of the *Einheitsgewerkschaft*. The trade union movement had largely succeeded in building an *Einheitsgewerkschaft* by overcoming the differences between the prewar Christian and secular (usually socialist)

90. DGB Bavaria to Hans Erhard, Thomas Pünder, Erich Köhler, and the political parties, 11 August, DGB NRW, "Resolution," annex to Werner Hansen to all delegations to the Economic Council, 13 July 1948, FES, NL Schumacher 233.

91. Kriedemann to SPD Weser-Ems, 19 August 1948, FES, NL Schumacher 231.

92. Tarnow to Blücher, Kriedemann, and Pferdmeiges, 1 June 1948, FES, NL Schumacher 232; "Stellungnahme des Bundesvorstandes des Deutschen Gewerkschaftsbundes für die brit.Zone zu Problemen . . .," 14 July 1948, FES, DGB-Archiv, 101/11/8; "Protokoll der Sitzung des Bundesvorstandes und Beirates am 26. Oktober 1948 in Münster in Westfalen," FES, DGB-Archiv, 101/11/72; Hans von Hoff, "Rundschreiben Nr. 52/48," 3 April 1948, von Hoff, and Adalbart Stenzel, "Rundschreiben Nr. 70/48," 5 June 1948; von Hoff and Stenzel, "Rundschreiben nr. 123/48," 6 August 1948, FES, DGB-Archiv, 101/11/8.

“free” trade union movements. The other major source of division within the German trade union movement, that is, the distinction between white and blue collar workers, the union federation attempted to solve through the substitution of industry-wide unions (*Industriegewerkschaften*) for traditional craft-based unions or professional associations. By 1948, however, discontent with the IG model of organization developed among skilled and white-collar workers. For instance, railway men refused to form an industrial union with general non-white collar public service employees. By March 1948, they had broken away and formed an independent union.⁹³ That summer, white-collar workers in general resisted their subordination to industry-based unions and formed a white-collar union (*Deutsche Angestellten Gewerkschaft*, or DAG) within the union federation. The federation leadership subsequently expelled the DAG and formed two distinct industrial unions encompassing white-collar workers, the BHV (*Banken, Handel, und Versicherung*) and the ÖTV (*Öffentliche Dienst, Transport und Verkehr*).⁹⁴ The bitter dispute within the union movement that accompanied the DAG’s expulsion from the union movement spilled over into politics when Hans Böckler, the head of the federation, called on the SPD to expel any DAG members from the party. This the SPD refused to do.⁹⁵ In any event, as the SPD sought to mobilize mass anger against the free market policies of Erhard, the union movement became embroiled in a bitter internal dispute.

Nevertheless, in November, the union leadership jumped to the forefront of the opposition to Erhard’s policies and called a general strike. Hans Böckler and his colleagues demanded an antiprofitereing law and a new price-control office. Union leaders met with the complete bizonal Executive Committee on 5 November, for they refused to meet Erhard alone. They presented a list of ten demands, the foremost of which included the proclamation of an “economic state of emergency.” The unions called for the creation of a price office that could reinstitute price controls under the authority of “a price regulation and anti-profitereing law appropriate to a state of economic emergency.” Along with price controls on important consumer goods, the unions wanted a reintroduction of state distribution of raw materials. More radically, the unions called for the socialization of heavy industry and the introduction of codetermination throughout the entire economy for the purposes of introducing an “economic democracy.” The military governors met with union representatives on 8 November to

93. Hoff, “Rundschreiben Nr. 24/48,” 1 March 1948, *ibid.*

94. Hoff, “Rundschreiben Nr. 113/48,” 31 July 1948, *ibid.*

95. Ollenhauer to the District Party Executive Boards, Rundschreiben Nr. 60/48, 7 August 1948, FES, Bestand PV, Protokolle 1948.

persuade them not to call a strike. They assured Böckler, however, that they would not intervene. Accordingly, the unions decided to call a day-long strike for 12 November.⁹⁶

The divisions that had plagued the union movement, however, resurfaced in the days before the strike. Although most of the labor movement took part, there existed a considerable amount of criticism about how the federation had handled the negotiations with bizonal authorities during the early days of November and the rationale for a general strike at all. The now independent DAG, willing to let bygones be bygones and to participate in the strike, nevertheless criticized the federation leadership for having demanded a proclamation of a state of economic emergency and for having called for heavy industry's socialization, because such demands had little to do with the immediate problem of inflation. It also claimed that the decision to strike had been taken without a rank-and-file vote and therefore lacked real legitimacy. The Christian trade unionists within the federation heaped criticism on the demand for the state of emergency proclamation as well, stating that "we maintain . . . that an official proclamation of a state of economic emergency, and the questionable [*bedenkliche*] psychological repercussions that would entail, is no way to resolve the economic crisis." Finally, at the eleventh hour, the independent railway men union, as well as postal workers in the American zone, announced that they would not take part in the strike. Fearing the escalation of differences between the railway men's union and the corresponding federation transport union, the ÖTV, Böckler decided not to let transport workers take part at all.⁹⁷ The unions could not rely on a united front on 12 November.

The general strike of 12 November has been depicted as the last great protest against the hardships of occupied West Germany.⁹⁸ At the time, however, it did not arouse as much enthusiasm as the unions might have hoped. That the union leadership coupled a strike with far-reaching demands on economic policy made it appear excessively political. Hans Böckler defended

96. "Review of Developments on the German Side of the Bizonal Economic Organisation," 10 November 1948, PRO, FO 1049/1433; Albin Karl, "Protokoll der Sitzung des Bundesvorstandes und Beirates am Montag, dem 8. November 1948 in Düsseldorf, Bundeshaus," FES, DGB-Archiv 101/11/72; Gewerkschaftsrat, "Wirtschaftlicher Notstand," 6 November 1948, FES, DGB-Archiv, 101/13/11.

97. Wilhelm Dörr, DAG, "Ortsgruppenbrief Nr. 54/48," 8 November 1948," and "Besprechung von Vertretern der christlich-demokratischen Mitgliedschaft der Gewerkschaften mit Vertretern der Bundesleitung des Deutschen Gewerkschaftsbundes am 8.11.1948," FES, DGB-Archiv, 101/13/11; "Protokoll der außerordentlichen Sitzung des Bundesvorstandes und Beirates, am 11. November 1948 in Düsseldorf," FES, DGB-Archiv, 101/11/72. The exclusion of transport workers from the strike also made the military governments' breath easier.

98. See Christoph Klessmann, *Die doppelte Staatsgründung, Deutsche Geschichte 1945–1955* (Göttingen: Vanderhoeck & Ruprecht 1991). See also Schmidt and Fichter, *Der erzwungene Kapitalismus*.

the action in a radio speech by claiming that the Economic Council had abdicated responsibility. "The disease has nothing to do with wages, but with prices. Therefore, the cure must be applied there. The responsible authorities have not demonstrated the willingness [to apply the cure]. Thus our demand to be included in the economic decision-making process more than previously." But even the SPD shied away from fully endorsing the unions. They would have preferred the unions to restrict their demands to the immediate and putatively unpolitical area of the inflation. In any event, Erhard survived a second no-confidence vote on the Economic Council two days before the strike. His political fortunes appeared to have improved.⁹⁹

In the aftermath of the failed general strike and his vindication in the Economic Council, Erhard went on the offensive by accepting an invitation to debate with the SPD economist Erik Nölting in front of an overwhelmingly Social Democratic crowd at the Zirkus Althoff in Frankfurt on 14 November. Nölting had been one of the principal critics who ascribed the inflation to Erhard's insistence on abandoning controls before enough consumer goods had been produced to meet the expected levels of demand. He also firmly advocated economic planning. At the Zirkus Althoff, Erhard repeated his argument that the reduction of subsidies, the need for imports to adjust to real world prices and, indeed, a currency reform that had blocked bank accounts and given out cash had forced and encouraged sellers to operate with real prices for the first time in years. The need to adjust to world conditions dovetailed with an overliquidity on the consumer market caused by 12 years of pent-up demand and a cash-oriented currency reform. That is, too much of the DM10.7 billion handed out during the currency reform had found its way into the consumer goods sector. The current price rises did not signal a new long-term inflation, but rather unsurprisingly exposed the fundamental disequilibrium natural after 12 years of controls. Erhard's task, as he saw it, was to help prices and wages find an equilibrium by enforcing price stability through central bank restraint.¹⁰⁰

99. "Rundfunkansprache Hans Böckler, Vorsitzender des bizonalen Gewerkschaftsrats am 12. November 1948," FES, DGB-Archiv, 101/13/11; Böckler, "Die schrille Weckuhr. Arbeitsruhe war nur ein Auftakt," 12 November 1948, FES, DGB-Archiv 101/11/72; "Review of Developments on the German Side of the Bizonal Economic Organisation for the period 10th November to 17th November 1948," 18 November 1948, PRO, FO 1049/1433. The unions nevertheless considered the strike a modest success. Potthoff, "Aktennotiz für den Kollegen Böckler," 24 November 1948, FES, DGB-Archiv, 101/13/12. Adenauer excoriated Johannes Albers for not preventing, as a Christian trade unionist, the DGB from going ahead with the strike. Adenauer to Albers of 16 November 1948, StBKAH, NL Adenauer 8/11.

100. "Im Streitgespräch mit Erik Noelting. Kundgebung der SPD im Zirkus Althoff, Frankfurt a.M., 14 November 1948," in *Gedanken, Reden und Schriften*, pp. 109–24.

To his critics who argued that price controls might have contained the inflation and protected the integrity of the new Deutsche mark, Erhard answered that no planning regime could have conceptually grasped the disequilibrium that had taken place in the economy. For instance, when the Economic Council submitted detailed plans for Marshall plan aid in the spring of 1948, it had projected an overall growth rate for the rest of 1948 of 20 percent. But the economy had in fact grown by 50 percent since the currency reform. "Imagine what the planning authorities would have done if they had been presented with the project of planning a rationing system, in whatever form, for a market of DM 10 billion, a market, the composition of which it had as yet no idea." The kind of rationing and price controls that his critics demanded would have assumed a pitifully low growth in demand. By the time planners would have realized the extent of pent-up demand, it would have been too late. To satisfy their desire for consumer goods, individual buyers would have turned to the black market and individual firms would have returned to the practice of compensation. In short, the fundamental problem of the economic authorities, quite apart from theoretical debates about the efficacy and morality of the free market, was that the authorities had lost the ability to grasp real prices, real demand, indeed, the real economy. Only the free-price mechanism allowed the kind of transcendence that permitted an efficient economy. "We cannot escape . . . the adjustment process, the movement toward an equilibrium between the amount of goods and the amount of money in circulation, between the productive potential and the potential demand, if we want to bring about a healthy economy. That is the fundamental quintessence of my economic policy, to bring about this equilibrium."¹⁰¹

Despite his growing success, Adenauer's precise views of Erhard just after the reforms remain unclear.¹⁰² Only at the Recklinghausen meeting of the CDU of the British zone on 28 August, as the inflation had become quite evident and opposition to Erhard's policies had increased everywhere, did Adenauer associate the CDU wholeheartedly with Erhard's policies. His free market policies, of course, undermined the broad consensus that had existed in Germany since the end of the war over the legitimacy of socialism. The polarization between the SPD and the CDU had intensified. Both Adenauer and Schumacher welcomed such a polarization. They had

101. Ibid. See also Nicholls, *Freedom with Responsibility*, pp. 226–27.

102. Adenauer issued a statement of support for Erhard on 28 April as criticism grew that Social Democrats were being purged from bizonal institutions. "Review of Developments on the German Side of the Bizonal Economic Organization," 6 May 1948, PRO, FO 1049/1432. To be sure, Adenauer was not quite convinced at first that Erhard's reforms would succeed. See Schwarz, *Adenauer: Der Aufstieg*, pp. 602–4; Hentschel, *Erhard*, pp. 99–102.

both been uncomfortable with the idea of a grand coalition. But the rank and file of both parties did not want unequivocally to rule out the grand coalition governments that had governed most *Länder* since the first elections in early 1946. The SPD put pressure on the left wing of the CDU to decide whether it wanted to pursue coalition governments or whether it wanted to support Erhard and Adenauer's neoliberal agenda. Adenauer understood the vulnerabilities of the CDU that Erhard's dramatic policies exposed. As cabinet crises developed in North Rhine-Westphalia and Lower Saxony in early 1948, crises that called into question the whole idea of coalition government with the SPD, Adenauer feared that *Länder* governments might seek to change the composition of the bizonal *Länderrat* and bring about a grand coalition at the bizonal level to replace Erhard. In response, he wanted to coordinate CDU policies in the *Länder* with the overall agenda established at Frankfurt. For this to occur, he needed the help both of Erhard and the *Länder* politicians.

Adenauer first encountered difficulties in his efforts to coordinate Christian Democratic economic policies in North Rhine-Westphalia. Minister President Karl Arnold had presided over an all-party government, including Communists, since June 1947. When the Communists left the government in January 1948, it appeared possible that they might again call for a plebiscite on socialization.¹⁰³ Arnold feared what the SPD might do. He had courted the Social Democrats the earlier summer by promising to exclude big capital (*Großkapital*) from any participation in firms socialized on the Ahlen model.¹⁰⁴ Adenauer worried that Arnold might stray from the Ahlen Program in order to convince the SPD to stay in the government. Before approaching the SPD, however, Arnold decided to propose a model socialized firm himself. For this he needed the permission of the Allies. In a letter to David Lancashire, of the British political intelligence branch at Düsseldorf, he suggested transforming the firm Gebrüder Böhler, a manufacturer of upmarket steel products, into such a model socialized firm consisting of ownership by the Land North Rhine-Westphalia, the city of Düsseldorf, and the workers at the plant. "Such a practical example would defeat all the theoretical arguments which are today ever increasingly used against the socialized [*gemeinwirtschaftliche*] economic order, and further developments in this area could be positively and perhaps decisively influenced." Arnold won Lancashire over and in a subsequent meeting with

103. Rhinwest to Bercomb, RWIS/18, 12 February 1948, PRO, FO 1032/1649.

104. Arnold to Ernst Gross, parliamentary leader of the SPD in the NRW *Landtag*, 26 May 1947, annex to Arnold to Adenauer, 27 May 1947, StBKAH, NL Adenauer 8/63.

the British comptroller of steel, William Harris-Burland, explained that he “was finding it extremely difficult to carry with him the CDU party – particularly its more right-wing elements, chiefly over the socialisation issue. There was a danger that the present coalition between the CDU and the SPD would break up over the socialisation issue.” Harris-Burland, who at this time was busy with a massive reorganization of the West German steel industry, designed to prepare for socialization, nevertheless objected that Gebrüder Böhler was too peripheral to the steel industry. “There is no case for socialising individual undertakings at random merely because fortuitous circumstances had deprived their owners of control.” Cecil Weir agreed and argued like the Americans that all decisions about socialization be taken by a future central government. He looked with confidence to the future. “I believe that the coal industry will eventually, on German initiative, be brought into public ownership . . . I think it is probable that the Germans will wish to nationalise the iron and steel industry.” The military government rejected Arnold’s scheme in May.¹⁰⁵

But Arnold’s fear that the SPD might move without him proved well founded. During the summer, the SPD and the unions submitted a proposal for the socialization of the coal industry in the North Rhine-Westphalian *Landtag*. It called for the *Land* to assume all ownership responsibilities in trust for a future central government. Social Democrats wanted to entrust daily administration of the firms to decentralized self-administrative bodies with equal union and industrialist participation. The SPD thus distinguished itself from the Communists in that its proposal allowed a considerable amount of administrative decentralization. Such decentralization also offered a way to realize the “economic democracy” the unions had so long demanded. At the same time, although the *Land* assumed sole ownership, it held the industries in trust for a future central government. In this way, the SPD outmaneuvered Arnold. It had rejected the Ahlen model of mixed ownership completely.¹⁰⁶ In a meeting with Adenauer, the CDU *Landtag* delegation

105. Arnold to David Lancashire, 22 January 1948, “Transfer of Steel Works to Public Ownership. Memorandum of Conversation with Minister President Karl Arnold, and Mr. Lancashire, Political Intelligence Branch Land North Rhine/Westphalia,” 9 April 1948, Harris-Burland, “Gebr. Bohler. Comments Upon the Proposal that the Works and Business of Gebr. Bohler & Co. in Oberkassel Should be Transferred to Public Ownership,” 10 April 1948, Weir to chief of staff and DMG, 30 April 1948, PRO, FO 1032/1649; Brownjohn to Bishop, 3 May 1948, PRO, FO 1030/106.

106. “Entwurf eines Gesetzes zur Sozialisierung der Kohlenwirtschaft im Lande Nordrhein-Westfalen,” annex to Heine, “Rundschreiben Nr. 150,” 17 July 1948, “Richtlinien der Gewerkschaften für ein Gesetzes zur Sozialisierung,” annex to Werner Hansen to the Economic Policy Committee of the NRW *Landtag*, 19 June 1948, BA, NL Agartz 1365f/75; “DGB, Abschrift Leitsätze für das Gesetz zur Sozialisierung der Kohle,” 19 June 1948, annex to NRW CDU delegation to Adenauer, 29 June 1948, StBKAH, NL Adenauer, 8/29.

agreed that the SPD bill departed too much from the Ahlen Program as well as Adenauer's resolution, introduced in March 1947, which had advanced "mixed" ownership.¹⁰⁷ The SPD bill passed over the opposition of the CDU in the *Landtag*, but the British military government vetoed it because the decision on socialization had been reserved to a central German government.¹⁰⁸ The debate over socialization in North Rhine-Westphalia had proceeded to Adenauer's satisfaction. The relationship between Arnold and the SPD had grown strained.

Another cabinet crisis, this time in Saxony during the summer of 1948, more directly challenged the Economic Council. Minister President Heinrich Kopf and the influential politician Gustav Dahrendorf, both of the SPD, told Christopher Steel, of the British political division, of their decision to form a grand coalition with the CDU in order to exclude the Communists and the extreme right. "This is satisfactory but more significant perhaps was his [i.e., Dahrendorf's] outspoken hope that such an example of co-operation between the CDU and the SPD, at this time may be what is required to produce a similar result at Frankfurt."¹⁰⁹ This was exactly what Adenauer hoped to avoid. The ensuing cabinet crisis in Lower Saxony, stoked by Adenauer, led to the spectacular resignation from the CDU of the leading Christian Socialist in that *Land*, Maria Meyer-Sevenich. She had openly advocated a grand coalition in Lower Saxony. She, too, wanted to put pressure on the CDU in the Economic Council to dump Erhard. Meyer-Sevenich objected to what she considered the transformation of an originally Christian Socialist non-Marxist organization into a brazen capitalistic party. She did not welcome the ascendancy of free-market ideology in the CDU and declared that Lorenz von Stein and Marx had proven "that the free market, as the constitutive element of the capitalistic system, is the source of its own inevitable crises."¹¹⁰ Adenauer coyly replied that the SPD's insistence on occupying the economics directorship during the summer of 1947 had stood in the way of a grand coalition and that its recent declaration

107. Adenauer, "Aktennotiz," 26 May 1948; Arnold, "Sozialisierung des Kohlenbergbaues," 2 August 1948, StBKAH, NL Adenauer 8/29.

108. Robertson believed that the SPD knew the bill had to be vetoed. "The SPD have long been sensitive to criticism both from the Communist Party and their own followers that they lacked a positive programme, and their object in pushing this Bill through the *Landtag* was to put their views regarding socialisation of industry definitely on record. They know quite well that the Bill is ultra vires Ordinance 57 and can, therefore, not be given the assent of Military Government." Robertson to Foreign Office, No. 1611, 12 August 1948, PRO, FO 1030/106.

109. CCG BE to Foreign Office, no. 390, 16 March 1948, PRO, FO 1025/39.

110. Maria Meyer-Sevenich to the CDU Executive of Hannover, n.d., ACDP, NL Hermes, I-090-017/4 CI/13.

in Kassel condemning Erhard's policies confirmed its attitude.¹¹¹ Adenauer would not allow himself to be drawn into lengthy theoretical debates. Instead, he positioned himself as the steadfast defender of the Ahlen Program against such Christian Socialists as Meyer-Sevenich: "I defend the Ahlen program with all seriousness everywhere. I am convinced, that our fraction in Frankfurt does so too." He chastised Meyer-Sevenich for wishing to transform the governing coalition in Frankfurt without going through the proper channels. "If a member of the party believes that he or she cannot conform to the will of the majority, that member should either resign or keep quiet [*sich still verhalten*]." ¹¹² Though a grand coalition government was established in Lower Saxony, the confrontation with Meyer-Sevenich and other left-leaning members of the CDU in that *Land* allowed Adenauer to keep it at arm's length from the Economic Council.

When Adenauer invited Erhard to speak to the CDU at Recklinghausen on 28 August 1948, the proceedings reflected the strained situation in which the Christian Democrats now found themselves. The CDU in the Economic Council had thrown its support unquestionably behind the director. With the CDU's help, Erhard survived the no-confidence vote of 8 August. Adenauer wished to extend the alliance between Erhard and the CDU to the bizon as a whole. But many *Länder*-level Christian Democrats still faced the Economic Council with some trepidation. Adenauer thus tried to keep the meeting from discussing the minutiae of economic policy. Instead, he wanted them, in view of the upcoming parliamentary council, which would soon draft the West German "Basic Law," to focus "on the basic philosophical basis of our party and our policies."¹¹³ Erhard thanked the CDU for supporting his economic policies and encouraged Christian Democrats to share his optimism. "With the transformation from a command economy to a market economy we have done more than usher in a few simple economic measures; we have in fact set our entire economic and social life on a new footing and given ourselves a new beginning."¹¹⁴ With the Recklinghausen meeting, Erhard could feel confident of Adenauer's support.

111. Adenauer to Myer-Sevenich, 19 April 1948, StBKAH, NL Adenauer 7/23, *Adenauer Briefe 1947–1949*, pp. 212–13.

112. Adenauer to Meyer-Sevenich, 2 May 1948, StBKAH, NL Adenauer 7/23, *Adenauer Briefe 1947–1949*, pp. 224–5.

113. Adenauer, "'Eine Hoffnung für Europa'. Eröffnungsrede zum 2. Parteitag der CDU der Britischen Zone in Recklinghausen," Adenauer, *Reden 1917–1967. Eine Auswahl*, Hans-Peter Schwarz, ed. (Stuttgart: Deutsche Verlags anstalt 1975), p. 123.

114. Erhard, "Marktwirtschaft im Streit der Meinungen. Rede vor dem 2. Parteikongress der CDU der britischen Zone, Recklinghausen, 28. August 1948," in *Gedanken, Reden und Schriften*, p. 77.

In the wake of the meeting, however, Erhard faced his most embarrassing challenge yet: an open conflict with the bizonal and Christian Democratic director of agriculture, Hans Schlange-Schöningen. As director of the economy, Erhard had no power to regulate agricultural prices. In any event, everyone agreed that many foods would have to remain under price controls for social reasons. Bread, most meats, and some dairy products remained fully regulated. Yet before the reforms, Schlange had appeared to support Erhard's broad vision of price deregulation. He even planned and carried through the decontrol of most fruits and vegetables. As inflation set in, however, the discrepancy between the prices of consumer goods and agricultural goods increased. Many farmers' groups, such as one led by former Berlin CDU leader Andreas Hermes, complained that they had to pay much more for basic agricultural equipment than they could afford because they had to sell at socially mandated prices. In order to circumvent controls, many foodstuffs, such as beef and cereals, had made it onto the black market by September. Demands among agricultural groups for the deregulation of food prices encouraged hoarding.¹¹⁵ The agriculture administration at Frankfurt (*Verwaltung für Ernährung, Landwirtschaft und Försten*, or *VELF*), under Schlange, responded by reinforcing existing controls, in effect, the opposite of what Erhard was doing in the consumer goods sector. At first, the controls managed to stamp out the black market, but by November, the circumvention of controls resumed along with cries for Schlange's resignation.¹¹⁶

Schlange's efforts to strengthen the remaining price controls on agricultural products produced a crisis within the CDU-CSU coalition at Frankfurt.¹¹⁷ The *Land* government of Bavaria, dominated by the CSU, was embroiled in a fundamental quarrel with the bizonal agricultural administration. The mighty agrarian constituency of the CSU demanded the abolition of controls on agricultural products. Instead of attacking the Christian Democrat Schlange directly, members of the CSU focused their criticism on Ministerial Director Hans Podeyn, one of the few remaining Social Democrats in the agricultural administration. Podeyn, they suspected, had been the driving force behind the strengthening of controls, but Schlange did not want to dismiss him. Rather, to calm the storm, Schlange decreed a

115. VfW, "Die Wirtschaft nach der Währungsreform," 20 September 1948, BA, Z 013/1038.

116. VfW, "Die wirtschaftliche Lage im Oktober 1948," 10 November 1948, "Die wirtschaftliche Lage im November 1948," 9 December 1948, BA, Z 013/1040.

117. "Review of Developments on the German Side of the Bizonal Economic Organisation," 13 October 1948, PRO, FO 1049/1433. The Bavarian CSU fought a constant rearguard action against the resurgent Bavarian People's Party, which kept close watch over Frankfurt's attempt to assert bizonal controls over Bavaria.

price rise in cereals and pork. For his part, Erhard tried to assure the CDU–CSU delegation, on 26 September, that he expected an overall decline in the price level that would soon reduce the discrepancy between agricultural and consumer prices. Quickly, however, criticism within the CDU–CSU began to point directly at Schlange. In a stormy meeting of the CDU–CSU delegation to the Economic Council the following month, CSU leaders, Joseph Müller, Max Zwicknagl, and Otto Seidel, argued that Pödeyn's presence in the agricultural administration, tolerated by Schlange, made a consistent policy impossible. As Müller argued, “the constant ‘little war’ between Bavaria and Schlange is intolerable. Bavaria cannot always be depicted as the sinner, as the Land which does not fulfill its duties. When a director cannot work together with the *Länder*, so must he draw the appropriate consequences.”¹¹⁸ The CDU–CSU delegation reluctantly agreed to consider unseating Schlange and replacing him with someone more amenable to Erhardian free-market policies as understood by the CSU leaders from Bavaria.

But Schlange would not go quietly. He gave a defiant speech in the Economic Council directed at the CSU. He also intended to present a very public defense of price controls. As he put it in a letter to Adenauer, “I myself stand by my agricultural policies and I would not know what to put in their place: first the consumers complain, now the producers – that must be my fate, if something reasonable is to be achieved for the community as a whole.”¹¹⁹ The CDU did not want an open conflict that might call into question its resolute support of Erhard's economic policy. At the same time, it understood Schlange's dilemma. The CSU and the agricultural associations demanded the general freedom from state regulations of all agricultural products. But even Erhard insisted that where a shortage of socially essential goods existed, controls were appropriate and, indeed, necessary. Schlange could not free most products from controls without running the risk that food as well as consumer goods would get caught up in an inflationary spiral. Although many regretted that Schlange had gotten into a public disagreement with the CSU and offended Bavarian sensibilities, no successor could change his fundamental policies. Hence, Friedrich Holzapfel, delegation leader of the CDU in the council, postponed the decision on a successor to Schlange, and then finally, in January 1949, argued successfully that the whole matter be dropped. In view of the work of the parliamentary

118. “26 September 1948, 13.40–20.30 Uhr: Sitzungsprotokoll,” “18. Oktober 1948 . . . : Teilprotokoll der Fraktionsitzung,” Salzmann, *Die CDU/CSU im Frankfurter Wirtschaftsrat*, pp. 267–8, 280–5. “Opposition gegen die Zwangswirtschaft,” *Der Tagesspiegel*, 15 October 1948.

119. Schlange–Schöninghen to Adenauer, 29 October 1948, StBKAH, NL Adenauer 8/61.

council and the soon to be established West German government, replacing Schlange now seemed like a waste of time.¹²⁰

Despite Erhard's vigorous ideological defense of the free market through the fall of 1948, he did worry about the inflation and he did not trust solely in market mechanisms to bring prices down. He was willing to help the process along, especially when the inflationary trend did not seem likely to dissipate soon. Under his guidance, the VfW (economics administration) issued a "price guide" (*Preispiegel*) to retailers in mid-September that suggested "reasonable" prices for a host of consumer goods. The VfW sought thereby to "deliver a correct pricing picture which should, on the one hand, keep people from constantly comparing present prices with those of 1938, and, on the other hand, serve as an obstacle to further unjustified price increases."¹²¹ In addition, the VfW tried to influence the price of textiles by introducing the "*Jedermann*" program for inexpensive clothes and shoes. The economics administration distributed subsidized cotton and hides to manufacturers, who then passed the finished shoes and clothes on to consumers at officially mandated prices. As an internal memo put it, "The textile consumer goods program should be, in the end, utilized to speed along the expected, but not yet arrived, but absolutely necessary decline in prices, upon which the present economic policy depends."¹²² The price guide and the *Jedermann* program represented an example of Erhard's willingness to intervene in the economy. He justified these measures by categorizing them as market conforming (*Marktkonform*). But he was also clearly eager to end such programs. In January, price declines set in. Although bizonal authorities had raised coal prices in early 1949 and wages had begun to move upward since their removal from controls in November, a noticeable break in prices for shoes in Bavaria during the second half of November and the development of a general discrimination in the buying habits of consumers after the binge spending of the second half of 1948 ushered in what appeared the beginning of a deflationary trend.¹²³

120. "2. Dezember 1948, 9.50–13.00 Uhr: Sitzungsprotokoll," "3. Dezember 1948, 9.30 Uhr: Sitzungsprotokoll," Salzmann, *Die CDU/CSU im Frankfurter Wirtschaftsrat*, pp. 308–13; "Review of Developments on the German Side of the Bizonal Economic Organisation," 10 November 1948, PRO, FO 1049/1433.

121. "Vermerk, Betrifft: Verbilligungsaktion," 2 September 1948, Düselmann, "Vermerk: Betr.: Preispiegel für Textilien und Schuhen u. Textile Gebrauchswarenprogramm," 11 September 1948, BA, B 102/12639.

122. Düselmann, "Textiles Gebrauchswarenprogramm," 20 September 1948, Huppert, "Betr: Standard-Textilprogramm," 8 October 1948, BA, B 102/12639. Erhard had just visited the United Kingdom and told the British that he had modeled the *Jedermann* program on the British "Utility" program. "Review of Developments on the German Side of the Bizonal Economic Organisation," 8 December 1948, PRO, FO 1049/1434.

123. VfW, "Die wirtschaftliche Lage im Februar 1949," 19 March 1949, VfW, "Die wirtschaftliche Lage im April 1949," 21 May 1949, BA, Z 013/1047; Bavarian Economics Ministry Price Office

Erhard seemed vindicated by the decline in prices in early 1949, but his reputation had not emerged unscathed. Adenauer, for one, already questioned Erhard's inherent ability to understand the relationship between the economy and politics. He had committed the CDU to the social market economy at the Recklinghausen meeting in August. But he feared that Erhard had not taken the inflation seriously enough. With the first elections to the new Bundestag to take place soon in 1949, he did not want the CDU to have to defend what appeared to be insensitive policies. As he told Erhard in August, "In the social democratic campaign against Frankfurt [i.e. the economic council], the price increases are always exploited."¹²⁴ Preparing for the Königswinter meeting of February 1949, in which he hoped to cement the CDU's allegiance to the social market economy, Adenauer expressed his frustration to Holzapfel that "the question of *prices and wages* concerns me greatly . . . I may say openly to you, that although Mr. Erhard certainly has many abilities, he has a tendency, when full of the ideas which he has, to move rather quickly to a new piece of work." He wanted to focus Erhard's mind on ushering in price declines. Of course, Adenauer felt genuine enthusiasm for Erhard as well. He could see that the director of the economy had embarked on a complex of policies that united conservative, antisocialist circles with a positive message. "The business community [*die Wirtschaft*] knows that socialization, as the SPD recommends, means the marginalization of initiative . . . [T]he business community is therefore interested in . . . maintaining the present policies of the social market economy and leading these policies to success."¹²⁵ At the same time, even at this early date, Adenauer could sense some of the political difficulties his future economic minister would fail, in his opinion, to understand in the years to come.

Yet, when the CDU met in Königswinter on 25 February, Erhard enjoyed his moment of triumph. The inflationary spiral had abated. Indeed, the dramatic break in prices produced fears of deflation. Growing unemployment and the evident capital shortage dominated debates about economic policy. But the dramatic increases in productivity achieved across many sectors of the economy since the reforms gave Erhard and the CDU additional

to VFW, "Betr.: Monatsbericht der Preisbildungsstelle für Dezember 1948, zugleich Rückblick auf das Jahr 1948," 7 Januar 1949, BA, Z 8/1857. See also Borchhardt and Buchheim, "Die Wirkung der Marshallplan-Hilfe . . .," pp. 199–249; Ludger Lindlar, *Das Mißverstandene Wirtschaftswunder: Westdeutschland und die westeuropäische Nachkriegsprosperität* (Tübingen: Mohr Srebeck 1997), pp. 175–81.

124. Adenauer to Erhard, 9 August 1948, LES, NL Erhard I.1.1.

125. Adenauer to Holzapfel, 12 February 1949, BA, NL Holzapfel 264, emphasis in original; "Entwurf einer Erklärung zur Wirtschaftspolitik," *Adenauer Briefe 1947–1949*, pp. 406–7.

confidence. Indeed, Erhard could point to the fact that industries freed from controls had performed better than those still regulated.¹²⁶ In Königswinter, he confidently told his audience that “if we must ensure that the CDU faces the first elections to the Bundestag with a clear economic philosophy . . . then we must refer to the events which have taken place since the currency reform, because since then we have followed a free-market policy which, in my opinion, must alone be the fundamental economic program of the CDU.” The economy had evidently adjusted to world prices. After the adjustment had taken place, an equilibrium between prices and wages prevented further inflation. Only the social market economy enabled the economy to make that fundamental adjustment. At the Königswinter meeting, the CDU worked to establish theoretically a fundamental relationship between a free economy and a free society. “A healthy economy, based on the free decisions of people cannot renounce the free-price mechanism.” Echoing Wilhelm Röpke, “he said that” planning led inevitably to increasing restrictions on personal freedom. “The effect of force [*Zwanges*] is to bring about a price commissar, from the price commissar comes a dictatorship and a tyranny and to every renunciation of freedom in the entire economy.”¹²⁷ The CDU received Erhard with enthusiasm at the Königswinter meeting. With a new policy in hand, with a theoretically unambiguous rejection of social democracy that could legitimize the free market with a democracy, the Christian Democrats set out to revise Ahlen.

With the Düsseldorf Program, adopted on 15 July 1949 for the first Bundestag campaign, the CDU formally adopted and defined Erhard’s social market economy. While drawing a clear line of demarcation with the unpopular and, in part, caricatured *Zwangswirtschaft* of 1945 to 1948, Christian Democrats also sought to combat criticism that they wished to restore a still discredited capitalism. Rejecting laissez-faire capitalism by celebrating competition, they availed themselves of the arguments of “ordoliberals,” such as Walter Eucken or Franz Böhm, to accord the state a fundamental role in maintaining a competitive order. Nevertheless, the state had the duty, through fostering free competition, managing central bank policies, and determining tax and foreign trade policy, to provide a framework within which no powerful interest could limit the market for its own benefit. The free market thus could bring benefits to everyone: “The social market economy

126. His opponents shot back that heavy industries still subject to controls suffered from an investment crisis induced by Erhard and the Bank deutscher Länder. Weisser to Weitz, 11 August 1949, annex to Weisser to Schumacher, 14 September 1949, FES, Bestand PV/18.

127. Erhard, “Grundlagen der deutschen Wirtschaftspolitik. Referat vor dem Zonenausschuß der CDU der britischen Zone, Königswinter, 25. Februar 1949,” *Gedanken, Reden und Schriften*, pp. 129–43. On Königswinter, see also Nicholls, *Freedom with Responsibility*, pp. 235–9.

is a socially oriented economic constitution of the commercial economy in which the productivity of all free and industrious people are brought into an order, which brings the highest measure of economic use and social justice for everyone.”¹²⁸ The CDU would fight the first Bundestag campaign behind the mantra of the social market economy.

CONCLUSION

For many years, historians criticized what had become a popular myth, which held that the adoption of the social market economy itself had ushered in the “economic miracle.” Werner Abelshauser, in his seminal work *Wirtschaft in Westdeutschland*, argued that West German economic growth represented primarily a catching-up period in which Germany rose from the destruction of war to resume its normal long-term rate of growth. To Abelshauser, Erhard and his economic policies had little to do with this process.¹²⁹ Many historians have since taken a more positive view of the social market economy’s role in initiating West German economic recovery. Nevertheless, most of these historians have emphasized the positive preconditions with which Erhard had to work. Some of these preconditions, such as a quiescent labor market and a tax regime favorable to supply-side growth, have long been emphasized by economists. But the favorable international framework within which West Germany operated by 1948, that is, the free-trading regime sponsored by the Americans and undergirded with Marshall Plan aid, were also conducive to West German recovery. While pointing to such favorable conditions, historians have credited Erhard with taking advantage of them.¹³⁰ In addition to assessing Erhard’s willingness to capitalize effectively on West Germany’s inherent trading advantages in a free-trading international system, it is nevertheless necessary to evaluate the internal factors that led to the social market economy’s success between 1948 and 1949. Two important factors stand out.

First, neoliberal economists supportive of Erhard had a point when they argued that the heart of western Germany’s problem in 1948 lay in the

128. “Düsseldorfer Leitsätze vom 15. Juli 1949,” Flechtheim, *Dokumente*, vol. 2, pp. 58–76.

129. See, in general, Abelshauser, *Wirtschaft in Westdeutschland*.

130. An important exception to this literature, of course, is A. J. Nicholls book, *Freedom with Responsibility*. Nicholls examines the theoretical background, as well as the application of the social market economy, and develops a very favorable view of Erhard. On the tax regime, see Reuss, *Fiscal Policy*, and Roskamp, *Capital Formation*. On the labor market, see Kindleberger, *Europe’s Postwar Growth*; and Roseman, *Recasting the Ruhr*. On the role of international trade, see Buchheim, *Die Wiedereingliederung*; Wallich, *Mainsprings*; Hentschel, *Erhard*, pp. 120–40, 157–77, 213–23; Milward, *Reconstruction*; and Lindlar, *Das mißverständene Wirtschaftswunder*.

inability of official prices to facilitate the effective distribution of goods. To be sure, the western German economy suffered from a number of fundamental problems during the early years of the occupation. One of the greatest problems was the generally low level of production. In 1945, Erhard's policies would probably not have worked. By 1948, however, the Allies and German officials had managed to rebuild the rudiments of an economy and, to a certain extent, increase levels of production by focusing resources on a small core of heavy industries. But by 1948 it had become increasingly clear that the lack of a free-price mechanism inhibited distribution more than a destroyed infrastructure. The growing black market represented the best evidence of such a development. Erhard's policy of deregulating prices for nonessential goods, therefore, not only helped induce a psychological bond with the new currency, the Deutsche mark, but it also served the essential purpose of allowing money and prices to guide the distribution of goods in a growing economy.

With this in mind, it is also important to consider what real alternatives were open to West Germans at this pivotal moment during the summer of 1948. Though all moderate politicians, including the Social Democrats, favored the gradual abolition of controls, none but Erhard and his supporters believed it wise to do so to coincide with the currency reform in June 1948. Opponents argued that the economy could not produce enough goods to soak up twelve years of pent-up demand. In the short run, of course, the critics appeared right. But by early 1949 the productivity of the West German economy caught up with the money supply. In any case, it is unclear how a currency reform meant to defeat inflation would have fared had it not been coupled with a dismantling of the price controls that most considered responsible for the inflation in the first place. Had Social Democrats retained control of the bizonal economics directorship through 1947 and 1948, they would presumably have wished to end the Nazi-era controls as well. If they had then introduced the economic democracy they had long advocated, however, with its decentralized economy nevertheless managed in the equal interests of management and labor, it is difficult to see how the dramatic productivity increases experienced from 1949 would have been attained.

Having said this, the success of Erhard's social market economy depended not just on economics, but on politics as well. Despite an often rocky relationship between Adenauer and Erhard through the years, the unusual circumstances of 1948 in western Germany brought them together. The CDU associated itself fully with Erhard's social market economy. Adenauer made this clear during the opening speech of the first Bundestag campaign in

Heidelberg on 21 July.¹³¹ During the early 1950s, when Adenauer's policies of linking West Germany to the West at the alleged expense of reunification produced controversy, the government relied increasingly on the success of its economic policies to win voter support. Adenauer could not afford to rid himself of Erhard. At the same time, Erhard felt compelled to throw in his lot with the CDU. Although his political views had more in common with the Free Democrats, he explained to Franz Blücher in 1949 that he alone could ensure the survival of the free market in Germany. His presence within the CDU, the largest political party in the western zones, would keep the Christian Democrats on the free-market path.¹³²

The introduction of the social market economy on 20 June 1948 did not, however, mean that the set of policies Erhard envisioned had been fully introduced. Erhard and his supporters wished to see institutionalized in West Germany a competitive economic order that would deliver economic prosperity, stable international economic relations, and a competitive system compatible with social justice. This would require, they believed, a fundamental reordering of the German economic "constitution." All Erhard had thus far accomplished was to decontrol most consumer goods prices and launch a philosophical attack on the mid-twentieth century emerging consensus on the legitimacy and efficacy of economic planning. But the western German economy still faced a great many problems that appeared to lend themselves to economic planning. For example, Erhard could not deny, and had no wish to deny, that West Germany suffered a capital shortage caused by an Allied-imposed tax policy and the absence from Germany of a functioning capital market. Where could the needed money come from but the state or, at least, sources the distribution of which would be determined by the state? Similarly, Erhard wanted to introduce into Germany a competition policy that eliminated influential cartels from West German economic life. The real power of former cartels, as well as the cultural legitimacy of "fair" over a priori competition, would prove great obstacles to that goal. In the end, Erhard and his colleagues, especially Adenauer, wanted to invest more meaning in the adjective *social* in the phrase, *social market economy*. This endeavor would depend, according to Erhard, on the state's ability to manage a prosperous economy. The consolidation of the social market economy was the work of the 1950s.

131. Adenauer, "Wahlrede bei einer CDU/CSU-Kundgebung im Heidelberger Schloß," 21 July 1949, *Reden, 1917–1967*, pp. 137–52.

132. Erhard to Blücher, 14 July 1949, LES, NL Erhard, I/3/27.

Free Markets, Investment, and the Ruhr

The Korean War Crisis

When Konrad Adenauer formed West Germany's first government in September 1949, the Christian Democrats had become the principal supporters of the social market economy. During the election campaign, the CDU contrasted Erhard's social market policies with the SPD's alleged wish to reintroduce the hated *Zwangswirtschaft* of 1936–48. The general decline in prices and the dramatic increases in productivity since the spring appeared to signal West Germany's economic recovery. Since he introduced the free-price mechanism in June 1948, Erhard had evidently confounded his critics who had argued that shortages of raw materials, private sources of capital, and consumer goods would lead to a dangerous inflationary spiral endangering the new currency, the Deutsche Mark. Instead, prices declined and productivity, especially in consumer and manufactured goods, skyrocketed. Adenauer responded by associating himself fully with Erhard's social market philosophy. Yet, although Erhard enjoyed his greatest prestige in late 1949, stormy weather lay ahead. As he had predicted, the elimination of price controls made consumer goods widely available for the first time in many years. But already in late 1949, shortages of raw materials, especially coal, and the lack of a functioning private capital market revealed bottlenecks in the economy surmountable only by the investments of which his critics had warned. In the ensuing three years, where to find adequate sources of investment became the central question of economic policy.

Erhard never denied the problem that investment posed for his social market economy. He and his backers freely admitted the obstacles in the way to establishing a free private capital market.¹ They agreed on the necessity of

1. Although existing banks continued to lend money, the banking system as a whole was going through deconcentration. See Theo Horstmann, *Die Alliierten und die deutschen Großbanken. Bankenpolitik nach dem Zweiten Weltkrieg in Westdeutschland* (Bonn: Bouvier 1991); Carl-Ludwig Holtfrerich, "Die Deutsche Bank vom Zweiten Weltkrieg über die Besatzungsherrschaft zur Rekonstruktion

maintaining price controls on sectors fundamentally important to the rest of the economy, such as coal and steel, public transport, and housing. Price controls, however, made the coal industry unprofitable and hence an unlikely recipient of private investment. Moreover, the tax system introduced by the Allies in 1946 and in place until 1952 favored self-financing over savings.² Firms freed from price controls enjoyed handsome profits during the brief inflationary spiral of 1948 and tended to plow profits back into their own plants to increase capacity instead of investing in savings that might have flowed to price-controlled industries suffering from underinvestment. Erhard acknowledged this problem and as a temporary solution wanted to guide the bulk of Marshall Plan counterpart funds to heavy industry, housing, and the transportation infrastructure as a substitute for private capital. But he hoped in the long run to nurture a private capital market that could attract both domestic and foreign savings. Hence his insistence, contrary to the SPD's desire for institutionalized state investment, that government investment in problem sectors of the economy be "market conforming" (*marktkonform*). The goal of all such investment was to encourage a free capital market to function and to grow.

But as concern over investments mounted, already in late 1949, Erhard began to face criticism from all sides. The reason was unemployment. The abolition of price and wage controls had indeed raised the number of newly employed workers, but the transitions attendant upon the reforms had also increased the overall level of unemployment. The influx of ethnic German refugees from areas of Poland east of the Oder-Neisse line, the Sudetenland, and other areas of Eastern Europe exacerbated the unemployment problem. In early 1950, unemployment reached the alarming level of 1.5 million, or 8 percent of the workforce. Although most of the unemployed congregated in the more agricultural *Länder* of Schleswig-Holstein, Lower Saxony, and Bavaria, and, as Erhard argued, represented a structural problem that did not admit of short-term solutions, pressure mounted both from within Germany and from without to take aggressive action. Soon unemployment and the problem of investment became linked in the public mind. As unemployment became an economic policy problem, Erhard found himself increasingly isolated politically. With the formation of the first West German government, he was surrounded by competent cabinet colleagues and a

1945–1957," Lothar Gall, et al., *Die Deutsche Bank, 1870–1995* (Munich: C.H. Beck 1995), pp. 409–578. The Allies also left in place a ban on private foreign investment. See Buchheim, *Wiederingliederung*.

2. On the relationship between taxes and savings in early West Germany, see Reuss, *Fiscal Policy for Growth Without Inflation*, pp. 36–49, 71–100, 236–44, and Roskamp, *Capital Formation*, pp. 110–34.

commanding chancellor who did not accept him without question as *the* keen economic policy maker or even as a competent administrator. His arrogant conviction that he alone had saved West Germany from the economic abyss soon aggravated difficult personal relations within the government. By mid-1950, his prestige had declined dramatically.

What became known subsequently as the Korean War crisis began as a West German balance of payments problem that threatened the fundamental goals of the Marshall Plan. The crisis nearly discredited Erhard. With the support of the Americans, he had convinced the cabinet to begin the liberalization of foreign trade in late 1949. His encouragement of the consumer goods sector, which relied heavily on raw materials from abroad, soon caused unsettling trade deficits. West Germany's deficits and a consumer-led boom gave the country a reputation for spending excessive amounts of money on luxury consumer goods. Marshall Plan authorities, whether in Washington or in the Organization for European Economic Cooperation (OEEC) in Paris, found this offensive. The trade deficit increased sharply at the beginning of the Korean War, owing to panic buying of industrial raw materials on international markets. The West German payments crisis, in turn, threatened to undermine the recently established European Payments Union, the inter-European clearing system created as part of the Marshall Plan and meant to facilitate inter-European trade. Under pressure from the OEEC, the Bank deutscher Länder, and the Allied High Commission, the West German government retreated from all-out trade liberalization. Trade deficits nevertheless increased again in late 1950 and refocused attention on West Germany's exuberant levels of consumption, high levels of unemployment, and low levels of investment in heavy industry. Erhard did not appear able to cope with the crisis. His apparent ineffectiveness, combined with his tendency to leak disparaging information about his cabinet colleagues to the press, soon tested Adenauer's patience. When U.S. High Commissioner John McCloy intervened in March 1951, with a letter to Adenauer demanding, in view of the Korean War, steps to increase the production of West Germany's heavy industry even at the possible expense of the free market, Erhard had already lost the confidence of the cabinet.

Werner Abelshausen, a prominent economic historian, has largely shaped the historiographical debate surrounding this investment crisis by arguing that the solution ultimately adopted for the crisis represented a crucial retreat from the social market economy. A fundamental principle of social market thinking had been that the state maintain a competitive order that would decrease the influence traditionally exercised by Germany's powerful industrial associations. But the leading industrial associations (*Spitzenverbände*) eased

the investment crisis by arranging a “contribution” of DM 1 billion from one branch of industry to another. This formed the basis of the investment aid law of January 1952. The major industrialist associations did not limit themselves to addressing the disparities in capital investment. Otto Friedrich, as official raw materials advisor to the government, appointed in March 1951, convened advisory bodies staffed by the business associations and reminiscent of wartime distribution boards. Abelshausen argued that such an assumption of executive functions by major industrialist associations harkened back to earlier forms of “corporatist” industrial self-administration (*Selbstverwaltung*), wherein quasi-official public bodies dominated by industrialists directed the course of the German economy. He has thus viewed the investment law of 1952 as a fundamental contradiction of Erhard’s espousal of free markets. “The corporatist parameters of the German economy, established during the empire, consolidated during the Weimar Republic, given an authoritarian form during the Nazi Regime, began to establish itself once again.”³

Abelshausen also made the point that the Americans themselves compelled the Germans to, in effect, abandon the social market economy and revive corporatist forms of organization to ease the raw materials and investment crises. Fearing the inability of the Germans to contribute economically to the Korean War effort, McCloy wrote Adenauer in March 1951 to demand wide-ranging changes in West German economic policy, such as the reintroduction of state control over the distribution of important raw material imports and the initiation of a state-directed investment program. Until the Korean War, the Americans had been Erhard’s most consistent supporters. The social market economy shared an obvious ideological affinity to the American free market. The West Germans had been extremely cooperative in reducing trade restrictions toward other western European countries and had thereby helped facilitate one of the fundamental goals of the Marshall Plan. Yet, in 1951, none other than the Americans urged the West Germans to reconsider “dogmatic” laissez faire economic policies. As Abelshausen argued, “Even here the USA heavily criticized neo-liberal economic policy, because the Americans believed a more practical approach to economic

3. Werner Abelshausen, “Ansätze ‘Korporative Marktwirtschaft’ in der Koreakrise der frühen fünfziger Jahre: Ein Briefwechsel zwischen dem Hohen Kommissar John McCloy und Bundeskanzler Konrad Adenauer,” *Vierteljahrsheft für Zeitgeschichte* 30, no. 4 (October 1982): p. 734. See also Abelshausen, “Korea, die Ruhr und Erhards Marktwirtschaft: Die Energiekrise von 1950/51,” *Rheinische Vierteljahrsblätter* 45, no. 3 (1981): pp. 287–316. Heiner Adamsen goes beyond Abelshausen’s analysis to argue that “the role of the State in the internal economic planning of the associations [*verbandsternen Wirtschaftlenkung*] within the West German economic system was larger than hitherto assumed.” See *Investitionshilfe fuer die Ruhr: Wiederaufbau, Verbaende und Soziale Marktwirtschaft 1948–1952* (Wuppertal: Hammer 1981), p. 13. In his influential study of John J. McCloy, Schwartz largely agreed with Abelshausen’s analysis, see *America’s Germany*, p. 208.

reconstruction could achieve greater successes than what was, in their eyes, the dogmatic initiatives [*Ansätze*] from . . . Bonn.”⁴

Abelshausen, of course, was not the first to remark upon potential implications the 1952 investment aid law possessed for the social market economy. Even Erhard considered the investment crisis a challenge to West Germany’s economic regime.⁵ Much of the historiographic discussion on this topic has been driven by interest in the gap between the reality of the investment aid law and the free-market principles championed by Erhard and his supporters. Such an approach, however, neglects the highly complicated context within which Erhard, his cabinet colleagues, the Social Democratic opposition, the business world, and even the Allies operated. What made Erhard so politically distinctive during the late 1940s and the early 1950s was his confident assertion that he pursued a consistent and integrated economic policy. In reality, however, economic policy in Germany was not under anybody’s exclusive control. Even after the promulgation of the occupation statute of 1949, the Allies retained control over most of heavy industry and reserved the right to intervene in everything from foreign trade to competition policy. The Americans sought to exert influence over economic policies through Marshall Plan country missions throughout Europe. Within the West German federal government, Erhard competed for control over West German economic policy with the Finance Ministry, the Agricultural Ministry, the Transportation Ministry, and not least, the newly created Marshall Plan Ministry. The extent of Erhard’s institutional weaknesses, as well as his potential political isolation, became evident over time. Once the investment crisis deepened and expanded into the areas of unemployment and trade, he began to lose his exclusive ability to shape the contours of the social market economy.

Having said this, the extent to which Erhard and his supporters resisted a more dramatic reconfiguration of economic policy during the investment crisis is impressive. This is especially true with regard to American attempts to use Marshall Plan aid to pressure the Germans to abandon “dogmatic” or *laissez-faire* economics. American criticism did not begin with the economic difficulties linked to the Korean War; rather, the Americans had long complained of underinvestment in the German economy and excessive consumption (which they linked to a maldistribution of income.) The

4. Abelshausen, “Ansätze ‘Korporative Marktwirtschaft’,” p. 725.

5. Erhard later tried to discuss the Investment Aid Law in the most positive light possible: “This investment aid law has subsequently been frequently disparaged. But it represented a noticeable attempt, to master the *emerging difficulties* in the way of *industry’s self-help* and with, in the realm of economy history, *eventually receive a more benign judgement.*” *Wohlstand für Alle* (Dusseldorf: Econ Verlag 1957), p. 56. Emphasis in original.

Americans found unusual allies in the SPD. But the scale and scope of the investment aid program of 1952 fell far short of the original American (and SPD) demands. They had wished at least DM 4.5 billion to be used to fund a wide array of projects both to ease bottlenecks in heavy industry and reduce unemployment. The actual program, however, amounted to about DM 1.2 billion (a sum Erhard had spoken of as necessary ever since 1948) and limited almost exclusively to heavy industry.⁶ In addition, Erhard became an exponent of curbing consumption through a tax of some kind, not because of American pressure, but because of his judgment of the price cycle. Finally, the “voluntary contribution” on the part of industry precluded the emergence of institutionalized state-led investment. As far as the raw material boards overseen by Otto Friedrich are concerned, these changed little in substance in the distribution of raw materials, most of which had continued under controls ever since 1948 anyway.⁷

The more serious question, however, is whether the investment aid law reintroduced “corporatism” into the West German economy and thus represented a fundamental retreat from social market theory. When characterizing the arrangements of the early 1950s as corporatist, Abelshausen establishes a continuity in German history transcending 1945. But as A. J. Nicholls has suggested, the term *corporatism* must be used with caution. Depending on the context, corporatism may simply refer to the process whereby modern capitalist governments seek the views and, at times, the participation of corporate bodies such as business associations or trade unions, in the formulation of both domestic or foreign policies.⁸ In the European context, however, “corporatism” also represents a fascist rejection of the market for “corporate” relationships that, at the same time, substituted “corporate” identities for liberal individualism. If one wishes to establish such a continuity, therefore, one should also take into account the differences in purpose between National Socialist corporatism and the alleged corporatist arrangements of the Federal Republic. As Nicholls argued, “In Germany

6. Adamsen arrives at a figure of DM 5.7 billion by adding to the directly outlaid monies of DM 1.2 billion tax allowances extended to heavy industry. *Investitionshilfe*, p. 24. See also Hentschel's balanced views in *Erhard*, p. 154.

7. For a more positive view of Friedrich's role in overcoming the balance of payments difficulties facing West Germany during the early 1950s, see Volker Berghahn and Paul J. Friedrich, *Otto A. Friedrich, ein politischer Unternehmer. Sein Leben und seine Zeit, 1902–1975* (Frankfurt: Campus Verlag 1993), pp. 134–60.

8. Scholars of American diplomatic history have applied this definition of “corporatism” to the American foreign policy making process, particularly with regard to the Marshall Plan. See Michael J. Hogan, *The Marshall Plan: American Britain, and the reconstruction of Western Europe, 1947–1952* (New York: Cambridge University Press 1987), pp. 2–7; Thomas J. McCormick, “Drift or Mastery? Corporatist Synthesis for American Diplomatic History,” *Reviews in American History* 10: pp. 318–30.

before 1945 corporatism had a rather more specific and sinister meaning. It was associated with restrictions on freedom of commerce, guild limitations on individual craftsmen, and the rejection of free trade. The anarchy of individualism was to be eliminated in both the political and the economic sphere.”⁹ It would seem that the term *corporatism* is inadequate to describe all occasions when public interest groups actively shape economic policy. More challenging is Andrew Shonfield’s observation that the traditional practices of German industrial associations concealed forms of economic planning that belied the free market theories of the social market economy.¹⁰ But a closer examination of the investment aid law and its implementation reveals a quite rapid disintegration of the coordination that Shonfield observed.

Having said this, Erhard and his supporters had always sought to distance themselves from doctrinaire nineteenth-century liberalism. They supported free-market theory but also claimed to be able to distinguish between appropriate and inappropriate applications of free-market theory to the specific conditions afflicting reconstruction West Germany. Erhard and his backers in the expert advisory board recognized the special problem of investment, but they stressed the need to craft government investment policy in a “market conforming” way. By mid-1951, industry’s proposal to raise DM 1 billion for investment to break the bottlenecks in heavy industry sufficiently fit that description.

PROBLEMS OF THE REFORMS

As Erhard entered the first Adenauer government as economics minister in September 1949, he could and certainly did take credit for the dramatic revival of the West German economy. The free-price mechanism had restored money to its primary function. Free competition provided incentives to greater productivity. But many problems loomed on the horizon for a government with a one-seat majority in the Bundestag. Free markets had brought unemployment already in the second half of 1948. The accelerating decline in prices in 1949, which appeared to threaten an ominous deflation, coupled with an ever increasing influx of ethnic German refugees from the East, pushed unemployment levels inexorably higher. By mid-1949, it had reached 1.5 million. By early 1950, unemployment reached 2 million. At the same time, the lack of a vibrant private capital market forced firms to invest profits back into their firms (which meant that

9. Nicholls, *Freedom with Responsibility*, p. 7.

10. Shonfield, *Modern Capitalism*, pp. 239–64.

companies manufacturing controlled goods had less profits for investment) or had to rely on short-term capital where long-term capital was needed. The twin problems of unemployment and a shortage of long-term capital provoked cries from within West Germany as well as from without for a credit expansion, whether through the newly created Bank deutscher Länder (BdL) or through Marshall Plan aid. Yet Erhard and particularly his great ally at the BdL, Wilhelm Vocke, prized above all the stability of the new currency. Too much monetary expansion or government spending threatened a new inflationary spiral. They insisted that the necessary funding for investment in heavy industry, housing, and food imports not endanger the stability of the Deutsche mark.

The dramatic growth of the West German economy concealed wide disparities between different branches of industry. The simplest explanation for these disparities was that decontrolled industries enjoyed impressive rates of growth, while industries still under price controls, such as coal, lagged behind. Erhard and his supporters argued that the eventual deregulation of controlled industries would ensure a more equitable rate of growth across the entire economy. But they also understood the probable inflationary repercussions of extending price deregulation to the coal industry and other sources of energy. The Allies, of course, still exerted primary control over the distribution and pricing of coal. The low export price of coal had long provided a convenient grievance for many West Germans who argued that the forced export of coal represented a concealed form of reparations.¹¹ Too many sectors of the West German economy, however, also had an interest in keeping coal prices low. Price deregulation of coal could not be allowed to lead to prohibitively high energy prices. In addition to the continued price controls over coal and other raw materials and sources of energy, Erhard had no authority over agriculture. Indeed, his first fundamental contest over economic policy, in late 1948, had been with the director of agriculture, Hans Schlange-Schöninghen. Erhard had agreed on the need to keep a number of products under controls because of the probable social ramifications of shortages of inexpensive food, energy, and housing. But he hoped to convince his colleagues of the long-term need to introduce the free-price mechanism in these special sectors as well.

By 1949, the disparities in the West German economy became apparent. Since the currency and economic reforms of 20 June 1948, the manufacturing and consumer goods industries had boomed. Production in manufacturing and consumer goods had increased by 121 percent and 110 percent,

11. See Adamsen, *Investitionshilfe*, p. 89.

respectively. In contrast, heavy industry had increased its rate of production during the same years by 89 percent, including an increase in the production of coal industry of a mere 28 percent.¹² While production increases in heavy industry certainly were not negligible, they nevertheless lagged dangerously behind. In coal, the goal of 300,000 tons of daily production remained as frustratingly elusive as ever. Price controls ensured that the coal industry would continue to suffer from both a lack of investment and a lack of adequate worker housing.¹³ Moreover, the tax system introduced by the Allies in 1946 reinforced the financial difficulties of controlled industries because it allowed generous accelerated depreciation deductions meant to stimulate the purchase of new equipment. Such large deductions provided a disincentive for the use of savings as loans. The tax code thus benefitted deregulated industries that could take advantage of the temporary inflation of late 1948 and early 1949. They plowed much of their profits into new plant. This additional capacity in manufacturing, however, put even more pressure on the controlled industries to keep pace. Heavy industry could not find the financing to overcome what increasingly grew into serious industrial bottlenecks. Most of these industries did not enjoy high enough margins to practice self-investment. The federal, Länder, and local governments wished to reduce any direct subsidies to them as well. Long-term capital was not available. The lack of a functioning long-term capital market forced many firms into excessive short-term borrowing. Such short-term borrowing reached a level of DM 2.5 billion. In 1949, most observers therefore discussed at great length the lack of any long-term capital market.¹⁴

For Erhard, Marshall Plan counterpart funds provided at least a temporary solution to the lack of a long-term capital market. His critics in the *Sonderstelle Geld- und Kredit*, for instance, had warned that deregulation without adequate investment funds would lead to a deflationary collapse. In his speech to the economic council on 21 April 1948, the speech in which he announced his intended reforms, Erhard stressed the role of Marshall Plan counterpart funds as a substitute for a private capital market.

12. Deutsche Institut für Wirtschaftsforschung, Ferdinand Grünig and Rolf Kregel, eds., *Die Expansion der westdeutschen Industrie 1948 bis 1954* (Berlin: Duncker & Humboldt 1955), p. 14.

13. On the problem of the "imperfect market" in coal, see especially Roseman, *Recasting the Ruhr*, pp. 124–58.

14. Hermann Reusch made this point forcefully in a meeting between industrialists and Marshall Plan administrators in May 1949, by pleading that "in the near future monies be placed at our disposal that can cover our short and medium term credit. . . . We ourselves are no longer in a position, considering the loss of capital in the currency reform and because of the tax laws, to find enough funds for self-investment." "N. H. Collison zum Marshall-Plan, Vortragsveranstaltung auf Einladung von Präis. Fritz Berg, Altena, in der Industrie- und Handelskammer zu Hagen am 10. Mai, 1949," *Die Welt*, 11 May 1949.

“In a sense, it closes a gap that stands in the way of a successful reconstruction.”¹⁵ During 1948, the Americans agreed with Erhard on the proper use of counterpart funds. Particularly during the inflationary scare of late 1948, when the Bank deutscher Länder increased reserve requirements and interest rates, the Americans feared the resulting scarcity in capital would threaten the production goals of the Marshall Plan. The Americans agreed with the BdL’s strategy of limiting credit expansion to dampen inflation, but with an overall banking system in the midst of deconcentration, firms had to rely too much on the expensive short-term capital market to fund needed investments.¹⁶ The Americans thus could use Marshall Plan counterpart funds to invest in the basic industries, such as coal, that could lead to greater levels of overall productivity, without forcing the West Germans to embark on a credit expansion that might lead to greater levels of inflation.

To facilitate the use of counterpart funds as a substitute for long-term, noninflationary capital, the Allies created a reconstruction savings bank, the Kreditanstalt für Wiederaufbau (KfW), to channel funds to worthy projects. The bank saw its primary function as “supplying all sectors of the economy with mid and long-term credits to make the implementation of reconstruction projects possible.”¹⁷ Both the Americans and the West Germans wished to use the KfW to nurture the growth of a private capital market without allowing forms of investment that would encourage inflation. As Jack Bennet, financial advisor to Clay, stated, “We shall, thereby, have accomplished the dual purpose of having routed savings into productive channels and of having laid the foundation for a developing securities market for the future. At the same time, we shall not have poured additional circulation into the economy without there being a concurrent increase in available goods.”¹⁸ The Allies reinforced this emphasis on noninflationary investment and financial stability in a directive, in January 1949, to the bank’s general manager, Otto Schniewind. “In granting credits, particular consideration shall be given to the safeguarding of the currency. The credits shall be granted without delay in such a way as to avoid interference with the monetary policy and a stable

15. Erhard, “Der Weg in die Zukunft. Rede vor der 14. Vollversammlung des Wirtschaftsrates des Vereinigten Wirtschaftsgebietes,” in *Gedanken, Reden und Schriften*, p. 59.

16. S. W. Anderson, “Memorandum. A Specific Use of Counterpart Funds in Bizone,” 28 September 1948, NARA, RG 469, assistant administrator for programs, subject files, 1948–50, box 18.

17. “Gesetz über die Kreditanstalt für Wiederaufbau vom 5. November 1948,” *Gesetzblatt der Verwaltung des Vereinigten Wirtschaftsgebietes*, 18 November 1948.

18. Jack Bennet to Howard Bruce, deputy administrator, ECA, 25 September 1948, NARA, RG 469, assistant administrator for programs, subject files, 1948–50, box 18. As a semi-independent investment bank, the KfW could also finance industrial and infrastructure projects temporarily suspended by the OEEC in Paris because of dismantling. Keiser, “Notiz. Betr.: Investitionsfinanzierung,” 24 May 1950, BA, B 102/12665.

economic and price development.”¹⁹ Neither Erhard nor the Allies thought it inappropriate to use counterpart funds, disbursed through the KfW, for more “social” kinds of investment that would maintain political stability. Hence, a huge share of Marshall Plan money went to build housing for expellees in North Rhine–Westphalia, Lower Saxony, Schleswig–Holstein, and Bavaria.²⁰

Nevertheless, the use of Marshall Plan counterpart funds was anything but uncomplicated. Counterpart funds consisted of the Deutsche Mark values of goods imported into western Germany under the Marshall Plan. The Deutsche Mark “counterpart” was thence placed into an account at the KfW under the ultimate control of the Economic Cooperation Administration (ECA), the American agency that administered the Marshall Plan. The military government had long had its own source of counterpart funds from the earlier Government Relief in Occupied Areas (GARIOA) program, a fact of no small confusion in Germany.²¹ But placing the more important source of counterpart funds under the authority of the ECA had certain important implications. First of all, the administrative process involved in approving the use of counterpart funds became much more complicated. Instead of simply seeking the approval for funding from the military governors, German officials now had to apply to the military governor, who then submitted an application in the name of the bizon to the OEEC, the Western European organization based in Paris and charged with submitting an overall annual spending plan, which then submitted an application to the ECA in Washington. For speedier approval, the military governors could appeal directly to the ECA through the special American Marshall Plan mission in Germany, headed by Robert Hanes. Even so, the process of seeking investment funds had grown quite complex and sometimes subject to military government–ECA competition. Lucius Clay, for example, worried that the ECA would dilute the American power he had established over western Germany. He felt threatened not only by the need to share responsibilities over the use of counterpart funds in Germany with the ECA himself, but also feared that the ECA would inadvertently increase the influence of the British in Germany because all applications to the ECA had to come from

19. “Terms of Reference for the Granting of Credits by the Reconstruction Loan Corporation,” annex to Otto Schniewind to Jack Bennet and Sir Eric Coates, 5 January 1949, BA, Z 013/1173.
20. “Memorandum zur Ergänzung des Briefes der Kreditanstalt für Wiederaufbau an die Finanzberater Sir Eric Coates und Mr. Joe Fischer Freeman vom 28. January 1949,” and BICO to Otto Schniewind, 30 March 1949, BA, Z 013/1175; Griesbach, “Notiz,” 1 August 1951, BA, B 102/12665.
21. See, for example, “Minutes of BICO Staff Meeting with German Officials,” 9 June 1949, NARA, RG 260, records of U.S. Element–BICO, box 48.

both military governors.²² As far as the West Germans were concerned, the new administrative arrangements often resulted in the interruption of the many long-term projects the Americans wished to encourage.²³

ECA control over investment in western Germany also forced both German and American occupation officials to adopt a new approach to the whole question of investment and its effects on European economic growth. Fundamental to the Marshall Plan was the assumption that an integrated western European market was an essential precondition for European-wide economic growth.²⁴ Thus, decisions on economic policy in western Germany had now to take into account the probable ramifications of those decisions on the other countries in the OEEC. This had not been the approach of the military government. Lucius Clay in particular had often seen himself as an advocate of West German growth, quite naturally as he was concerned with his specific area of responsibility in Germany, without reference to the rest of Europe. The new requirement to pay careful attention to overall European concerns inhibited several measures bizonal officials had entertained to overcome bottlenecks in investment. In late 1948 and early 1949, for instance, western German officials asked the military government to increase the export price of German coal. In such a price-controlled industry, an increase in the export price could raise money for needed investments. Quite apart from the frequent international criticism of the dual pricing structure for coal in Germany, as well as German industry's dependence on cheap coal, the military governors informed the Germans that a higher price for coal would represent an additional financial burden for Germany's European neighbors, a financial boon for the Germans, and hence would result in a corresponding decrease in the Marshall Plan allocation for the bizon.²⁵

Despite the potential for conflict between the military government and the ECA, the Americans had become quite critical of West German credit policies by the middle of 1949, and for two reasons. First, though the

22. "My own hand would be strengthened if our relations with ECA were through my office as under any other arrangement [the] British will be in appeal position." Clay to Draper, CC 4308, 15 May 1948, *Clay Papers*, p. 654. For their part, ECA officials were determined to keep Clay from controlling the KfW. See Bissell to Collison, 13 October 1948, NARA, RG 469, assistant administrator for programs, subject files, 1948–50, box 19.
23. This was the case, for example, with the reconstruction of local electrical utilities. See Eduard Schalféjew's comments to the Deutsche Städtetag, 11 April 1949, BAK, Z 013/001175. On the difficult relationship between Clay and the ECA, see also Hardach, *Der Marshall-Plan*, pp. 110–11.
24. On the goals on the Marshall Plan as they referred to Germany, see Hardach, *Der Marshall-Plan*, pp. 69–93. See also Milward, *The Reconstruction of Western Europe*.
25. Department of Army to OMGUS, W-90899, 30 June 1949, NARA, RG 466, records of the U.S. High Commissioner for Germany, box 1.

Americans had agreed with the Germans on the need to hold back counterpart fund investment during the inflationary spiral immediately after the currency reform, they now believed the use of counterpart funds and a credit expansion were essential to halt an equally dangerous deflation. The Germans thought otherwise. The general director of the bizonal Bank deutscher Länder in particular, Wilhelm Vocke, argued that too high a level of investment would bring inflation and undermine the new currency, the Deutsche mark. The Americans believed that the western German economy now enjoyed sufficient excess capacity to undergo an investment program without inflation. The high levels of private investment encouraged by the depreciation deductions in the tax system, as well as the obvious influx of "excess labor" in the form of the expelled from the East, now represented idle capacity. They believed both Erhard and Vocke inappropriately obstinate in their aversion to investment out of a misplaced fear of inflation.²⁶ At the same time, the Americans had grown exasperated with how the Germans applied for the release of counterpart funds when they applied. The Germans would submit general plans to the Allies that indicated the industries into which they wished to invest. The Americans, however, wanted plans for specific projects before the release of any funds. The result of this was that by the end of 1949, a smaller amount of counterpart funding had been released by the Americans than either the Germans or the Americans had intended.²⁷ This phenomenon reinforced the American disdain for what they considered an inappropriate German miserliness. Given the circumstances, the Americans grew weary of Erhard during the course of 1949. This was a particularly pleasing development for the British, who had long warned of the negative ramifications of Erhard's neoliberal policies.²⁸

26. See, "Monetary Policy in Western Germany," 21 October 1949, annex to Katz to Hanes, 26 October 1949, NARA, RG 469, Office of the Special Representative, Central Secretariat, country files—Germany, box 4. The American attitudes toward Erhard and Vocke rested on some misconceptions. Erhard was never against the use of counterpart funds or a credit expansion as such. He actually joined in the criticism of Vocke for refusing to countenance a credit expansion out of fear of inflation. See Weisser to Weitz, 11 August 1949, NL Weisser, FES, 0018. The Americans also tended to confuse Vocke's reluctance to allow a credit expansion with an antipathy toward the use of counterpart funds. He indicated to A. F. Hinrichs, however, that although he was fearful of inflation, he was not necessarily opposed to the use of counterpart funds for long-term investment. A. F. Hinrichs to Bissel, "Luncheon with President Vocke on Deutscher Laender," 29 November 1949, NARA, RG 469, assistant administrator for programs, subject files, 1948–50, box 18.

27. See, for instance, the German frustration in "Vorlage für den ERP-Ausschuß zur Beschlußfassung bei der Freigabe weitere Mittel aus ERP Counterpart-Funds," 6 December 1949, BA, B 102/012665.

28. When Erhard visited Britain in late November, Chancellor of the Exchequer Sir Stafford Cripps took the opportunity to excoriate him on fundamental policy. J. E. Killick, "Report of Professor Erhard's Visit to London," 10 December 1948, Frankfurt to Foreign Office, 965 Basic, 11 November 1948, PRO, FO 1049/1190.

When dealing with the Allied military government, in everything from further deregulation to reforming the tax structure, Erhard began to face the united criticism of the Anglo-Americans.²⁹ Nevertheless, with the elimination of so many controls, the Allies had sacrificed important instruments with which to influence the bizonal economy. As the British analyst Con O'Neill commented, "Erhard is the American Frankenstein, the monster whose creators can control him no more."³⁰

In view of the very complicated nature of the western Germany economy in 1948 and 1949, its need for foreign aid and raw materials, the role assigned to it by the OEEC, and the ultimate sovereignty of the Anglo-American military government, the extent to which Erhard's name dominated perceptions of West German economy policy represented his greatest triumph. Erhard was as glad to take credit for his economic policies as his opponents both inside and outside Germany were eager to blame him. For all his faults, he did not lack self-confidence. He told economist Wilhelm Röpke that he alone had ensured the reintroduction of the free market into West Germany. He told Franz Blücher of the liberal Free Democrats (FDP) that he had chosen to join the CDU because only his presence could keep the Christian Democrats on the free-market path. In the new government, however, he encountered several potential challengers to his dominance over economic policy. First of all, the largely ceremonial post of *Oberdirektor* occupied by Hermann Pünder had been replaced by that of a real chancellor who meant to exert authority, Konrad Adenauer. Meanwhile, the creation of a special ministry for the Marshall Plan, headed by Blücher of the more dirigiste and nationalist wing of the FDP,³¹ diminished Erhard's influence over the use of counterpart funds. Without control over such funds, Erhard feared he could not guide the creation of a private credit market. As he explained to Blücher, "An Economics Minister who does not have authority over capital formation and therefore influence over the capital market is not capable of fulfilling his official duties."³² More seriously, the new Finance Ministry controlled credit and money policy. Erhard wanted to wrest control over these areas from the new but powerful finance minister, Fritz Schäffer (CSU). As he frustratingly wrote to Robert Pferdmenges, "it is a

29. On the mounting differences over tax policy, for instance, see "Proposals by Finance Group, BICO, for Methods for Securing Additional Funds to Finance New Capital Formation," Appendix to BICO, "Methods for Securing Additional Funds to Finance New Capital Formation," BIB/P(49)44, 22 March 1949, NARA, RG 260, Records of the U.S. Element - BICO, box 48.

30. O'Neill to Garron, 9 September 1948, PRO, FO 1049/1433.

31. On Blücher's position in the Adenauer government, see Nicholls, *Freedom with Responsibility*, p. 271; Hentschel, *Erhard*, pp. 107-13.

32. Erhard to Blücher, 7 November 1949, LES, NL Erhard, NE I.4)37.

downright grotesque situation when the Economics Minister in a free market economy is not given official authority over the considerable and almost only instrument with which to influence employment, prices, and foreign trade.”³³

Erhard wrote Adenauer how he felt on several occasions during 1949. When he first received word about the possible creation of both a Marshall Plan ministry and a foreign trade ministry in June, he warned the chancellor of the possible ramifications for a consistent economic policy. “On the basis of my vast experience in these long standing problems, I can only say that I consider such a procedure impossible. Both areas are too intimately connected with the domestic economy and any demarcation or isolation will make a successful economic policy, which in this case embodies something complex, completely impossible.”³⁴ He wrote a longer letter to the new chancellor about the dangers of dividing control over important aspects of economic policy in November as well. As a concept, the social market economy represented an integrated approach to policy that one must not subdivide. Enforcing free competition with a West German anticartel law, for instance, required a clear and unified vision with a consistent focus on the part of the government. “The only one who can guide the social market economy to a good, blessed end is someone whose authority in economic policy matters is so undisputed in spite of some opposition, that he can reconcile the intellects without needing to be untrue to himself. It is not arrogance, but soberness, when I say to you, that this task in Germany can fall only to me.” He demanded from the chancellor sole control over all aspects of economic policy.³⁵

Erhard’s chief enemy in the cabinet was Minister of Finance Schäffer. Schäffer represented the powerful Bavarian Christian Social Union (CSU) in Adenauer’s first coalition and was, as Hans-Peter Schwarz has put it, “a man after Adenauer’s heart.”³⁶ In the years to come Erhard and Schäffer would lock horns on nearly every aspect of economic policy. In 1949, they quarreled over control of money and credit policy. Formal control over money and credit had been accorded to the Finance Ministry in late 1949. Erhard worried about the fundamental repercussions on his economic

33. Erhard to Pferdenges, 10 December 1949, LES, NL Erhard, NE I.1)1. In his conflict with the Finance Ministry, Erhard could rely on the support of the prestigious advisory board to the Economics Ministry. “Koordination der Wirtschaftspolitik: Stellungnahme des Wissenschaftlichen Beirats bei der Verwaltung für Wirtschaft,” 30 October 1949, ACDP, NL Müller-Armack, I-236-048/1.

34. Erhard to Adenauer, 16 June 1949, LES, NL Erhard, NE I.1)1.

35. Erhard to Adenauer, 24 November 1949, *ibid.*

36. Schwarz, *Adenauer, Der Aufstieg 1876–1952* (Munich: Deutsche Taschenbuch Verlag 1994), p. 632.

policies that money and credit under Schäffer's control could entail. With such control, Schäffer could become the main conduit through which the government communicated on such things as credit expansion to the leaders of the BdL, Vocke, and Karl Bernhard. Through an increasingly bitter dispute, Erhard lobbied Adenauer intensively to force the return of control over money and credit policy to the Economics Ministry. Though he sympathized with Erhard on this issue,³⁷ Adenauer preferred the two men to settle their dispute amicably on their own. He sent his trusted friend and banker, Robert Pferdenges, to help them along, but with little success.³⁸ The growing animosity between Erhard and Schäffer over money and credit policy had an impact on their conflicting solutions to the investment crisis as it unfolded in 1950 and 1951. Erhard's determination to thwart the ambitions of Schäffer played a large part in the formation of his ultimate solution.

Even more important than Erhard's relation with Schäffer, of course, was his ambivalent relationship with Adenauer. The chancellor had played a great role in bringing the CDU as a whole to accept and embrace Erhard's economic policies.³⁹ He did not, however, appreciate being caught in the middle of the bitter dispute between Erhard and Schäffer. Adenauer had also grown increasingly concerned about Erhard's administrative abilities. Already in late 1948, he had written to colleagues that the administrative setup under Erhard gave cause for concern. A report about the economics administration in 1949 highly criticized its personnel policies.⁴⁰ Leaks about major aspects of policy particularly irritated Adenauer. More than anything, however, Erhard's presumption that he alone had engineered West Germany's economic recovery got on his nerves. When the Korean War crisis unfolded, Adenauer was none too happy to place the blame for the crisis on Erhard.

PAYMENTS CRISIS

Grave challenges to Erhard's economic policies first became apparent during late 1949 and early 1950, when the problem of investment was linked to a balance of payments crisis. Erhard had convinced the cabinet to take the

37. Adenauer to Schäffer, 17 March 1950, StBKAH, NL Adenauer, II/21/1.

38. Erhard to Schäffer, 25 May 1950, LES, NL Erhard, NE I.4)64.

39. See "Neuaufbau auf christlichen Grundlagen, Wirtschaftlicher Neuaufbau im Dienste des Menschen – Zweiter Parteitag der CDU für die Britische Zone, 28–29. August 1948, Recklinghausen," reprinted in Helmut Pütz, ed., *Konrad Adenauer und die CDU der britischen Besatzungszone* (Bonn: 1975). See also Nicholls, *Freedom with Responsibility*, pp. 234–47.

40. "Allgemeine Charakteristik der Verwaltungsführung," n. d., BA, B 136/4695.

lead in the liberalization of intra-European trade. West Germany accordingly abandoned many import quotas and reduced most tariffs in late 1949. The Americans had long supported the liberalization of intra-European trade. They had tried unsuccessfully to condition Marshall aid upon such trade liberalization. They admired and appreciated the Germans taking a lead in this direction. But West Germany's well-nigh unilateral move to reduce trade restrictions quickly worsened its balance of payments. Alarming trade deficits provoked fundamental criticism from other members of the OEEC. When the West Germans submitted their long-term plan for Marshall aid for 1949–50, the OEEC demanded, in return, fundamental changes in West German economic policy, such as a commitment to full employment, measures to reduce the consumption of luxury goods, and the reintroduction of trade restrictions to eliminate the trade deficit. By early 1950, the Americans joined in this chorus of criticism. After suspending the liberalization of foreign trade and proposing a modest program to overcome unemployment, the payments situation eased and foreign criticism of West German economic policy abated. But the episode helped to discredit Erhard further, especially in the eyes of Adenauer. When a new payments crisis began in late 1950, Erhard would find himself up against the wall again.

A fundamental goal of the Marshall Plan was to liberalize intra-European trade. The Americans considered it essential for Europeans to integrate their economies if they wished to prosper and overcome the "dollar gap." A condition for Marshall aid had been, in fact, that the OEEC itself become a vehicle for European economic integration. The Americans largely failed, however, in compelling the OEEC to assume such a function, and the British and French in particular guarded their right to determine trade policy themselves.⁴¹ The Americans met with much greater success in West Germany. In the bilateral agreement that established the legal basis for aid to West Germany, the government committed itself to liberalizing its foreign trade at the earliest possible date.⁴²

41. This is the principal theme of Milward's *The Reconstruction of Western Europe*. Milward concludes from the failure of the OEEC to evolve into an integrationist mechanism that the Marshall Plan failed. Michael Hogan, though critical of the "corporatist" underpinning of the Marshall Plan, takes a more benign view of the American success in persuading the Europeans to develop a pan-European economy. *The Marshall Plan. America, Britain, and the Reconstruction of Western Europe, 1947–1952* (Cambridge: Cambridge University Press 1987).

42. McCloy congratulated Adenauer on West Germany's enthusiasm for intra-European trade in the bilateral agreement. McCloy to Adenauer, 22 December 1949, McCloy papers, NARA, RG 466, records of the U.S. High Commissioner for Germany, box 5. See Buchheim's discussion of the American use of aid to facilitate intra-European trade in *Wiedereingliederung*, pp. 99–107. See also Reinhard Neebe, "German Big Business and the Return to the World Market after World

Erhard considered free trade one of the fundamental pillars of the social market economy. When the Allies dissolved the Joint Export–Import Agency (JEIA), as stipulated in the occupation statute in late 1949, and handed authority over foreign trade policy to the Germans, he moved quickly to eliminate trade barriers. The cabinet agreed on 11 October 1949, and submitted a list of reduced tariffs and import quotas to the OEEC on 21 October.⁴³ The announcement of trade liberalization with the OEEC countries and the conclusion of relatively liberal bilateral trade agreements with Switzerland, the Netherlands, Norway, and Austria elicited the strong public endorsement of Paul Hoffmann, head of the ECA.⁴⁴

But the unilateral reduction of trade barriers carried out by West Germany in relation to the other OEEC countries quickly produced a deterioration in the balance of payments. The Federal Republic went from a creditor country vis-à-vis the rest of the OEEC of \$31.4 million, from July to September, to a debtor of \$110.4 million during the period of September to December.⁴⁵ The West German balance of payments fell so rapidly that the U.S. High Commission appealed directly to the ECA representative in Europe, Averell Harriman, to pressure other participating countries to cease discriminatory trade practices toward Germany. Harriman responded that he did not want to push the other OEEC countries too far for fear of jeopardizing American plans for an even more liberal trading regime, the European Payments Union (EPU).⁴⁶ The rapid deterioration in the balance of payments also caused some concern in Bonn. The head of the Bank deutscher Länder, Wilhelm Vocke, wrote Erhard on 17 January 1950 that it had been a mistake for the Federal Republic to lower trade barriers without having received reciprocal trade advantages in return. Now the BdL was rapidly running out of hard currency reserves. “The situation today is such as to require unconditional, urgent and energetic measures to reestablish the disappearing equilibrium.” He recommended that the government threaten

War II,” in Volker Berghahn, ed., *Quest for Economic Empire: European Strategies of German Big Business in the Twentieth Century* (Providence: Berghahn Books 1996), pp. 95–121.

43. “11. Kabinettsitzung am 11. Oktober 1949,” in *Kabinettsprotokolle der Bundesregierung, 1949*, pp. 114–15.
44. Paul Hoffmann, press release no. 62, 3 November 1949. See Collison’s laudatory remarks to McCloy, “Unilateral Measures Taken by Western Germany Toward Liberalization of Trade,” 3 November 1949, NARA, RG 466, McCloy papers, box 4.
45. Figures from Table 9, “Net Surpluses and Deficits of Participating Countries and Their Associated Monetary Areas with Other Participants,” OEEC, *European Recovery Programme. Second Report of the OEEC* (Paris: 1950), p. 75. See also Buchheim, *Wiederingliederung*, pp. 119–45; Hentschel, *Erhard*, pp. 133–40.
46. Hanes to Hoffmann and Harriman, 5 January 1950, box 6, Harriman to Hanes, 19 January, 1950, NARA, RG 466, McCloy papers, box 7.

to reintroduce restrictions on the imports of goods from countries that continued to discriminate against the Germans.⁴⁷ The expert advisory board to the Economics Ministry agreed that “the general elimination of quantitative controls on German imports has brought West German economic policy into difficulty because of German trade deficits to Europe.” In a more liberal tone than Vocke, the advisory board recommended pressuring other countries to loosen trade restrictions as well.⁴⁸

As the trade deficit mounted, so too did criticism by the ECA. The ECA mission in Germany, now under the direct authority of Lucius Clay’s successor, U.S. High Commissioner John J. McCloy, gave renewed expression to its worries about chronic underinvestment in the West German economy.⁴⁹ They believed Wilhelm Vocke and Ludwig Erhard unwilling to undertake a necessary credit expansion. With the levels of investment achieved during the brief period of inflation at the end of 1948 and the beginning of 1949, along with the influx of labor in the form of expellees from Poland, Czechoslovakia, and East Germany, they believed ample capacity existed in the economy to tolerate a significant credit expansion without risk of inflation. In any event, with the level of unemployment mounting through most of 1949, they believed a modest inflation easily preferable to creating a political environment inimical to democracy. The mounting trade deficits of late 1949 and early 1950 only confirmed their belief that the German economy required a substantial program of directed investment, even at the risk of modest inflation, to boost the productivity of export industries.⁵⁰

The ECA and other American officials had developed a highly moralistic critique of West German economic policy. When the West Germans reduced many of their quantitative restrictions on imports from the rest of Western Europe, they had shifted their trading focus from the dollar area to Europe. This had the effect of reducing the proportion of their

47. Vocke to Erhard, 17 January 1950, LES, NL Erhard, NE I.4)71.

48. Wissenschaftliche Beirat, “Gutachten . . . Europäische Zahlungsunion,” 5 February 1950, ACDP, NL Müller-Armack, I-236-048/1.

49. The subordination of the ECA’s mission in Germany to the U.S. High Commission was not a defeat for the ECA. Rather, the ECA considered McCloy an ally and was relieved to see him replace the relatively uncooperative Clay. As Thomas Allan Schwartz wrote, “When the ECA’s leaders, Paul Hoffman and Averell Harriman, learned that the new High Commissioner was likely to be McCloy, they retreated without a fight, telling the State Department that McCloy could ‘write his own ticket.’” *America’s Germany*, p. 42.

50. Not everyone agreed with this assessment, however. See Office of Economic Affairs, HICOG, “Review of German Monetary and Fiscal Situation,” 22 December 1949, NARA, RG 469, assistant administrator for programs, subject files, 1948–50, box 18.

imports of capital goods from the dollar area. It also increased the proportion of their imports from Western Europe. This, in turn, led to the dramatic rise in the import of “luxury goods,” goods available in Western Europe.⁵¹ The increase in the import of “luxury goods,” however, reinforced the already negative image of Erhard’s social market economy throughout Europe and, increasingly, in the United States. The British led the way, in the High Commission, in criticizing the seemingly irrational import of luxury goods at a time of basic shortages as emblematic of Erhard’s hostility toward economic planning. During late 1949, the ECA itself coalesced around a consensus view that the import of luxury goods into West Germany was a manifestation of a maldistribution of income tolerated by the neoliberal Erhard and an explanation at the same time for mounting unemployment. As an urgent countermeasure, the ECA agreed in the fall of 1949 to release DM 1.8 billion in counterpart funds to stimulate investment and thus reduce unemployment. The American authorities waited with great interest to determine whether the restrictive credit policies of the *Bank deutscher Länder* would endanger the success of this investment program.⁵²

To alleviate pressure on the balance of payments, the West German government introduced limited restrictions on imports. Vocke claimed that the amount of foreign currency reserves available to finance imports had already shrunk by \$300 million since liberalization began. Erhard nevertheless warned his colleagues against reintroducing import restrictions when the West German economy depended so much on imports of food and raw materials. A certain level of trade deficit, he argued, was inevitable in the short run. It would take time before the export of semifinished and finished goods could make up the difference. But Adenauer felt that

51. E. Boorstein made this point in a memorandum for Harriman. “Liberalization of trade has resulted in a large increase in Western Germany’s imports from the OEEC countries, many of these imports being secondary, relatively non-essential consumer goods. This is due only in part to the particular items chosen by the German authorities for liberalization. Principally, however, it is inherent in the liberalization of trade with the OEEC countries, since secondary, non-essential goods constitute a large proportion of the output of those countries.” Boorstein went on to comment, however, on the unacceptable high level of consumption goods in West Germany, “Germany’s Trade Liberalization and Its Ramifications,” 18 March 1950, annex to “Briefs on the Current German Situation” for Harriman, NARA, RG 469, Office of the Special Representative, country files, 1948–52, Germany, box 3.

52. See Collison to Hoffman, “Application for the Release of Counterpart Funds by the Bizonal Military Governors; ECA Mission’s Recommendations,” 9 September 1949. Saul Nelson commented to Harlan Cleveland that “the release of counterpart which has just been approved should serve as a major stimulus . . . If production does not take a sharp upward turn by, say, the end of the year, there would be a strong *prima-facie* case for suspecting that the policies of the Central Bank are at least partly at fault.” “Policies of the Bank Deutscher Laender,” 19 October 1949, NARA, RG 469, assistant administrator for programs, subject files, 1948–50, box 18.

more overt means of encouraging exports had to be investigated. He suggested to Erhard that the slow growth of exports and rising unemployment were connected. The cabinet decided to reduce the validity of import licences from six to two months and allow the BdL to issue import licences ten days after the order had been placed, instead of immediately. With such restrictions, the cabinet hoped to reduce applications.⁵³ In the ensuing months before the Korean War, the balance of payments improved steadily.

In the meantime, however, the Federal Republic's submission to the OEEC of its long-term program for Marshall aid for 1949 and 1950 unleashed a torrent of international criticism. The West Germans requested the impressive sum of \$372.4 million by emphasizing the critical need for extra investment in the coal and electric power industries. The tone of the request evoked the fear that West Germany would not obtain self-sufficiency by the end of the Marshall Plan, in 1952, without that aid.⁵⁴ The pessimism of the German long-term plan seemed to belie the optimism, and to some critics the complacency, with which the Germans had responded to the frequent international criticisms of 1949. The Americans, both John McCloy as high commissioner as well as the ECA, responded by redoubling their criticism of West German economic policy. The ECA formulated a broad analysis of Germany's problems in January and February 1950. In its final form, the ECA's paper argued that Germany's chronic underinvestment stemmed from a maldistribution of income that contributed both to the now dangerous levels of unemployment as well as the inappropriate tendency to import high levels of luxury goods.⁵⁵ Robert Hanes, chief of the Marshall Plan mission in Germany, added to the ECA's critique the observation that "the laissez faire and defeatist attitudes embodied in the Memorandum simply will not do. If expansionist monetary and fiscal measures are necessary to alleviate unemployment, as they probably

53. "38. Kabinettsitzung am 24. Januar 1950," in *Kabinettsprotokolle der Bundesregierung, 1950*, pp. 156–7.

54. West Germany's Long-Term Plan for 1949/50 in OEEC, *Report to the Economic Co-operation Administration on the 1949–1950 Programme*, Vol. 2, July 1st, 1949–June 30th, 1950, pp. 267–342. See also Hardach, *Der Marshallplan*, pp. 147–50.

55. See Dickenson to Bissel, "German Economic Problems," 23 February 1950, annex to Dickenson to Hanes, 23 February 1950, NARA, RG 469, assistant administrator for programs, subject files, 1948–50, box 19. See also K. F. Bode, "Economic Policy of the Federal Government," 18 March 1950, NARA, RG 469, Central Secretariat, country files, 1948–52, Germany, box 3. The British gave full support to the mounting ECA criticism of West German economic policy. J. E. Slater to Hays, "British Review of German Long-Term OEEC Program," 24 January 1950, NARA, RG 466, records of the U.S. high commissioner for Germany, box 7.

are, then a careful program of this sort should be worked out now.”⁵⁶ In February, the OEEC echoed the American criticism and wrote Erhard that “the most obvious and one of the most difficult problems facing the Federal Republic today is unemployment.” The consumer goods industries profited too much from a lopsided liquidity. Excessive consumption took place at the expense of investment, and hence, at the expense of the unemployed. If the lack of long-term capital represented the most serious structural obstacle to investment, then the government had to step in to provide a substitute. “If finance is the bottleneck, then ways to ensure the existence of more long term credits must be thoroughly considered.” The OEEC suggested that further Marshal Plan aid hinged on West Germany’s implementation of such an investment program.⁵⁷

The serious Allied criticism of Erhard provided the opposition SPD with an opportunity. The Social Democrats had fought the 1949 Bundestag campaign on the basis of a clear rejection of Erhard’s social market economy. They had advocated instead the socialization of heavy industries and the introduction of an “economic democracy.”⁵⁸ But as the economic crisis enveloping the government grew, the SPD focused on the specific argument for a clear investment program designed to alleviate unemployment. The influential Social Democratic finance minister in North Rhine–Westphalia, Gerhard Weisser, skillfully used the *Länder* finance committee attached to the *Bundesrat* to build a consensus among the *Länder* for the kind of credit expansion long advocated by the Americans.⁵⁹ Erhard’s position deteriorated further on 9 February when the SPD managed to get the Bundestag to pass a resolution for a full-employment program. Franz Etzel, chair of the CDU economic policy committee in the Bundestag, had engaged in a highly charged debate with SPD delegate Alfred Kubel. Kubel accused the government of tolerating high levels of unemployment for fear of inflation. When the chamber got around to voting on a motion to achieve full employment at 1:00 A.M., sixty members of the government coalition, much to Adenauer’s displeasure, had already called it a night and left. As a result, the SPD motion passed easily.⁶⁰ In their full-employment program elaborated

56. Robert Hanes, “Evaluation of the 1950/51 and 1951/52 Programs of Western Germany Submitted by ECA Special Mission to Western Germany,” 21 January 1950, NARA, RG 260, records of the Economics Division, box 5.

57. “Memorandum der Wirtschafts- und Finanz-Berater der Alliierten Hohen Kommission,” 7 February 1950, ACDP, NL Müller-Armack, I-236-048/1; Nicholls, *Freedom with Responsibility*, pp. 273–82.

58. “Wahlprogramm,” annex to Rudolf Pass to Colleagues (Genossen), 21 March 1949, FES, NL Weisser/1041.

59. Weisser to Schumacher, 14 September 1949, FES, Bestand Weisser Schriftwechsel/0018.

60. McCloy to Frankfurt, 10 February 1950, NARA, RG466, McCloy papers, box 8.

by April, the SPD favored the creation of a super-ministry consisting of all government agencies interested in economic policy, with representatives from the Bundestag, the unions, and the industrialist associations to decide on an overall economic strategy.⁶¹

Under the combined pressures of the Allies and the SPD, the pragmatist Adenauer began to look to Erhard and his supporters to give way. He warned the cabinet that “the attacks from the opposition are meant to sharpen the differences within the coalition and to bring about a crisis.” To combat unemployment, he demanded DM 250 million for the Bundesbahn, DM 300 million for export industries, and DM 300 million for *Länder* with large concentrations of refugees.⁶² He repeated his suggestions to McCloy on 11 February with the request that the U.S. high commissioner lean on Vocke. “Vocke is, as you know, a little too careful,” he said.⁶³ In an extraordinary meeting with the high commission, Adenauer presented the program discussed in cabinet that, along with a previously agreed upon housing program, totaled DM 3.4 billion.⁶⁴

The mounting criticism from all sides did little to change Erhard's views. Rather, he considered the attacks of the OEEC, the High Commission, and the SPD fundamental threats to the free market in Germany. West Germany's unemployment problem, he argued, represented more a structural than a seasonal phenomenon. Hence, short-term credit expansion would achieve little. Only long-term capital could ease unemployment in refugee areas. In his own full-employment proposals, he would allocate DM 125 million for projects in Bavaria, Lower Saxony, and Schleswig-Holstein, the *Länder* with the highest concentrations of refugees. But he warned that such funds could only do so much to arrest unemployment. The long-term capital that was essential depended on currency stability. Too extensive an investment program, such as those advocated by the Allies and the SPD, would likely stimulate such additional demands for imported goods and deplete further the foreign currency reserves. This would endanger the currency

61. “Von der Massenarbeitslosigkeit zur Voll-beschäftigung. Der Vorschlag der SPD,” 17 April 1950, annex to Rudolf Pass to WIPO, 22 April 1950, FES, Bestand PV, 01600B.

62. “43. Kabinettsitzung am 9. Februar 1950,” in *Kabinettsprotokolle der Bundesregierung 1950*, pp. 193–5.

63. “The other German money and banking experts consider all these measures thoroughly acceptable.” Adenauer to McCloy, 11 February 1950, StBKAH, NL Adenauer, III/5, in *Adenauer Briefe 1949–51*, p. 172. McCloy wrote Adenauer to extoll the virtues of Vocke. McCloy to Adenauer, 13 February 1950, NARA, RG466, McCloy papers, box 8.

64. Vocke, however, stressed that only DM 2 billion could be spent without triggering inflation. “Minutes of the Twelfth Meeting of the Council of the Allied High Commission with the Chancellor of the Federal Government,” 16 February 1950, NARA, RG466, McCloy papers, box 8.

stability upon which West Germany's attraction for foreign long-term capital depended.⁶⁵ The cabinet answered the OEEC on this basis on 3 March.⁶⁶

Erhard made the same argument to Adenauer when the chancellor asked for a response to the SPD's unemployment resolution. Most of the jobless, he maintained, represented structural unemployment. "Such *structural* unemployment cannot be overcome with a short term credit expansion. Only with a long-term program, in which real extra jobs in refugee areas are created, where new housing can be put at their disposal, can this problem be attacked." He argued that just because the West German government had committed itself to a free-market policy and had rejected direct state intervention did not mean that the government could not legitimately invest in the economy. But government investment policy must help capital flow to those areas where private banks and other private financial institutions could take advantage of it to rebuild a presence. Hence, he suggested allocating DM 300 million for investments, almost half of which (DM 125 million) would go to expellee-owned business in Bavaria, Lower Saxony, and Schleswig-Holstein, in the form of start-up financing, and the rest for long-term infrastructure projects.⁶⁷

By mid-1950, Erhard and the government appeared to have weathered the storm. Because of the restrictions placed on imports, the balance of payments crisis had eased. Although unemployment had still not decreased all that much, criticism from the OEEC and the High Commission had abated. Yet the economic crisis had profoundly shaken Adenauer's confidence in his economics minister. In international circles, the West Germans had been depicted as doctrinaire free marketeers operating against the trend of Keynesian theory. What's more, when the Korean War broke out in June 1950, the balance of payments again quickly worsened. This time

65. Erhard to Adenauer, 25 February 1950, BA, B 136/655. See also Erhard, "Stellungnahme zu dem Memorandum der Wirtschafts- und Finanzberater der Alliierten Hohen Kommission," 15 February 1950, LES, NL Erhard, NE I.1); Erhard, "Bekämpfung der Arbeitslosigkeit," 25 February 1950, BA, B 136/655. The American Edward A. Tenenbaum recognized this: "An internal policy of expansion, under present conditions, would only result in increased imports of consumer luxuries, and therefore in greater trade debts and greater reluctance to continue on the path of liberalization. In the minds of many Germans, ranging from the central banking authorities, through agrarian politicians to socialist leaders, there is an increasing perception of this relationship. The central bank draws the conclusion that both continuation of liberalization and monetary measures to expand employment must be eschewed. Socialists, on the other hand, hope that the contradiction between liberalization and employment will lead to failure of the former, and restoration of a system of controlled economy as the only means of restoring the latter." Tenenbaum, "A Financial Program for Western Germany," 7 February 1950, NARA, RG 469, assistant administrator for programs, subject files, 1948-50, box 19.

66. "49. Kabinettsitzung am 28. Februar 1950," in *Kabinettsprotokolle*, pp. 232-3.

67. Erhard to Adenauer, 25 February 1950, "Bekämpfung der Arbeitslosigkeit," 25 February 1950, BA, B 136/655. Emphasis in original. For a more critical view, see Hentschel, *Erhard*, pp. 146-7.

attention would focus on heavy industry. Erhard faced an even greater challenge in the cabinet as the government attempted to find a way to finance the expansion of the coal industry and overcome Germany's most important industrial bottleneck.

THE KOREAN WAR ECONOMIC CRISIS IN GERMANY

The outbreak of the Korean War revealed the Achilles' heel of the West German economy. Unemployment had steadily begun to decline. But underinvestment in heavy industry went from being an important yet long-term problem to a crisis of immediate importance. Industrial growth since 1948 had been fueled by raw materials and food imports. A raw materials scramble at the outset of the Korean War, initiated partly by German industry, soon pushed up prices. Shortages on world markets in turn put pressure on Germany's domestic raw material producers to increase production. The coal industry could not meet this new demand, however, without an increase in investment, reinforcing West German manufacturers' dependence on raw material imports. West Germany's dependence on raw material imports instigated a new balance of payments crisis that nearly undermined the recently created European Payments Union (EPU). To overcome the trade deficit, West German industry needed to increase its reliance on domestic coal. The developing EPU crisis reinforced existing arguments for funneling extra investments to the coal industry. As war began in Asia, the Americans became more anxious that the productivity of West German industry not be slowed by industrial bottlenecks.⁶⁸

This renewed sense of emergency forced Erhard and his concept of the social market economy into a corner. Naturally, he faced fundamental criticism from the SPD. But from his erstwhile supporters among conservatives emerged the idea of limiting depreciation deductions by funneling a portion of them into a special account the state could control for purposes of investment. This discussion culminated in Finance Minister Fritz Schäffer's plan for a special turnover tax (*Sonderumsatzsteuer*). Otto Friedrich, in his capacity as raw materials advisor to Adenauer, proposed the reintroduction of controls over imports, overseen by industrial boards, as well as an economic superministry capable of implementing an overall economic plan. Finally, U.S. High Commissioner John McCloy intervened to demand that the West Germans effectively abandon the social market economy and

68. For a skeptical view of whether the German coal industry was in fact operating at full capacity, see Adamsen, *Investitionshilfe*, pp. 101–5.

reintroduce such controls that would help West German industry contribute to the Western war effort. Erhard considered all such proposals fundamentally at odds with the free-market basis of the social market economy. He and his supporters did, however, concede the need to find a substitute for the as yet nonexistent capital market. But they deemed it essential that all measures to overcome this “temporary” investment gap be conducted in a “market conforming” manner. Erhard thus proposed a “reconstruction savings plan” (*Sparmarkenplan*) in which a tax on a selected number of consumer goods would supply heavy industry with capital but would then convert into an equity. Yet, by the time he introduced his plan, in the spring of 1951, Adenauer had lost complete confidence in him. To the chancellor, Erhard had entirely misread the situation.

From the beginning, Erhard understood the economic threat the Korean War posed for West Germany. Above all, he worried about inflation. The increase in raw materials prices had already manifested itself in West Germany in higher prices for consumer goods. The higher cost of living would give the unions a justification for demanding dramatic wage increases, which, he feared, would trigger a wage-price spiral. Only through an increase in exports could Germany overcome its negative position in terms of trade. Only through a tight credit policy, to keep the general price level within reason, could exports compete sufficiently in world markets. Unlike in 1949, he now encouraged Vocke to keep a tight lid on credit expansion.

Only if we manage to maintain a stable price level, in spite of the understandable growth tendencies in the economy and the rise in prices of foreign raw materials, will we be able to avoid difficult wage conflicts. . . . If we manage, through more inner discipline than in other countries, to maintain stable prices, we will be better exporters in the long run and our currency, especially in relation to the dollar, will be healthier and stronger.⁶⁹

In an internal memorandum to the Economics Ministry he repeated his belief in the primacy of currency stability. Only by keeping the general price level low could Germany export competitively. Though he conceded the possible necessity of controls to secure access to raw materials and food on world markets, he warned that such controls must not imply a fundamental rejection of the market. “I want to express my belief, that it may be necessary to introduce certain planning mechanisms (*Lenkungsmaßnahmen*), but that the system of the free-market must not in any way be endangered.” Pressure to force the state into a comprehensive investment program might spark an inflation that eventually would necessitate the reintroduction of price

69. Erhard to Vocke, 2 August 1950, BA, B 136/655.

controls. "If the economy comes under inflationary pressure, then price rises will necessarily follow in a market economy. But price rises are not politically acceptable, and so, as a result, we will consequently see the reintroduction of price controls, the resumption of smuggling and the black market, rationing for the people, in short, everything that we had happily thought was behind us."⁷⁰ He cautioned his colleagues, therefore, not to sacrifice financial order to overcome the admittedly real problems posed by the Korean War boom. As he told CDU delegates at the party congress at Goslar on 22 October, "If we sacrifice financial discipline and order, we give way to open or price-controlled inflation."⁷¹

Erhard could invoke a considerable amount of support for his cautionary stance toward the appropriate methods of investment. The "Niederbreisiger Kreis," a group of economic experts from the coalition parties in the Bundestag, issued a statement in late November 1950 echoing Erhard's call for "market conforming" measures to overcome the Korean War crisis. "The State has the duty and the task to intervene in the workings of the economy with market-conforming means, but only with market conforming means."⁷² The expert advisory board to the Economics Ministry repeated the incantation that the state could utilize appropriate instruments, including fiscal, credit, and taxing policies, to influence the economy in a market conforming way.⁷³ Finally, Erhard had already received a resounding vote of confidence in a study specifically commissioned by Adenauer, written by Wilhelm Röpke.⁷⁴

Nevertheless, Erhard's moral authority in the cabinet suffered another blow as a new payments crisis developed. The OEEC had established the European Payments Union on 1 July 1950. The EPU mandated a further reduction of trade barriers between OEEC countries. In order to finance a temporary trade deficit, each country received a quota, or a credit, equal to 15 percent of its portion of intra-European payments during the preceding year. In West Germany's case, the quota equaled \$320 million.⁷⁵ German

70. Erhard, Internal Memorandum, "Zur wirtschaftspolitische Lage," 15 September 1950, LES, NL Erhard, NE/185A, reprinted in *Die Korea Krise*, pp. 185–90.

71. "Rede des Bundesministers für Wirtschaft Prof. Dr. Ludwig Erhard am Sonntag, den 22. Oktober 1950 anlässlich des Bundesparteitages der CDU/CSU in Goslar," BA, B 102/12540.

72. Niederbreisiger Arbeitskreis, "Erster Entwurf eines wirtschaftspolitischen Programms," 28 November 1950, BA, B 102/12573, reprinted in *Korea-Krise*, p. 229.

73. See, for instance, the discussion in "Protokoll der 5. Tagung des Wissenschaftlichen Beirats beim Bundeswirtschaftsministerium am 9. und 10. Dezember 1950," 15 February 1951, NL Müller-Armack, ACDP, I-236-048/2 DI.

74. Wilhelm Röpke, *Ist die deutsche Wirtschaftspolitik richtig? Analyse und Kritik* (Stuttgart, 1950).

75. ECA, *Ninth Report to Congress of the Economic Cooperation Administration (for the Quarter ended June 30, 1950)* (Washington, D.C.: 1950), pp. 26–28.

industry's panic buying of raw materials on world markets at the outbreak of the Korean War reduced West Germany's EPU quota much more rapidly than expected. In mid-October, Vocke alerted the government that the BdL had already spent two-thirds of the \$320 million credit. The OEEC applied renewed pressure on the Germans to reduce imports. Like Erhard, Vocke wanted to resist the pressure to reverse trade liberalization outright. He told Adenauer that "we should maintain the regime of liberalization and defend it with all available means, because a renunciation of liberalization would entail a severe shock to the German export trade, for the economy, for the currency, and possibly for the political situation."⁷⁶ A report of the Marshall Plan Ministry forced the cabinet to focus on the new payments crisis. The measures taken at Vocke's request in February had steadily eased the earlier crisis. Thus, "the sudden deterioration of the balance of payments situation at the end of the third quarter came as a surprise and requires a thorough analysis of the causes." But since the recent increase in trade with the dollar area suggested that the Germans would eventually be able to settle accounts with the EPU in dollars, Blücher, Erhard, and Vocke persuaded the cabinet to not suspend trade liberalization, as recommended by the EPU, for the time being.⁷⁷ Instead, the BdL increased reserve requirements and the rediscount and lombard rates.⁷⁸

West Germany's payment situation nevertheless worsened over the winter. Both Vocke and Blücher grew increasingly skeptical of both liberalization and Erhard's resistance to state-directed investments in the coal industry. In order to overcome a balance of payments crisis, West Germany had to export. In order to export, West German manufacturing industry required raw materials. In order to produce enough raw materials, especially coal, to supply the needs of Germany's manufacturing base, heavy industry required special investments, even if the economics minister considered such investments incompatible with market theory. The central banker got Adenauer's attention by suggesting that West Germany might otherwise have to withdraw from the EPU. "What our withdrawal from the EPU would mean is clear. It would signal the death-knell of the European idea, also of the

76. Vocke to Adenauer, 14 October 1950, LES, NL Erhard, NE I.4)71, reprinted in *Die Korea Krise*, pp. 193–6. On the EPU, see Hardach, *Der Marshallplan*, pp. 155–62; Buchheim, *Wiederengliederung*, pp. 126–33; Hentschel, "Die europäische Zahlungsunion und die deutschen Devisen Krisen 1950/51," *Vierteljahrshefte für Zeitgeschichte* 37, no. 4 (October 1989): pp. 715–58.

77. "Die Probleme der deutschen Zahlungsbilanz gegenüber der europäischen Zahlungsunion. Bericht vorgelegt vom Bundesminister für den Marshallplan," November 1950, BA, B 102/12783.

78. "Memorandum der Bundesregierung über Maßnahmen zur Verbesserung der deutschen Zahlungsbilanz," 27 November 1950, *ibid.*

Table 5.1. *West German Balance of Payments - 1950*

Monthly Averages (Figures in Millions of Dollars)	1st Quarter 1950	2nd Quarter 1950	3rd Quarter 1950	4th Quarter 1950
Imports	212	198	176	223
Industrial	92	99	103	120
Agricultural	120	99	72	103
Exports	95	119	141	172
Balance	-117	-79	-35	-51
Financed with				
ERP and GARIOA	79	49	32	40
Remaining trade deficit	-38	-30	-3	-11

Source: "Die Probleme der deutschen Zahlungsbilanz gegenüber der europäischen Zahlungsunion." November 1950, BA, B 102/12783.

Schuman plan, but especially for the German economy."⁷⁹ Vocke's conversion to trade restrictions and directed investment, along with his message to Adenauer about the significance of this financial crisis to the policy of westward integration, convinced the chancellor to act. In a stormy cabinet meeting on 27 February 1951, Adenauer criticized Erhard heavily. He accused the economics minister of having waited too long to implement effective import restrictions. "The renunciation of liberalization now appears definitely necessary," he announced. Vocke and Blücher agreed. Erhard tried to resist but was overruled. Liberalization for all nonessential products was temporarily suspended.⁸⁰

The attention focused on the coal industry as the most likely recipient of special investment highlighted many of the economic and political difficulties facing Erhard. First, of course, the coal industry remained under price controls. The continuation of price controls over coal did not necessarily signal a contradiction in the social market economy. Supporters of the social market economy had long expressed approval of controls over basic

79. Vocke to Adenauer, 26 February 1951, LES, NL Erhard, NE/I.4)71, reprinted in *Die Korea Krise*, pp. 275-7.

80. "132. Kabinettsitzung am 27. Februar 1951," in *Kabinettsprotokolle der Bundesregierung*, 1951, pp. 182-97; Otto Lenz diary entry of 27 February 1951, in *In Zentrum der Macht. Das Tagebuch von Staatssekretär Lenz, 1951-1953* (Dusseldorf: Droste 1989).

industries fundamental to the rest of the economy so long as market conditions had not yet been established and could not therefore produce “market” prices.⁸¹ In any event, Erhard had already attempted to release the coal industry from price controls briefly during the summer of 1950, only to confirm his fear that manufacturing industries could not adequately absorb the subsequent increase in coal costs. Lacking an alternative, he took aim at the international institution overseeing the export of West German coal, the International Authority of the Ruhr (IAR). Blaming the unpopular IAR for aggravating coal shortages in Germany also allowed Erhard to criticize Blücher, who, as minister for the Marshall Plan, operated as Germany’s representative on the IAR. He complained of Blücher’s acquiescence to the IAR’s demand that West Germany export 6.83 million tons of German coal in the last quarter of 1951.⁸² Predictably, his attacks alienated Blücher and angered Adenauer, who worried that Erhard would undermine his foreign policy.⁸³ Blücher, in turn, reminded Erhard that the coal shortage could be alleviated only through an investment program “that has as its goal the nationalization of production. Such investment, since it would increase production, would make discussions over reducing the coal export quota unnecessary.”⁸⁴

Able to guess what lay on the horizon, the economics minister searched for ways to prevent the investment crisis from resulting in an unpalatable form of government intervention. Some way had to be found, many thought, to take money from the inflationary consumer goods sector and transfer it to the basic industries that desperately required investment. Many industrialists favored a plan developed by the influential banker and head of the *Kreditanstalt für Wiederaufbau*, Hermann Joseph Abs, to tax a portion of a firm’s depreciation deductions and place the funds in a special investment account at the *Kreditanstalt für Wiederaufbau* (KfW). This formed the basis of the “Wuppertaler Plan.”⁸⁵ Lately, however, the plan of Fritz Schäffer had gained momentum. He also wanted to place an investment account at the KfW, but the funds would come from a special purchase tax (*Sonderumsatzsteuer*) assessed on a firm’s turnover. In his efforts to resist

81. See especially point 2 in the statement of the “Niederbreisiger Arbeitskreis,” reprinted in *Korea-Krise*, pp. 230–1.

82. “Kabinettsitzung am 8. Januar 1951,” in *Die Kabinettsprotokolle der Bundesregierung, 1951*, pp. 35–44. See also Matthiolius, “Niederschiff über die am 25. Oktober 1950, 10.00 Uhr in der Industrie- und Handelskammer zu Essen abgehaltene Hauptgeschäftsführerbesprechung,” 21 November 1950, RWWA, 48/32/2.

83. Adenauer to Erhard, 2 February 1951, StBKAH, NL Adenauer, III 21/(2).

84. “128. Kabinettsitzung am 9. Februar 1951,” in *Die Kabinettsprotokolle*, pp. 137–50.

85. See Adamsen, *Investitionshilfe*, pp. 133–4. “Wuppertaler Plan,” 6 April 1951.” “1,2 Milliarden Dmark Investierungsmöglichkeiten durch Gesamtindustrie, Handel und Gewerbe, sowie Beteiligung der Arbeiter am Zuwachs,” 28 March 1951, BA, B 102/12666.

Schäffer's plans to introduce a West German consumption tax, Erhard had already informed Adenauer of his preliminary reconstruction savings plan on 7 February. In view of the dangerous increase in consumption since the summer, Erhard conceded that "it now appears to be a definite necessity to transfer (*umzuleiten*) the stream of income from the consumer goods market to investments in heavy industry." But instead of introducing a tax that amounted to "forced savings," such as a purchase tax, Erhard wished to require a number of consumer goods to carry an additional savings stamp. Consumers could collect such savings stamps and after two years convert them into interest-bearing securities of the industries receiving the revenues. "It is actually not improbable that such savings certificates could revive a savings culture (*Sparedanken*) or even convince large segments of the population of the need to invest through such means in the nation's capital stock." Erhard admitted his plan was not ideal. But he considered his reconstruction savings plan the best way to revive the private capital market.⁸⁶

Much to Erhard's chagrin, the cabinet increasingly leaned toward Schäffer's proposals during the following month. Schäffer had begun to complain of the impact of the investment and trade crisis on the budget. Inflation had increased the level of subsidies for certain foodstuffs and other socially desirable investments. Schäffer wanted to introduce a special consumption tax (*Sonderumsatzsteuer*) to raise money both for state-directed investments in heavy industry and to fund the increases in subsidies for which Erhard's economic policies had largely been blamed. He hoped to raise DM 500–700 million through the special consumption tax.⁸⁷ Erhard objected that Schäffer's proposals represented a return to economic planning through the back door. But Adenauer warned the cabinet that to avert the crisis, "the economic policy to be decided upon must not concern itself with maintaining a doctrine or defending certain principles, but rather such an economic policy must adapt itself to the present needs of the economy."⁸⁸

It was into this context that John McCloy's letter arrived on 6 March 1951. The American high commissioner demanded fundamental changes in West German economic policy. After reminding Adenauer that West Germany had already been accorded a special EPU credit to overcome the deficit, he stated that developments in the meantime had not met U.S. expectation. Rather, it appeared unlikely that the Germans would fulfill essential

86. Erhard, "Vorlage betr.: Aufbringung von Mitteln für die unerläßlichen Investitionen in den deutschen Grundstoff- und Schlüsselindustrien," 7 February 1951, annex to Erhard to Adenauer, 7 February 1951, LES, NL Erhard, NE I.1)2, in *Korea-Krise*, pp. 248–55; Adamsen, *Investitionshilfe*, pp. 113–23; Hentschel, *Erhard*, 192–4.

87. Schäffer to Adenauer, 3 March 1951, StBKAH, NL Adenauer, III/21(1).

88. "Sondersitzung der Bundesregierung am 6.März 1951," in *Kabinettsprotokolle* 1951, pp. 205–11.

international obligations. While the rest of the Western world had taken measures to finance and fight the Korean War, the West Germans proved slow in curbing what the Americans considered an unseemly exuberance in buying consumer goods. In view of the sacrifices made by Americans in Korea, McCloy expected the German government to intervene directly into its economy, if it wished to continue to receive dollar aid. He demanded direct state administrative measures to enact regulations over the distribution of raw materials guided by a priority list for the benefit of the common defense effort.⁸⁹ McCloy's intervention amounted to a renunciation, on the part of the Americans, of Erhard's economic philosophy.

THE INTERVENTION OF INDUSTRY

On 8 and 9 April 1951, the joint committee of German industry (*Gemeinschaftsausschuss der deutschen Wirtschaft*), a temporary umbrella organization of industrialists that consisted of the *Bundesverband der Deutschen Industrie* (BDI), the *Bundesvereinigung der deutschen Arbeitgeber* (BDA), and the *Deutscher Industrie- und Handelstag* (DIHT), approached the government with a proposal to raise money through "voluntary" investment in the coal, electricity, and iron and steel industries. The joint committee's initiative took place one month after one of its most prominent members, Otto Friedrich of Phoenix Rubber in Hamburg, became the government's special advisor on raw materials. The events of March and April seemed to accord to West German big business a far greater role in the formation of economic policy than it had previously enjoyed. Coinciding as it did with McCloy's letter of 6 March, in which the U.S. high commissioner demanded special action to overcome the bottlenecks afflicting basic industries in West Germany for the sake of the common Western defense, the Korean War crisis appeared, as Werner Abelshausen put it, "the hour of the *Verbände*."⁹⁰

Nevertheless, the implication for the social market economy of the intervention of the industrial associations is not entirely clear. The industrialists had observed with growing concern the many different reform proposals put forward to overcome bottlenecks in heavy industry. Of all the proposals discussed, they had liked Erhard's reconstruction savings plan the best. They did not like Schäffer's idea of a special consumption tax because they feared, as did Erhard, that the finance ministry and the KfW might henceforth seek to institutionalize state-directed investment. When Schäffer appropriated

89. McCloy to Adenauer, 6 March 1951, BA, B 136/655. See also McCloy to Harriman, 7 March 1951, NARA, RG 59, ECA message files, lot 53A276, box 27, in *FRUS* 3: 1623–29.

90. Abelshausen, "Ansätze 'Korporativer Marktwirtschaft,'" *VJZG*, p. 716.

Hermann Josef Ab's plan to call for mandatory contributions to the KfW from West Germany's generous tax deductions for the purpose of investment, the industrialist affinity for Erhard grew. But Erhard had become increasingly isolated in the cabinet. His criticism of Schäffer had infuriated Adenauer and nearly cost him his job. When, in April, Schäffer presented his budget for the next fiscal year, along with his completed proposal for a special consumption tax to fund investment in heavy industry, Erhard called on the joint committee. On 9 April, he informed the cabinet that industry was prepared to take upon itself the task of raising and allocating DM 1 billion for investment. The economics minister sacrificed his reconstruction savings plan, and the dispute with Schäffer, who likewise sacrificed the special consumption tax, was settled.

McCloy's letter added a sense of urgency to Germany's investment crisis. But the high commissioner had merely restated the long-standing displeasure of the Americans with Erhard's unwillingness to amend his free-market policies in a pragmatic way. As in 1950, the Germans resisted American demands. Adenauer responded to McCloy on 27 March and told the high commissioner that the government had taken measures already to address the raw materials and international payments problems. He assured McCloy that the economic security law (*Wirtschaftssicherungsgesetz*), passed by the Bundestag on 9 March, provided the government with the legal basis with which to establish committees to regulate raw materials imports. Adenauer also reminded him that the government had just suspended trade liberalization to overcome the chronic deficits incurred against the EPU. The chancellor nevertheless resisted McCloy's demands to tax "excess" consumption punitively. Rather, he argued that the tax system must encourage the flow of funds from consumers to heavy industry. He conceded, however, the awkward problem of underinvestment in heavy industry. "The problem is made even more difficult under the specific German conditions, because the federal government must take measures to increase the capacity of heavy industry. . . . Considering the unproductive capital market, this can only be achieved by a purposeful utilization of funds that have previously flown into less necessary investments or excessive consumption." In short, Adenauer informed McCloy that his government had anticipated the American demands for a change in economic policy.⁹¹

But if Adenauer's response represented a composed defense of West German economic policy, the month of March witnessed the most

91. Adenauer to McCloy, 27 March 1951, BA, B 102/12580/2, reprinted in Werner Abelshausen, "Ansätze 'korporativer Marktwirtschaft' in der Korea-Krise der frühen fünfziger Jahre," *VjZ*, 30 (1982): pp. 739–45.

acrimonious infighting in the cabinet. Adenauer had grown increasingly convinced that Erhard's "dogmatic" agenda, along with his administrative incompetence, had to change. When he called a special cabinet meeting for 6 March to discuss the problem, he wrote Hermann Josef Abs of the KfW that "we have seriously to consider to what extent we need to depart from the free-market more than before."⁹² When the cabinet met, Schäffer explained how increased raw material and food prices had put additional strains on the budget. He needed more money to cover food subsidies, arguing that "he cannot, considering the increases in the burdens on the budget, do without additional sources of revenue." The special consumption tax would raise DM 600 million for increased subsidies. To finance industrial investment, Schäffer recommended adopting Abs's plan of forcing firms to deposit a portion of their depreciation write-offs in a special investment fund at the KfW. Adenauer asked Schäffer and Abs to draw up the necessary legislation.⁹³

Erhard reacted to McCloy's letter and the growing momentum behind Schäffer's consumption tax proposal by depicting the crisis as a fundamental threat to the free market in West Germany. Although he had been in contact with lower-level allied officials for months about introducing a system of investment priorities, he confessed his surprise at McCloy's direct intervention.⁹⁴ As Adenauer and the rest of the cabinet took a greater interest in Schäffer's plan for a special consumption tax than in his "reconstruction savings" proposal, Erhard's exchanges with Schäffer grew increasingly polemical.⁹⁵ First, he argued that Schäffer's plan would raise only DM 700 million for industrial investment instead of the DM 1.5 billion he felt to be necessary. But his real objection was more fundamental. He argued with renewed vigor that Schäffer wished to reintroduce state-directed investment through the back door. The finance minister's *dirigiste* proposals differed little from those of the SPD or the unions. As was his habit, he warned Schäffer in quite dramatic language that "I will . . . extend the most intense and bitter resistance to your plan. I also know now that with each passing day all relevant experts and politically relevant persons and groups are on my

92. Adenauer to Abs, 4 March 1951, StBKAH, NL Adenauer, III/21(1).

93. "Sondersitzung der Bundesregierung am 6.März 1951," in *Die Kabinettsprotokolle, 1951*, pp. 205–11. See also Schäffer to Adenauer, 3 March 1951, StBKAH, NL Adenauer, III/21(1).

94. "134. Kabinettsitzung am 8.März 1951," in *Die Kabinettsprotokolle*, pp. 212–20; "Besprechung zwischen Ludwig Erhard und dem Wirtschaftsausschuß der Alliierten Hohen Kommission (Vorsitz: General MacReady) auf dem Petersberg bei Bonn," 19 October 1950, BA B 102/12580, reprinted in *Die Korea-Krise*, pp. 197–8.

95. See "135. Kabinettsitzung am 13. März 1951," in *Die Kabinettsprotokolle*, pp. 222–36.

side.”⁹⁶ To drum up support for his reconstruction savings plan in the Bundestag, Erhard circulated a memorandum on the tax debate to the coalition parties in which he characterized Schäffer’s plan as “a cold confiscation of the property of citizens in the name of an unjustified claim to capital on the part of the Fiscus.”⁹⁷ Exasperated, Schäffer passed all these exchanges on to Adenauer with the plea “that this working at cross purposes in public and in front of the coalition parties of members of the cabinet be made impossible in the future.” Schäffer offered to resign.⁹⁸

This escalating dispute between Schäffer and Erhard forced Adenauer’s hand. His patience with Erhard had been under strain for some time. He had already on numerous occasions brought to Erhard’s attention his distaste for what he regarded the Economics Ministry’s deliberate press leaks meant to disparage other members of the cabinet. He resented Erhard’s tendency to believe he had a right to decide economic policy on his own. In an angry letter, he reminded his economics minister that “no federal minister has the right to decide fundamental questions of policy on his own and to oppose the decisions of the Cabinet, or to circumvent the regulations on dealing with the political parties laid down by the Chancellor.” In fact, he blamed Erhard for the crisis in which West Germany found itself. Erhard had championed an overhasty and ideologically inspired liberalization of trade. He had not seen that the raw materials shortages were not temporary in nature. “You have apparently failed to recognize the greatest danger to our entire economic well-being, namely the coal question. Through your excessively optimistic speeches, you have deceived yourself and others as to the seriousness of our economic situation.”⁹⁹ Already with this crisis in 1951, the disdain with which Adenauer approached his economics minister in later years was evident.¹⁰⁰ If he hoped to effect a change, however, he was disappointed. Erhard’s response to the chancellor’s uncharacteristically blunt language was decidedly unapologetic. He challenged the chancellor to dismiss him if he did not think him fit to exercise such control wisely. “I may however add, that it was undisputably my economic policies that

96. Schäffer, “Zusatzsteuer und Aufbausparen,” annex to Schäffer to Erhard, 14 March 1951, BA, B 134/3270, reprinted in *Die Korea-Krise*, pp. 330–4. See also Erhard to Schäffer, 15 March 1951, annex to Schäffer to Adenauer, 16 March 1951, BA, B 136/4674.

97. *Welt am Sonntag*, 18 March 1951.

98. Schäffer to Adenauer, 19 March 1951, BA, B 136/4674.

99. Adenauer to Erhard, 19 March 1951, StBKAH, NL Adenauer, III 21/(2). Although Adenauer admitted privately to Lenz that he would like to replace Erhard, he tended, in letters to the economics minister, to hold the inadequate administration of the Economics Ministry responsible for these problems. Otto Lenz diary entry of 19 March 1951, in *In Zentrum der Macht*.

100. Volker Hentschel writes eloquently about the strange and disturbing relationship between Adenauer and Erhard, see *Erhard*, pp. 115–20, 412–20, 443–70.

allowed the German people and the German economy to save itself from chaos and to reestablish a humane basis, and that brought about such successes in both domestic and foreign trade that could hardly have been expected.”¹⁰¹ Forced to concede the importance of Erhard’s popularity to the government, Adenauer contented himself with replacing state secretary of the economics ministry, Schalfjew, in whom he had no confidence, with Ludgar Westrick.¹⁰²

The conflict between Erhard and Schäffer came to a head again during the first week of April. On 4 April Erhard submitted his completed reconstruction savings plan. The plan would raise money for investments through the purchase of savings stamps attached to a selected number of consumer goods. As soon as a consumer had amassed a collection of such stamps equaling DM 20, he could obtain an official entry in a savings book. Once an entry had been made in the savings book, the money equivalent of the savings stamps became interest-bearing two year loans. After 1 July 1954, the holder of such stamps could either accept repayment or convert his accumulated entries into shares. The funds raised by purchases of savings stamps would be deposited in the *Kreditanstalt für Wiederaufbau*. The KfW then would distribute loans to the heavy industries in question for the purpose of overcoming bottlenecks in much the same way as it had distributed counterpart funds. Unlike Schäffer’s plan, Erhard argued, his proposal did not turn the state into a *dirigiste* of capital. Moreover, he could expand the number of consumer goods effected because the reconstruction savings stamp did not technically represent a tax and would thus not increase the level of inflation.¹⁰³

But Erhard’s plan was overshadowed by Schäffer’s presentation of the supplemental budget for the rest of 1951. The increases in occupation costs and the repercussions of increasing world food prices on food subsidies made new sources of revenues necessary. In order to cover extra expenses, Schäffer insisted on the special consumption tax. “I realize that my claims on these new sources of revenue in an effort to reestablish a balanced budget may make the reconstruction savings plan of the economics minister increasingly

101. Erhard to Adenauer, 19 March 1951, BA, B 136/4674. See also Hentschel’s eloquent description of the inherent conflict between Erhard and Adenauer, *Ludwig Erhard*, pp. 115–20.

102. “Sondersitzung der Bundesregierung am 20. März 1951,” in *Die Kabinettsprotokolle*, pp. 261–5; “Verantwortung im Kabinett,” *Tagesspiegel*, 17 March 1951; *Welt am Sonntag*, 18 March 1951; “Erhard lehnt Rücktritt ab. Offener Kampf gegen Schäffer-Verstimmung über den Kanzler,” *General Anzeiger*, 19 March 1951 “Erhard im Kampf,” *FAZ*, 19 March 1951. Much to Adenauer’s chagrin, Westrick would, in time, become Erhard’s loyal defender. See Hentschel, *Ludwig Erhard*, pp. 195–7, 315. See also Nicholls, *Freedom with Responsibility*, pp. 286–7.

103. Erhard, “Memorandum über das Aufbausparen,” 4 April 1951; Rust, “Vermerk für die Kabinettsitzung,” 6 April 1951, BA, B 136/655.

unrealizable.” Instead, he suggested adopting Abs’s idea of requiring industry to deposit 25 percent of the DM value of their annual depreciation write-offs into a special investment fund at the KfW. “With such measures we can raise, in 1951, at least DM 500 million that can be used as capital for important investments in the coal, energy, and iron and steel industries, and in transportation.”¹⁰⁴ The simplicity and thoroughness of the Finance Ministry’s plan did not fail to have an effect on the rest of the cabinet.

To outmaneuver Schäffer, Erhard invited the intervention of industry. The events of the last month demonstrated that his complicated reconstruction savings plan stood little chance of realization against Schäffer’s simple consumption tax. But he had also concluded that the recent stabilization of prices rendered a tax of any kind on consumer goods unnecessary, and therefore undesirable. The task now was simply to shift capital from one branch of industry to another.¹⁰⁵ The joint committee of German industry had found Erhard’s plan the least objectionable of those proposed. As Schäffer’s plan to reduce depreciation write-offs appeared to gain support in the government, the joint committee approached Erhard with a plan to raise money on its own. In a seven-point program adopted on 8 April, Erhard agreed to renounce his reconstruction savings plan. In return, the joint committee agreed to make investment in heavy industry a priority. “In view of the circumstances, the chairmen [i.e., of the joint committee] consider it the duty of German industry to raise, on its own responsibility, the necessary funds on its own.”¹⁰⁶ In a meeting on the following day with Adenauer and representatives of the union umbrella organization, the *Deutsche Gewerkschaftsbund* (DGB), the joint committee pledged itself to this “voluntary” action and proposed to convene committees with the unions to determine the scope of the program. The cabinet accepted the joint committee’s offer and dropped the Schäffer/Abs proposal on 10 April.¹⁰⁷

Werner Abelshausen characterized this intervention of industry as a move designed to reestablish the traditional corporatist basis of German industrial culture. Yet it seems excessive to apply the term *corporatism*, a largely incoherent set of arrangements designed as an alternative to free-market capitalism,

104. Schäffer to Adenauer, “Betr.: Wirtschaftsprogramm der Bundesregierung,” 3 April 1951. See also Schäffer, “Einnahmen und Ausgaben des ordentlichen Bundeshaushalts,” 3 April 1951, StBKAH, NL Adenauer, III/21(1).

105. Erhard to Berg, 12 April 1951, LES, NL Erhard, NE I.4)36; “Protokoll der 8. Tagung des Wissenschaftlichen Beirates beim Bundeswirtschaftsministerium vom 28. und 29. April 1951 in Bad Tonnstein (Brohtal),” 23 May 1951, ACDP, NL Müller-Armack, I-236-048/2 DI.

106. “Vermerk,” 9 April 1951, annex to BDI, BDA, and DIHT to member organizations, 10 April 1951, RWVA, Bestand Cologne, 1/228/4.

107. “Pressenotiz,” 9 April 1951, RWVA, Bestand Cologne, 1/228/4; “140. Kabinettsitzung am 10. April 1951,” in *Kabinettsprotokolle*, 1951, p. 291.

to this rather limited and defensive undertaking. The committee intervened, not to establish limits to the free market, but rather to head off the increasingly statist nature of the various proposals concerning industrial investment gaining political strength in the government and the Bundestag.¹⁰⁸ To be sure, Erhard's and Adenauer's willingness to accept the committee's advice on industrial investment, in order to end the quarrels in the cabinet over economic policy, gave the leading business associations the chance to mold investment legislation more to its liking. The consumer goods manufacturers within the *Spitzenverbände* had long resisted both Schäffer's and Erhard's plans to curb consumption through taxation. The joint committee had supported Erhard's reconstruction savings plan as the lesser of two evils. Most of industry also responded negatively to Abs's plan, later adopted by Schäffer, calling for a significant portion of depreciation deductions to be deposited in an investment fund at the KfW. Not only did most industrialists not want the tax burden, but limiting the amount of depreciation deductions also appeared to penalize those firms that had already invested in new capital goods and additional capacity.¹⁰⁹ Finally, Erhard and the joint committee's alliance grew stronger in response to the DGB's suggestion that the government call a halt to private investment and force firms to contribute their entire depreciation deductions to the KfW for state-directed investment.¹¹⁰ The committee, with Erhard's increasing support, sought to take the state completely out of investment. As Erhard wrote to Fritz Berg, "under no circumstances must German industry arouse the impression that it is developing a plan to raise funds by bringing the finance minister in, or by burdening the consumer."¹¹¹

Not only did the committee wish to take the state out of investment, it also wanted to limit the scale and scope of any investment program. Once the government charged the committee with drafting an official proposal as a basis for legislation, it worked closely with the Economics Ministry to achieve a limited, yet concentrated, investment plan. First, it wished to limit the amount of money raised from the consumer goods and manufacturing industries for investment in heavy industry to DM 1.2 billion over a one-year period.¹¹² Limiting the amount of money meant concentrating

108. Ibid.

109. "Sinn und Bedeutung der Investitionshilfe," annex to Dr. Paul Beyer, chairman of the Joint Committee, to the member organizations, 11 July 1951, BA, B 102/12667.

110. DGB, "Forderungen des Deutschen Gewerkschaftsbundes, für das Gebiet der Bundesrepublik Deutschland zur Wirtschaftspolitik." ACDP, NL Müller-Armack, I-236-040/1.

111. Erhard to Berg, 12 April 1951, LES, NL Erhard, NE-I.4)36.

112. Adenauer, Erhard, the unions, and most other participants in the investment debate had estimated DM 3-4 billion in the context of a relatively long-term plan to be necessary.

investments in a small and manageable number of industries. As the committee had acceded to Adenauer's request to consult the DGB, this meant convincing the unions to sacrifice demands for significant investment in the Bundesbahn and shipbuilding in favor of concentrating the available resources on breaking the bottlenecks in coal, iron and steel, and electricity.¹¹³ The committee also sought, with Erhard's support, to funnel the investments through the semiprivate Industriekredit Bank at Düsseldorf rather than through the publicly owned KfW. As State Secretary Westrick wrote to Erhard, "The entire project of industrial aid can only become a lasting success if it succeeds in reactivating the capital market and making it functional." The Industriekredit Bank seemed better placed to restore and nurture such private banking relationships than the KfW.¹¹⁴

The larger significance of the committee's action lay in the fact that the industrial associations found an opportunity to shape the meaning of the social market economy more than had previously been the case. On the one hand, the associations feared that a defeat for the social market economy could lead to increased state intervention at their expense. The committee often justified its action, therefore, as an "undogmatic" application of free-market principles. The industrialist associations also utilized the device of acknowledging, much to their supposed regret, that the free market could not yet operate at the levels of either raw materials extraction or the private capital market. Fritz Berg, head of the *Bundesverband der deutschen Industrie*, made this case. He wrote Adenauer in early April that most of West German industry preferred, in principle, the deregulation of coal and other energy prices. "On the other hand, we were aware of the undesirable consequences in terms of wages and prices that a full deregulation of the price (of coal), because of shortages, would entail." Hence, the joint committee had voluntarily offered a "transfer of wealth" (*Umlenkung des Vermögens*) to the benefit of heavy industry.¹¹⁵ As the Bundestag set to work during the second half of 1951, the committee emphatically insisted that the preamble to the law

113. Griesbach, "Vermerk über die Aussprache zwischen den Vertretern der Wirtschaft und den Vertretern der Gewerkschaften im Bundeskanzleramt am 8. Mail 1951, Betr.: Industrieplan," 9 May 1951, BA, B 102/12666; BDI, BDA and DIHT to member organizations, "Betr.: Verhandlung der Spitzenorganisationen mit dem Herrn Bundeskanzler," 15 March 1951, RWVA, Bestand Cologne, 1/228/4.

114. Westrick to Erhard and the cabinet, "Memorandum zu dem Gesetz über die Investitionshilfe der deutschen gewerblichen Wirtschaft," 2 June 1951, BA, B 102/12666. Meinhold, "Bericht, Betr.: Investitionshilfe der deutschen gewerblichen Wirtschaft als Vorlage für Herrn Minister zur Vorbereitung der Diskussion im wirtschaftspolitischen Ausschuss des Bundestages am 7.6.1951," 6 June 1951, BA, B 102/12666; Erhard, "Ergebnis einer Besprechung der Koalitionsparteien am 24.10.51. Betr.: Sicherung der Engpaßinvestition über das Investitionshilfe hinaus," 25 October 1951, BA, B 102/12573.

115. Berg to Adenauer, 2 April 1951, annex to BDI to Westrick, 4 April 1951, BA, B 102/12666.

note the “voluntary” character of this contribution.¹¹⁶ The committee had found an opportunity to intervene in the name of the free market itself.

Of great benefit to organized industry in this crisis thus was its ability to associate its interests and views with the concept of the social market economy. As the joint committee’s influence over West German economic policy increased during the latter half of 1951, it too reinforced its position as defender of Erhard’s policies. When the ECA special mission chief to Germany, Jean Cattier, followed up on McCloy’s letter with a very public condemnation of Erhard’s efforts to overcome the payments and investment crises, the committee shot back in Erhard’s defense. While acknowledging the special disparities of the West German economy that inhibited sufficient investment in heavy industry, the committee declared that “it was the system of the free market that, in conjunction with Marshall Plan aid, made our reconstruction possible.”¹¹⁷ Similarly, Otto Friedrich took pains to prevent his role as raw materials advisor from signaling that the government had lost confidence in Erhard and the free market:

This is not a fundamental change in our economic policy, but rather a consistent extension of it under more difficult circumstances. If we are, however, to pursue this economic policy in an undogmatic way, and to combine it with necessary measures of guidance or planning [*Steuerung oder Lenkung*] . . . then we must avoid mistaking such measures as a return to a planned economy or even a command economy [*Zwangswirtschaft*].¹¹⁸

In imperfect markets, such as coal and steel, free-market theory did indeed have to give way temporarily to planning. “The end goal of planning [*Lenkung*] must be the elimination of bottlenecks and the planned expansion of production and the reintroduction of the fully free market economy.”¹¹⁹

The investment law passed the Bundestag on 7 January 1952. The joint committee pledged to raise DM 1 billion for a one-time investment “to cover the especially necessary investment needs of the coal, iron and steel,

116. “Niederschrift über die 2. ordentliche Mitgliederversammlung des Bundesverbandes der Deutschen Industrie am 26.6.1951,” 7 July 1951, BDI Haus, Institut der deutschen Wirtschaft, NB 220/1951. Erhard had nevertheless to inform Brentano that “fundamentally this involves a voluntary action, but that it requires legislation because it cannot be assumed that every single business will accept the direction of the leading business associations in this matter.” Erhard to Brentano, 29 June 1951, LES, NL Erhard, NE-I.4)38.

117. The Joint Committee to Adenauer, 5 July 1951, RWWA, Bestand Cologne, 1/228/5. See also Erhard’s response to Cattier in Bundesministerium für Wirtschaft, “Zürückweisung der Kritik Cattiers an der deutschen Wirtschaftspolitik,” 2 July 1951, LES, NL Erhard, NE/459Cn, reprinted in *Korea-Krise*, p. 415.

118. Friedrich, “Bericht des Rohstoffberaters der Regierung O. A. Friedrich, über seine Tätigkeit,” p. 3, annex to BDI Circular, 20 November 1951, BDI-Haus, Institut der deutschen Wirtschaft, NB 220/1951.

119. *Ibid.*, p. 14. See also Berghahn and Friedrich, *Otto A. Friedrich*, pp. 134–60.

and energy industries.”¹²⁰ The law was meant to supplement other, mainly private, forms of investment. To boost daily coal production to 450,000 tons, for instance, required DM 700 million, of which DM 300–350 million would come from the new law. As a supplement to Marshall Plan funds, the authorities intended the electric utility industry to receive at least DM 170 million in extra aid. The government hoped to funnel DM 250–300 million to the iron and steel industries in excess of ECA funds.¹²¹ The rest of the funds would go to special projects, such as shipbuilding in the north. On the whole, the investment aid law represented a defeat for both the Americans and the SPD. The amount of aid, for instance, was limited to DM 1 billion, instead of DM 3–4 billion, and was concentrated in a limited number of branches instead of serving as a vehicle for full employment. In the end, the law focused on the limited problem of investment bottlenecks in heavy industry that had been recognized and emphasized by Erhard since 1948.

CONCLUSION

The intervention of the leading associations of West German industry in crafting an investment law that burdened one sector of the economy for the sake of another was not easily reconciled with the government’s espousal of free markets. But what significance should historians place on the creation of the investment law of 1952 in defining the character of the social market system? Within two years of its passage, the economic conditions that had made evident the need to funnel extra funds into heavy industry in order to ensure the continued expansion of the rest of the economy had vanished. The overall growth rates for the capital goods and energy sectors overtook manufacturing and consumer goods. Although the increase in production in the coal industry remained unsatisfactory, the unexpected availability of cheap imports from the United States obviated this problem.¹²² Indeed, much of the consumer goods industry in West Germany began to complain about the unfair burden placed on their shoulders and eagerly awaited the day when the investment law expired.¹²³ In addition, the influence over

120. *Bundesgesetzblatt*, 1952, vol. 1, p. 7–14, reprinted in Adamsen, *Investitionshilfe*, pp. 276–83.

121. Griesbach, “Die Bedeutung und die Auswirkungen des Gesetzes über die Investitionshilfe der deutschen gewerblichen Wirtschaft,” annex to “Vermerk für Herrn Staatssekretär Dr. Westrick,” 13 July 1951, BA, B 102/12667.

122. See the table, “Die Periode der Expansion auf breiter Front 1950–1954,” in Grünig and Krengel, *Die Expansion der westdeutschen Industrie*, p. 18. See also OEEC, *Coal Production and Supplies for Western Europe in 1952 and 1953*, pp. 13–14.

123. “Niederschrift über die Sitzung des Hauptausschusses des BDI vom 20.5.1952,” BDI-Haus, Institut der deutschen Wirtschaft, NB 220/1952; “Niederschrift über die am 13./14.6.1952 in Duisburg-Ruhrort abgehaltene Hauptgeschäftsführerbesprechung,” 26 July 1952, RWVA, 48/32/3.

fundamental policy of such industrialists like Otto Friedrich, who had suggested in late 1951 the creation of an overall planning authority, had waned.

In the prevailing historiography, the investment law of 1952 has generally been interpreted as a “corporatist” defeat of Erhard’s free-market principles. In order to stave off the efforts of Fritz Schäffer and others to accord the state a much greater role in overall investment than he deemed acceptable, Erhard invited the leading business associations to agree on an investment plan themselves. The revival in power of the business associations that this procedure made evident harkened the return of the very conglomerations of industrial power that Erhard, with his fiercely competitive market principles, wished to avoid. Nevertheless, the simple conclusion that the social market failed to resolve West Germany’s investment crisis during the Korean War is misplaced.

Now that Erhard was ensconced in power as minister of economics, the forces that shaped the social market economy changed. Until 1948–49, Erhard and his social market supporters had capitalized on the misfortunes of the economic policies pursued by both the Allies and other western German rivals. Stringent economic planning had, by 1948, failed to ease western Germany’s economy of chronic shortages. Erhard’s social market economy had been the correct policy to pursue in 1948 to end controls and produce relative abundance. But the investment crisis, already looming in early 1949, presented Erhard with his first real challenge. In effect, the social market economy went from playing the role of the alternative to a discredited economic planning, to the focus of criticism. As such, other groups emerged with the demand to shape West Germany’s economic future. The Americans, concerned with the success of the Marshall Plan, became early critics of what they saw as underinvestment. They were joined by their British allies, who viewed Erhard’s difficulties as an indication of his failure to appreciate the importance of planning, as well as the SPD, which saw an opportunity to revive enthusiasm for a coordinated, cooperative economic democracy. In addition to such potential opponents, however, Erhard lost the ability to define the social market economy among his own supporters. He was forced to share important areas of responsibility over the economy, from financial powers to predominant influence over the application of the Marshall Plan, with other ministers. Above all, he faced the growing impatience and disrespect of the chancellor, Konrad Adenauer. In the crisis ahead, Erhard had to compete with greater rivals in shaping the appropriate response to the problem of investment.

Having said this, it would also be mistaken to assume that social market theorists were fundamentally hostile to any form of planning. Rather, they

wished to distinguish between planning for planning's sake and economic planning that aimed to restore market relationships. This they termed market conforming policy. Indeed, as Anthony Nicholls has pointed out, the neoliberal school had long insisted that such an undogmatic view of directed investment, or other forms of planning for that matter, distinguished it from traditional nineteenth-century free-market liberalism.¹²⁴ One may dispute the integrity and intellectual honesty of that position, but it is nevertheless clear that neither Erhard nor his supporters faced the investment crisis, a crisis they increasingly spoke of in terms of a fundamental threat to the free market, with a principled hostility toward planning. Erhard had long been an enthusiastic supporter of the directed distribution of Marshall Plan counterpart funds through the quasi-public Kreditanstalt für Wiederaufbau as a temporary substitute for a private capital market. The advice he received from the neoliberal advisory board in the ministry of economics repeatedly stressed the need not to reject directed investment, but rather to direct it in a "market conforming" way.

The debate that Erhard pursued with his opponents over how to make the needed investment market conforming was very real. First, the investment needed to be limited in size and scope. He opposed the plans of the Americans, the SPD, and Fritz Schäffer to implement a large program that strayed from the narrow market goal of alleviating crucial bottlenecks within industries hitherto inhibited, for a variety of reasons, from participating in the market economy. Second, as the aim of the needed investment was to arrive at an appropriate substitute for a private capital market, he wished the state to take a detached role in the project. Thus he opposed Schäffer's plan to raise funds for investment through a supplementary purchase tax (*Sonderumsatzsteuer*) as well as Hermann Joseph Abs's plan to reduce tax depreciations and place them in an account at the KfW. Rather, he wished to raise the necessary funds through a scheme whereby persons who paid a price supplement on selected consumer goods would enjoy the right to have the same amount transformed into an equity, thus providing the underpinning for a private capital market. At no time, however, did Erhard describe the need for a special investment program as fundamentally irreconcilable with the social market economy.

The real controversy surrounding this episode in West Germany's economic history has been, of course, the intervention, in and of itself, of business associations in the formulation of policy. To Abelshauser, this action harkened back to corporatist traditions in German industrial culture.

124. *Freedom with Responsibility*, especially pp. 60–89, 151–8, 290–4.

To Alexander Shonfield, the public power of private German associations pointed toward the inevitable development of what he considered a modern capitalism on the model of postwar France.¹²⁵ But an evaluation of the role of West German business associations in helping Erhard effect the solution that became the Investment Aid law must take into account the contexts within which the politics of economic policy takes place. In this light, doctrine is important. Erhard and his supporters in the business associations aimed to defend the social market doctrine against conscious opposition from the Americans, the Social Democrats, and portions of the government. The alternatives offered promised a much more thorough, expensive, and state-directed investment program that many feared would both not work and would encourage inflationary developments that would make necessary the reimposition of recently discarded and symbolically significant controls.

Historians have thus exaggerated the extent to which the investment law violated the tenets of the social market economy in such a way as to call into question the free-market pretensions of overall economy policy. As it developed under Erhard and the joint committee's guidance, the law sought to limit the scope and the nature of this special measure. The form of "voluntary" contributions as interest-bearing assets, available to a broad swathe of consumers, was meant to reawaken the private capital market as a permanent alternative to state-led planning. In the end, one must decide whether these measures represented a fundamental, or even a "corporatist," transformation of the economic system, or whether these measures were acceptable within the theoretical parameters of the free market. Perhaps the term *corporatist* to describe the events of 1950 and 1951 is too strong a term to apply to the relatively minor steps taken by the government and industry groups to overcome shortages.

125. See Schonfield, *Modern Capitalism*.

The Social Market Economy and Competition

Ludwig Erhard claimed that the social market economy represented a decisive break with Germany's past. But his political opponents in the SPD and the new trade union federation, the Deutsche Gewerkschaftsbund (DGB), despaired the return of a capitalist economic system they held responsible for the rise of Nazism. The West German left had hoped to transform German industrial culture through the socialization of key industries and the introduction of an "economic democracy." In response, Erhard and his supporters argued repeatedly that the defining characteristic of Germany's economic and industrial past had been its highly developed and rigid organization. The economist Wilhelm Röpke, for example, wrote that Germany's organized and, he would add, collectivist economy contributed to a "cult of the colossal," which had contributed to an alienation favorable both to Nazism and, in the future, socialism.¹ As an alternative, Erhard championed free competition as a means both to solve the immediate problem of increasing productivity and to dismantle Germany's still highly organized and, thus, stifling industrial culture. To backers of the social market economy who rallied to Erhard in 1948–49, this emphasis on competition, this belief in the ability of a competitive framework to achieve essential social ends, distinguished the social market economy from the laissez-faire capitalism they agreed had led to Nazism.

The efforts of Erhard and his supporters to elevate free competition to the core of the social market economy resulted in the much criticized anticartel law of 1957. Though it called for an outright prohibition of cartels, the law included so many exemptions that rendered it inadequate to combat the wave of reconcentration that characterized the West German economy during the late 1950s and early 1960s. The drive to ban cartels, of course,

1. See Wilhelm Röpke, *The Social Crisis of Our Time* (New Brunswick: Trausactron Publishers 1992).

had been a central issue since 1945. The Americans in particular placed great emphasis on both the decartelization and the deconcentration of German industry. But as the cold war developed, the need for western Germany to contribute to the European economy and, indirectly, to European defense came to outweigh the priority the Americans had earlier attached to social reforms in Germany that might temporarily inhibit an economic recovery. Nevertheless, Ludwig Erhard and the social market economists took up where the Americans left off. They advocated, in 1949, a complete prohibition of all cartel arrangements. Yet in time Erhard too had to face the criticism that such industrial reforms might forestall economic efficiency and growth. Pressured by all sides, including Adenauer, Erhard eventually made important concessions at the behest of West Germany's federation of German industry (*Bundesverband der deutschen Industrie*, or BDI), which secured passage of a weakened law in 1957.

The long debate over an anticartel law, as well as the debate over the proper role of free competition in West German society, was one of almost overwhelming complexity. It involved deep disagreements over the efficacy of Allied decartelization and deconcentration policy, a prolonged debate over the effects of a cartel ban on free competition itself, and, not least, discussion of the overall desirability of a competitive system many associated with an irresponsible late-nineteenth-century *laissez-faire* capitalism. Historians have made sense of all this by focusing on the debate between social reformers and business interests from the beginning of the occupation until the law's final passage in 1957. Volker Berghahn was the first historian to examine systematically the role of business interests in the softening of social reform currents in postwar West German industry (though his ultimate judgment of the final anticartel law of 1957 is quite ambivalent, even favorable.)² But the interpretation that highlights the conflict between social reform and vested business interest comes from James Martin, the chief of the decartelization branch of the Office of Military Government–United States (OMGUS), who resigned in protest in 1947.³ According to this interpretation, American decartelization and deconcentration policy ran aground by 1947 because social reformers such as Martin, stemming from the antitrust division of the Justice Department as well as Henry Morgenthau's Treasury Department, found themselves marginalized by conservatives in OMGUS's economics division, occupied by men sympathetic to business interests. Extending this paradigm into the post-1949 period, social reformers

2. See *Americanisation*, pp. 84–110, 155–181. The title of the original German version of this book, *Unternehmer und Politik in der Bundesrepublik* is, in many ways, a more revealing title.

3. See Martin, *All Honorable Men*; Eisenberg, *Drawing the Line*, p. 15.

in West Germany's economics ministry became isolated by the business interests that provided tangible support to the governing coalition of the CDU-CSU and Free Democrats in its political battles against an SPD that still wished to replace capitalism with an economic democracy. As Volker Hentschel recently put it, "He [Erhard] made an enemy of organized labor when he led the change to free-market economy; as he attempted to legitimate the 'free' [market] as a social market economy, he seemed to make an enemy of organized business."⁴

Nevertheless, characterizing the debate over the proper role of cartels and competition in the West German economy during the 1940s and 1950s as one between reformers and businessmen, though it enjoys the virtue of simplicity, runs the risk of being too simple. The initial decartelization and deconcentration debate among the Allies was as much a disagreement concerning different visions of economic and industrial reform as it was a dispute between reformist liberals and business-oriented conservatives in the American military government.⁵ Similarly, in the West German debate during the 1950s there existed a wide variety of opinion over how to institutionalize a competitive ethos effectively. Erhard did not just have to face the BDI. Rather, he faced powerful agencies in the federal government that wished to limit his power, *Länder*, such as North Rhine-Westphalia, which blocked the initial government bill in 1954, opposed to his economic policies, and friends, such as Franz Etzel, who urged him to be more pragmatic in his political efforts to instill a competitive ethos in West German industrial culture. In short, Erhard did unleash a legitimate and serious debate within Germany about the importance of free competition, and, combined with other aspects of the social market economy, he was successful in this debate. Finally, the problem of heavy industry had a profound impact on the industrial culture of West Germany. As the West Germans attempted to wrest control of heavy industry from the Allies, they became enveloped in the internal Allied disagreement over the fundamental structure of the powerful Ruhr combines of the coal and steel industries. Despite the Washington Coal Conference of 1947, the British and the Americans continued to quarrel over whether such heavy industries ought to be taken into public ownership. As they could not agree on how to proceed with the deconcentration of heavy industry, as mandated by bizonal Law 75 of November 1948, they invited the West German government to submit proposals concerning the future structure of

4. Hentschel, *Erhard*, p. 133.

5. Carolyn Eisenberg, in my view, understates the antipathies between OMGUS's decartelization branch and those in the British military government who advocated socialization as the optimal means toward social reform. See *Drawing the Line*, pp. 272-5.

Ruhr industry. The numerous concessions made to the Germans in the subsequent negotiations is well-known.⁶ What has not been adequately stressed was the role of the SPD and the DGB in providing the German government with support for the reintroduction of *Verbundwirtschaft*, the vertical integration of coal and steel that the Allies wished to abolish. They did this both because they did not share the Allied belief in the technical efficacy of separating coal and steel permanently, but also because they wished to secure and expand management–labor codetermination in the Ruhr’s heavy industries. In other words, the West German left still hoped to establish and maintain an organized and planned economic democracy in West German heavy industry. This dynamic had a crucial impact on the structure of West German industry in the competitive climate of the 1950s.

THE JOSTEN DRAFT

During the summer of 1949, Ludwig Erhard and the West German government became embroiled in a controversy over an anticartel proposal discussed within Erhard’s Economics Ministry, known as the Josten Draft, which was leaked to the business press. The Josten Draft bill, named after the official in the Economics Ministry who chaired the committee that produced the bill, called for the strict prohibition of all manifestations of economic power (*wirtschaftlicher Macht*), with very few exceptions. It also called for the creation of an independent antimonopoly agency (*Monopolamt*) with unprecedented judicial powers. As some of the draft provisions became known, Erhard and the new chancellor, Konrad Adenauer, found themselves in an embarrassing dispute with their erstwhile political allies among West German industrialists who had fought allied decartelization and deconcentration policy for years. To stem the controversy, Erhard directed his subordinates to reconsider the draft. The government never again produced such a stringent and far-reaching anticartel proposal.

The Josten Draft proposal for the strict elimination of cartels in West German industry represents one of the great controversies of postwar German economic history. Most historians have generally treated the demise of the Josten Draft as a victory for a cartel-friendly German business world and a defeat for the advocates of a truly competitive social market economy.⁷

6. See Gillingham, *Coal, Steel, and the Rebirth of Europe*, pp. 283–312; Schwartz, *America’s Germany*, pp. 186–201. The most detailed analysis of Allied–German negotiations over the ultimate financial and ownership structure in the Ruhr is Isabel Warner’s *Steel and Sovereignty: The Deconcentration of the West German Steel Industry, 1949–54* (Mainz: P. von Zabern 1996).

7. See Berghahn, *Americanisation*, pp. 156–8; Hentschel, *Erhard*, pp. 127–33; Nörr, *Die Leiden des Privatrechts*, pp. 180–4. In general, see Rüdiger Robert, *Konzentrationspolitik in der Bundesrepublik*.

Two other dimensions to the problem of the Josten Draft, however, have not received as much attention. First, though historians have long known of German industry's intense desire to wrest control over anticartel legislation from the Allies, Erhard too wished to assume authority over an Allied decartelization regime with which he disagreed. Indeed, his primary reason for seeking the authority to draft an anticartel law was to take the controversial issues surrounding the structure of West German industry away from the Americans. In his efforts, though, he became embroiled in the internal Allied disputes over the proper role of competition in West German industry. Meanwhile, within the Economics Ministry and among social market enthusiasts, there was much disagreement over the exact scope and stringency of the proposed anticartel law. Such internal objections, in which Franz Etzel played a large role, fomented a legitimate discussion over the role of competition in a modern economy that cannot simply be reduced to political and economic interests.

On May 29, 1949, the Anglo-American Bipartite Control Office (BICO) empowered the bizonal economics administration, under Erhard, to draft a German anticartel law that, if acceptable to the Allies, would supersede the Allied decartelization law promulgated in February 1947 (Law 56 in the American zone, Ordinance 78 in the British zone.)⁸ Erhard had long wanted the authority to draft a German law. Indeed, he had long wished to win the authority to implement Allied decartelization law himself. This was because he and his officials felt that Allied decartelization law threatened to discredit their own efforts to institute a competitive economy in the bizonal zone. The root of the problem was that the Americans and the British could not agree on the proper implementation of their own law. Against British advice and the misgivings of its own decartelization branch, OMGUS had insisted on creating *Länder*-level decartelization agencies (GEDAGS) as part of its policy of administrative and political decentralization. When the envisioned decartelization of the Henschel locomotive works stalled in mid-1947, owing to the inherent conflict with Johannes Semler's bizonal transportation program, the unenthusiastic German officials of the various GEDAGS in the United States zone set to work to investigate other large firms in their respective *Länder* to determine whether they represented "excessive concentrations of economic power." By the spring of 1948, the investigations had led, after much cajoling from OMGUS, to proceedings against

Das Beispiel der Entstehung des Gesetzes gegen Wettbewerbsbeschränkung (Berlin: Duncker & Humboldt 1976).

8. BICO to Pünder and Köhler, 29 May 1949, NARA, RG 260, records created by the economics advisor and retained by HICOG, box 33.

Robert Bosch AG, the coal sales syndicates in the American zone, and the German governmental tobacco monopoly. Erhard, by that time director of the bizonal economy, objected in particular to actions contemplated against the coal sales syndicate, because of its relevance to the entire bizonal coal and steel industries, the governmental tobacco monopoly, because it could not plausibly represent a threat to Allied security, and Bosch, because of the allegedly heavy-handed tactics of the Württemberg-Baden GEDAG in Stuttgart. Underlying his objections was a profound distrust of the individual GEDAGS. Whereas he found American practice too harsh, however, he objected to British practices in their zone because of their leniency. Like the Americans, he complained of British reluctance to implement the bizonal decartelization law at all. Just as he attempted to work against inflationary tendencies in the bizonal economy following the economic reforms of June 1948, the British appeared to tolerate widespread wholesale and retail price fixing. Indeed, the Americans alleged that the British allowed an iron scrap cartel to flourish. In any event, Erhard felt it critical that the right to implement Allied decartelization law as well as the authority to draft a German law to replace it, should be centralized in his administration.⁹ How else, he argued, could he guide the bizonal economy to recovery at this critical time?

The root of the disarray in Allied decartelization policy that troubled Erhard lay in the fundamental disagreement between the British and Americans over the future ownership structure of the Ruhr. The British continued to advocate the socialization of Ruhr heavy industries, whereas the Americans wished to reintroduce private enterprise. The Washington Coal Conference of 1947 had appeared to settle this question in favor of the Americans, but it had actually settled very little. The British Foreign Office had sacrificed its plan to hand the Ruhr's coal industry over to the Land of North Rhine-Westphalia and had agreed to extend American influence over the bizonal coal industry through the creation of a combined U.S.–U.K. coal control group. In return, however, they had secured the American commitment to allow the Germans themselves to decide the future ownership structure of heavy industry on a federal level as soon as that proved

9. For Erhard's views, see his memorandum to BICO on "Establishment of a German Decartelization Department," 21 October 1948, and his "Expose of 9 September 1948," in NARA, RG 260, records of the U.S. Element, BICO, box 49. For internal German views, see Günther to Josten, "Betr.: Vorarbeiten für ein Besatzungsstatut," 24 July 1948, BA, Z 013/937, and Risse to Erhard, 10 January 1949, BA, B 102/17078. For American frustrations concerning the GEDAGs, see Clary to Hilldring, 5 March 1947, NARA, RG 260, records of the Decartelization Branch, box 145; Hawkins to John J. Baron, 11 July 1947, and Bronson to U.S. member, CFM, "Status of Decartelization, U.S. Zone," 22 November 1947, *ibid.*, box 146.

practicable. The British still had every confidence, until Erhard's economic policies began to prove successful, that the left wing of the CDU and the SPD would together ensure the victory of public ownership in industrial Germany. To help, the British intended to implement the deconcentration of the Ruhr's heavy industries in such a way as to make public ownership the most attractive option. They could continue this method of implementation because the Washington Coal Conference did not accord the Americans any direct right to influence British policy toward the Ruhr's *steel* industry. As a result, William Harris-Burland, head of the British NGISC (North German Iron and Steel Control), continued to implement the British deconcentration policy, Operation Severance, "to prepare the industry for reorganisation on the basis of public ownership." To that end, the NGISC wrested 24 new unit steel companies from the old Ruhr combines (they hoped to create four more) by early 1948. The British wished to create a decentralized steel industry of small, solely steel-producing firms that could nevertheless be linked through some sort of public authority.¹⁰

OMGUS had long complained about Operation Severance, because it considered the British plan an attempt to implement socialization through the back door. Indeed, James Martin, of the decartelization branch, was one of the first to warn Clay of the implications of British thinking on this issue. Martin wondered, after Bevin's speech to the Commons on 22 October 1946 discussing the Ruhr, whether "British government and U.S. government thinking may be veering in direction of socialization of German industry."¹¹ Officials in the decartelization branch feared that Operation Severance, which focused on public ownership, took precedence over the British implementation of the bizonal decartelization law agreed in early 1947. OMGUS officials also warned that the high levels of subsidies and borrowing necessary to keep the new, though small, unit companies afloat demonstrated that the British never intended the companies to become commercially viable by themselves, but rather that the companies would be publicly owned.¹² The financial problems of the new steel

10. The quotation is taken directly from Harris-Burland's order, cited by him in "Plan for the Financial Reorganisation of the Iron and Steel Industry," 23 November 1946, PRO, FO 1036/112. See also Harris-Burland, "The Future Organisation of the German Iron and Steel Industry. The Case for Decentralisation," 11 January 1947, Annex to Oxborrow, 18 January 1947, PRO, FO 1036/113. See also Trustee Administration and NGISC, "The Decartelization and Reorganization of the Iron Producing Industry," 6 July 1948, NARA, RG 260, records created by the Economics Advisor and Retained by HICOG, box 3.

11. Martin to Washington, 25 October 1946, NARA, RG 260, records of the Decartelization Branch, box 145.

12. See, for example, Phillips Hawkins to McCloy, "Outstanding Problems in the Fields in Which the Author Has Been Particularly Intimately Concerned," 29 July 1949, NARA, RG 466, records

companies were partly owing to the fact that steel prices operated under controls in place since 1932. Thus, Ruhr steel sold for RM 14 per ingot ton, whereas the NGISC estimated, in late 1946, that it could sell for RM 64 per ingot ton. As such, a dramatic price increase would have inflationary repercussions for the rest of the bizonal economy; the British decided to make up most of the difference through subsidies.¹³ But another reason for the financial difficulty lay in the very nature of Operation Severance. The new unit steel companies had once formed a part of large vertically integrated combines (*Konzernen*). The British program both abolished the vertical integration of coal and steel (long an Allied aspiration) and separated the basic steel-producing companies from the larger and more complex manufacturing units, the ultimate fate of which had yet to be determined.

The Americans began to make the argument that, because such small steel producing companies could not exist in a market economy on their own, they should be partially reintegrated into other parts of the former combines. This was the technical argument Clay made to Robertson in his effort to convince the British military governor to agree to a joint Anglo-American law to govern the deconcentration of both the bizonal coal and steel industries (what later became Law 75). Clay claimed that a portion of the bizonal coal industry could be exempted from deconcentration and possibly reacquired by the small steel companies. Robertson, aware that the removal of 17.5 percent of the bizonal coal industry from the deconcentration program would destroy a nationalized coal industry's monopoly position, feared that Clay might keep the British from implementing deconcentration in such a way as to make public ownership feasible. As he could not say so publicly, and as he found no other reasons why the American wish to exert influence over all of the bizonal steel industry as well as the coal industry was not justified, he agreed to negotiate with Clay on the future Law 75.¹⁴

The negotiations that led to Law 75, promulgated on 10 November 1948, demonstrated again the distrust between the Americans and the British, as well as the wider European and domestic German implications of that distrust. Though Robertson felt it only fair to involve the Americans in the

of the U.S. High Commissioner for German (McCloy papers), box 1; Hawkins, "Bizonal Decartelization Law," 22 January 1947, NARA, RG 260, records of the Decartelization Branch, box 145.

13. Harris-Burland, "Plan for Covering the Production Losses of the Iron and Steel Industry in the British Zone of Germany," 23 November 1946, and "Minutes of a Meeting Held at Lancaster House, Berlin, on Saturday, 30th November, 1946, at 11.00 hours," 30 November 1946, PRO, FO 943/125.

14. Robertson to Seal, no. 466 Basic, 16 March 1949, PRO, FO 371/76907; Stevens to Bevin, "Foreign Office Minute: Public Ownership of the Coal and Iron and Steel Industries," 23 March 1949, PRO, FO 371/76908.

bizonal management of all heavy industry, London wanted the law's preamble to include a guarantee that the West Germans would have the right to decide the issue of public ownership themselves as soon as a German government existed. The British felt such a guarantee necessary to hold the Americans to their commitment not to veto socialization in Germany unilaterally. But the Anglo-American negotiations over Law 75 soon alarmed the French. They objected vehemently to allowing the Germans to take heavy industry into public ownership at any level, whether state or federal. Paris considered a Ruhr owned by a German government a threat to its national security. The Americans, particularly officials in the State Department, took French objections seriously. At the same time, French opposition toward any kind of publicly owned heavy industry in western Germany kept the British from publicizing their intentions. Partly for this reason, German Social Democrats and their allies in the trade unions concluded that the Americans had forced the British to sacrifice public ownership entirely. Faced not only with this mistaken belief, but also strong electoral competition from the Communists for the Ruhr's working-class constituency, the SPD and the trade unions began a publicly charged campaign during the spring of 1948 to advocate the immediate socialization of Ruhr heavy industry. This campaign resulted in the passage of a socialization bill in the North Rhine-Westphalia *Landtag* that Robertson felt compelled to veto as a violation of *Länder* powers. Yet the debate in the North Rhine-Westphalia *Landtag*, as well as similar debates in Lower Saxony and Schleswig-Holstein, alarmed the French even more. As French participation in other international discussions concerning the political future of western Germany seemed at risk, the Americans toyed with the idea of siding with Paris. They were dissuaded from doing so only at the last minute by the British. Law 75, setting only broad guidelines for the deconcentration of Germany's heavy industry, was thus issued with the preamble intact in November 1948.¹⁵

15. For the SPD's proposals on socialization, see "Richtlinien der Gewerkschaften für ein Gesetz zur Sozialisierung," annex to DGB to the Landtag Economic Policy Committee, 19 June 1948, "Entwurf eines Gesetzes zur Sozialisierung der Kohlenwirtschaft im Lande Nordrhein-Westfalen"; annex to SPD to members, 17 July 1948, BA, NL Agartz, 1365f/75; Rhinwest to Bercomb, RWIS 118, 12 February 1948, PRO, FO 1032/1649. For French reactions, see Massigli, "Translation of French Ambassador's Note Verbale of October 20th," 20 October 1948, annex B to U.K. Delegation Brief, "Four Power Talks on International Control of Ruhr," 9 November 1948, PRO, FO 371/70630. See also Hitchcock, *France Restored*, pp. 106–7; Eisenberg, *Drawing the Line*, pp. 328–34. On final negotiations over Law 75, see Henderson to Attlee, 8 November 1948, PRO, FO 800/467/48/79; "CP(48)251. Trusteeship Scheme for the Coal, Iron and Steel Industries of the combined Anglo-American zone of Germany. Memorandum by the Secretary of State for Foreign Affairs," 3 November 1948, PRO, PREM 8/790. The text of Law 75 is in von Oppen, *Documents on Germany*, pp. 335–43.

British and American distrust of one another, as well as their distrust of the Germans, manifested itself in the Allied reluctance to accord Erhard full power over the decartelization of the western German economy. During the fall of 1948, the military governments decided to allow the German economics administration to draft its own decartelization law to replace the Allied laws promulgated in February 1947. The Allies would nevertheless exempt heavy industry from the provisions of this law because they themselves had not yet decided the Ruhr's ultimate fate. Erhard was primarily concerned that a western German agency be created under his auspices both to even out the disparate application of the Allied decartelization law and to deliberate upon its replacement by a native German law. The Allies had long recognized the need for a central German decartelization agency. They had wanted to create one during the early summer of 1947, but the reorganization of the German economic agencies at that time and the concomitant political decline of Viktor Agartz had stood in the way. Now the Allies wanted to create a German commission under the direct control of BICO, rather than the economics administration. The British in particular wanted this because they did not trust Erhard. The Americans sympathized with the British primarily because they had grown frustrated with German decartelization agencies in general. Economics ministers from various *Länder*, particularly Erik Nölting of North Rhine–Westphalia, prevailed upon Erhard to give way on this issue so that the Germans could use what was nothing more than a liaison as a “source of what goals and purposes the allies envision in their economic policies toward Germany.” Erhard in the end conceded, but that meant he exercised only indirect control over the enforcement of allied decartelization law in the years to come.¹⁶

As Erhard and the Allies maneuvered over the control of decartelization in western Germany, the economics administration was already at work on a fundamental reform of German competition law. Paul Josten, who had been in the cartel bureau of the Economics Ministry during the 1920s and who had recently come to the economics administration from the *Länderrat* in the American zone, headed a committee charged with drafting a German anticartel law. The Josten committee included many social market theorists,

16. Nölting to Pünder and Erhard, 13 September 1948, Sahn, “Vermerk, betr.: Dekartellisierung,” 06 December 1948, “Aktenvermerk,” 7 January 1949, BA, Z 013/000937; Kaufmann to the bizonal executive, “Vermerk für die Direktorsitzung am 5. January 1949,” 27 December 1948, BA, Z 013/000936; BICO to Pünder, BICO/Memor(48)58, 04 August 1948, BICO, “Summary Report of the Meeting of U.K. and U.S. Military Governors with German Bizonal Officials,” BICO/GL(48)80, 8 December 1948, NARA, RG 260, records of the U.S. Element, BICO, minutes of BICO staff meetings with bizonal and German officials, box 49; Hentschel, *Erhard*, p. 129.

including Franz Böhm, who wished to effect a fundamental discontinuity in Germany's industrial culture. The institutionalization of free competition was fundamental to this goal. Since the late nineteenth century, the German economy had grown highly developed, while free competition became viewed with a great deal of suspicion. Supported by the "Historical School" in economics, from the *Verein für Sozialpolitik* to Werner Sombart, opponents of the free play of the market had argued that the modern organized economy represented a legitimate, even organic, stage in historical development.¹⁷ During World War I and the 1920s, of course, the state intervened increasingly to strengthen and regulate cartels and other concentrations of industrial power, the original purpose of the 1923 cartel ordinance notwithstanding.¹⁸ The 1923 cartel ordinance had merely outlawed the "abuse of power" exercised by cartels. The Josten committee set to work on legislation that would establish a general ban on cartels.

It would be a mistake to draw too many parallels between the Americans and German neoliberals in their aversion to cartels. There was a subtle but fundamentally important difference between the two positions. The Americans approached the issues of decartelization and deconcentration with an a priori belief in the benefits of free competition. Neoliberal theorists, on the other hand, wanted to establish a free competitive order (*Ordnung*). They operated within a specifically German intellectual tradition in which they saw the economy as operating as an integrated, interrelated, organic whole. The tendency to approach the economy as an integrated order, of course, had come from the Historical School. But this discourse permeated all western German discussions of the economy, including that of the Social Democrats, who preferred to speak of a more progressive-sounding economic constitution (*Wirtschaftsverfassung*). To neoliberal theorists wishing

17. For the most thorough recent treatment of the theoretical background to the social market economy, see Nicholls, *Freedom with Responsibility*, pp. 32–59, 136–50. For an account of how the Germans jurists were influenced by the Historical School, see Nörr, *Die Leiden des Privatrechts*, pp. 7–30; See also Keith Tribe, *Strategies of Economic Order: German Economic Discourse, 1750–1950* (Cambridge: Cambridge University Press 1995), pp. 66–94.
18. The 1923 ordinance originated in the widespread criticism against heavy industry's behavior during the great inflation. But the guiding principle whereby only abuses of power (*Missbrauchsprinzip*) were outlawed helped merely to channel the methods of cartelization in the direction of state-approved rationalization programs as well as the institutional form of the *Interessengemeinschaft*, or IG. See Nörr, *Leiden*, pp. 49–83. The classic account of the German state's intervention in the economy during World War I is Gerald Feldman's *Army, Industry and Labor in Germany, 1914–1918* (Princeton: Princeton University Press 1966). On rationalization, see Mary Nolan, *Visions of Modernity*, as well as Alfred Chandler, *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, MA: Harvard University Press 1990). For a very helpful summary of the rapidly changing ownership structures in the Ruhr during the interwar period, see Gloria Müller, *Strukturwandel und Arbeitnehmerrechte: Die wirtschaftliche Mitbestimmung in der Eisen- und Stahlindustrie 1945–1975* (Dusseldorf: Klartext 1991), pp. 30–48.

to establish a social market economy, the point of anticartel legislation was to empower the state to preserve an overall competitive order. The point was not necessarily to prevent economic concentration as such. The important neoliberal economist Walter Eucken eloquently described this principle when he wrote that “we believe in State planning of the form of the economic process, but we reject economic planning within (*Staatliche Planung und Lenkung*) the economic process.”¹⁹ To neoliberals, competition was not a goal in and of itself, but an instrument for establishing a competitive order.²⁰

As the economics administration worked on its own anticartel bill, Erhard was concerned lest it appear that the Americans exercised undue influence over him. Leonard Miksch had warned long ago, in a clear reference to the Americans, not “to pursue the struggle against monopoly in a purely negative manner; in a manner that would restrict the competitiveness of the German economy.”²¹ The Germans had not really noticed the sea change in American decartelization policy that James Martin charged had taken place by 1947.²² For one, the U.S. Congress’s Ferguson Committee, sent to Germany to investigate charges that Clay had relented in his policies toward cartels, interviewed a puzzled Erhard about the possible revival of cartels and what such a development would mean for American security.²³ In addition, though the letter sent by BICO empowering the Germans to draft a decartelization law cited the Havana Charter of the International Trade Organization (which allowed for the regulation rather than simple prohibition of cartels), Richardson Bronson, Martin’s successor as head of the decartelization branch, warned German authorities privately that only a stricter German law would pass muster with the Americans. There is

19. Quoted by Robert, *Konzentrationspolitik in der Bundesrepublik*, p. 93. David J. Gerber offers a helpful analysis of Eucken’s contribution of “thinking in orders” (*Denken in Ordnungen*). See *Law and Competition in Twentieth-Century Europe: Protecting Prometheus* (Oxford: Oxford University Press 1998), p. 243. For a more skeptical view of Eucken, see Tribe, *Strategies of Economic Order*, pp. 203–40.

20. Nörr’s discussion of Franz Böhm and his concept of the organic *Ordnung* is particularly insightful; see *Leiden des Privatrechts*, pp. 101–24. See also two memoranda by Leonard Miksch, “Stellungnahme zum Dekartellisierungsentwurf der Militärregierung für die amerikanische Besatzungszone,” 15 February, 1947, and “Marktregelndeverbände,” 11 September 1946, BA, Z 8/233. See also Tribe, *Strategies of Economics Order*, pp. 203–40.

21. Miksch, “Stellungnahme zum Dekartellisierungsentwurf. . . .,” *ibid.*

22. See Martin, *All Honorable Men*, especially pp. 235–44; Eisenberg, *Drawing the Line*, pp. 374–8.

23. Günther, “Interne Vermerk über eine Besprechung zwischen dem Ferguson–Comitée zur Untersuchung der Tätigkeit der amerikanischen Militärregierung in Deutschland und Herrn Prof. Dr. Erhard,” 21 December 1948, BA, Z 013/000936. At this meeting Otto Schniewind and Hermann J. Abs, the two heads of the Kreditanstalt für Wiederaufbau, put up a vigorous defense of traditional German *Verbundwirtschaft*. For Clay’s views of the Ferguson report, see Clay to Voorhees, 24 April 1949, CC 8419, *Clay Papers*, vol. 2, pp. 1129–32.

little evidence, however, that Bronson exercised direct influence over the principal authors of the Josten Draft, Paul Josten and Franz Böhm. They had had a strict anticartel and antimonopoly law in mind for a long time.²⁴

The Josten Draft, put before Erhard in July 1949, represented the most radical attempt of his office to establish a thorough anticartel system. Officially entitled a “bill to ensure productive competition,” it sought to prohibit all manifestations of economic power (*wirtschaftlicher Macht*). This became known as the prohibition principle (*Verbotsprinzip*), against which opponents of the Josten bill, and later opponents of Erhard’s anticartel policy in general, offered the “abuse of power principle” (*Missbrauchsprinzip*), institutionalized in the ordinance of 1923. Article 3 defined *economic power* as “persons, businesses, suppliers and their combinations . . . which are in the position noticeably to influence the market, particularly through prices and conditions for their own or other goods, that shape the direction as well as the form and extent of supply and demand without having to seriously consider competition.” Only the central bank, *Länder* banks, and the Kreditanstalt für Wiederaufbau (KfW) were to be exempted from the law, though firms that had sprung ahead of the competition through innovation or productivity gains were not automatically to be considered in violation of the law.²⁵ The Josten Draft also called for the creation of a cartel office (*Monopolamt*), operating independently of the Economics Ministry, to investigate, try, and punish offenders against the law. Josten and Böhm justified the creation of such an independent agency by arguing that the Economics Ministry had not been able to resist political pressure during the 1920s in its inadequate application of the 1923 ordinance. “It is therefore necessary to give the task of supervising monopolies to an organization that is not under the authority of the government or parliament and that specializes in the implementation of the monopoly law.”²⁶

The Josten Draft bill has been an object of controversy ever since 1949. An earlier draft leaked to the Hamburg journalist Platow, who published it in the industry journal *Wirtschaftskorrespondenz*.²⁷ Thereafter, it circulated

24. “Vermerk über eine Besprechung über die Schaffung eines deutschen Kartellgesetzes am 28.6.1949,” 30 June 1949, BA, B 102/17071, book 3; Sahn, “Vermerk. Betr.: Dekartellisierung,” 19 March 1949, BA, Z 013/000937. For Böhm’s views, see Nörr, *Leiden des Privatrechts*, pp. 101–24. For a discussion of Josten and Böhm, see also Nicholls, *Freedom with Responsibility*, pp. 326–8; Berghahn, *Americanisation*, pp. 55–6.

25. “Entwurf zu einem Gesetz zur Sicherung des Leistungswettbewerbs und zu einem Gesetz über das Monopolamt mit Stellungnahme des Sachverständigen-Ausschusses und Minderheitsgutachten,” 5 July 1949, BA, B 102/17071.

26. “Diktat v. Prof. Dr. Böhm,” 7 April 1949, annex to Josten to Risse, Günther and Kattenstroh, 27 April 1949, BA, B 102/17078.

27. Nicholls, *Freedom with Responsibility*, p. 328.

among industrialists, many of whom opposed the “prohibition principle.” After Adenauer urged Erhard to quell the controversy, the economics minister distanced himself from the proposals.²⁸ This chain of events has often been understood as a mortal blow to the “prohibition principle.”²⁹ But the reality of the vested interests, which wished to reintroduce a more porous body of law allowing recartelization, should not obscure the legitimate philosophical differences that the Josten proposal aroused. Two top officials in the Economics Ministry, Eberhard Günther and Roland Risse (both arrested in 1952 for leaking the Josten proposals to Platow), warned Erhard of the likely objections to many parts of the proposal.³⁰ In general, the vague term *economic power* allowed too much latitude of interpretation. From the start, the effort to criminalize monopoly, that is, concentration, went beyond the powers BICO had accorded the Economics Ministry, as the Allies had reserved to themselves the deconcentration of heavy industry.³¹ Beyond this important gap in the scope of any West German law, however, lay a real skepticism that all restrictions against competition worked against a functioning and competitive market economy. This was particularly true in the case of resale price maintenance (*Preisbindung der Zweiten Hand*). Franz Etzel, a close ally of Erhard’s and chairman both of the Bundestag’s and the CDU’s economic policy committees, argued that such resale price maintenance, which the Josten Draft by implication would abolish, had helped Erhard stem the inflationary tide of late 1948 that threatened to destroy the nascent market economy. That is, the very political legitimacy of free competition, so Etzel implied, necessitated the continuation of some trade practices one might consider anticompetitive (though the Americans acknowledged to themselves, some time later, that they too enforced resale price maintenance laws in the United States).³²

28. Adenauer to Erhard, 30 November 1949, LES, NE-I.1)1.

29. Some Social Democrats certainly thought so. Joachem Schöne wrote to Kriedemann that “the ‘law to ensure competition’, worked out by Dr. Josten . . . was presented to Erhard in about mid-April. Quite obviously this proposal was torpedoed by members of the Economics Administration as well as some circles from ‘free industry.’ At the moment, therefore, the question of decartelization and the creation of a monopoly office seems to have been put on ice.” Schöne to Kriedemann, 14 May 1949, FES, NL Schumacher, 226.

30. Risse to Erhard, 10 January 1949, BA, B 102/17078. See also Elmenau, deputy general secretary of the Executive Council for Pünder, “Vermerk, Betr.: Kartellgesetzgebung,” 7 January 1949, BA, Z 013/937.

31. BICO to Köhler, BICO/Memo(49)30, 29 March 1949, NARA, RG 260, records of the Office of U.S. Chairman, BICO, box 48.

32. Etzel to Risse, Günther, and Böhm, annex to Etzel to Erhard, 22 December 1949, BA, B 102/17078; see also “Aktenermerk: Betrifft: Wettbewerbsordnung,” 14 December 1949, RWVA, IHK Dusseldorf, 70/412–30/2; Stanley Disney, chief, Decartelization and Deconcentration Division, HICOG, “Bundeswirtschaftsminister Erhard’s visit to the United States,” 15 September 1954,

Another important objection raised against the Josten Draft lay in the nature of the monopoly agency (*Monopolamt*) projected to enforce the law. Josten and Böhm argued the need for an independent monopoly agency because the experience of the 1920s demonstrated that an antimonopoly bureau within the Economics Ministry would find itself subject to political pressures. Indeed, Josten had witnessed this as a cartel expert in the Economics Ministry during the Weimar years.³³ But skeptics of the Josten Draft argued that it was an inherent contradiction to define the social market economy as a free market economy, meant to defend private property, and at the same time empower what might become a large bureaucracy to intervene regularly in that economy.³⁴ Of course, the neoliberals, such as Böhm, Walter Eucken, and Erhard himself, had long argued that a competitive economy could only last in Germany so long as there was a strong state to maintain it. But as the CDU waged its first Bundestag campaign by associating the Social Democrats with the hated *Zwangswirtschaft*, which Erhard worked at that very moment to dismantle, the apparent contradiction between advocating a deregulation of state controls and proposing to construct a new bureaucracy was embarrassing. The wide-ranging powers envisioned for the monopoly agency in the Josten Draft, as well as the high penalties it would have the power to impose, reinforced the embarrassment.

Under Etzel's guidance, officials of the Economics Ministry quickly began to work on an alternative to the controversial Josten Draft that met these concerns. Even Franz Böhm went along with this. He claimed at a meeting held in Königstein on 27 November 1949 that the Josten committee had considered it important to draft a bill representing the extreme in view of the necessary concessions one would have to make in the course of parliamentary debate. He said that "the proposal, that had been prepared by the Josten Committee, does not make the claim that everything that had been suggested in the Josten Proposal, must find its way into the very first law that will be issued in this area on the German side." In Königstein, Eberhard Günther, Roland Risse, and Paul Sievert offered a counterproposal that became the basis for the official government bill of 1952.³⁵ The proposal incorporated the "prohibition principle." Unlike the Josten bill,

NARA, RG 466, Decartelization and Deconcentration Division, general subject files, 1948–55, box 9.

33. See note 26.

34. See, for example, "Dr. Curt Fischers Minderheitsgutachten zu den Vorschriften des Sachverständigen-Ausschusses der Verwaltung für Wirtschaft für die deutsche Monopolgesetzgebung vom 5.7.1949," 12 July 1949, BA, B 102/17071.

35. Hentschel emphasizes Risse's past as a cartel specialist in the Reichsgruppe Industrie. *Erhard*, p. 130. But Günther had been a pupil of Eucken, and Sievert was much praised in the American zone.

however, Günther's proposal did not seek to criminalize economic power (*wirtschaftlicher Macht*) as such, but rather to prohibit "unreasonable restrictions on trade." This meant that some arrangements, if proven to benefit the consumer, could be permitted and licensed by the envisioned cartel authority. Günther depicted his proposals as an attempt to find a compromise between "the absolutely extreme and uncompromising antitrust legislation of the American and British occupying powers . . . and the imperatives that result from the development of German law and German cartel law." He characterized an absolute prohibition of every cartel and monopoly as foolhardy, because "not every arrangement that restricts competition is necessarily damaging."³⁶

Though willing to amend the Josten Draft, Erhard was not prepared to sacrifice its fundamental principles. The Josten Draft bill imbroglio, the fall-out of which lasted well into 1950, put Erhard and the Economics Ministry in an awkward position. Not only did Erhard face the entrenched view prevalent among many Germans that the Americans strove for anticartel legislation that might render the German economy uncompetitive, but he and his ministry had become associated with the Americans on this issue. Erhard reacted to the controversy surrounding the Josten Draft with angry bewilderment. In public, he defended heartedly the need to introduce strong anticartel legislation. Moreover, he thought that if anybody deserved the trust and support of the business world, he did. He told a group of industrialists meeting in Coblenz in November 1949 that "you all know, and have heard in the past few days, that it is necessary for me to undertake seriously the *decartelization of our economy*." He reminded his listeners that free competition, attainable only through the institutionalization of an anticartel tradition, would ensure the health and cultural legitimacy of the free market. "A market economy is not a system that guarantees a comfortable [*bequemes*] existence for the businessman. On the contrary, a market economy is an economic system that compels the economy to its highest efforts, its highest productivity, and thereby at the same time fulfills its principal social function."³⁷ At a meeting with industrialists in Unkel in January 1950, Erhard accused businessmen of wishing the benefits of the free economy without the work. "The world of business [*das Unternehmertum*] must not only support and take advantage of the liberalization of the economy when

36. "Minutes of Königstein meeting of 27 November 1949." See also Günther, "Unterschiede des Gesetzentwurfs zur Sicherung des Leistungswettbewerbs (Josten-Entwurf) und des Gesetzentwurfs gegen Wettbewerbsbeschränkungen (Entwurf Günter, Petrick, Sievers)," BA, B 102/17075.

37. "Bundesminister für Wirtschaft Professor Dr. Erhard auf der Tagung der CDH am 26. November 1949 . . . in Koblenz," RWWA, IHK Cologne, 1/228/4. Emphasis in original.

it is advantageous, but rather businessmen must readily participate in the freedom of competition and selling. We must not allow a 'business *Rentner-tum*' to come into existence."³⁸ On the other hand, he assured his listeners in another talk that "the new cartel law is not going to entail a fundamental prohibition of cartels, but will allow some to form when they are useful and necessary for the political economy as a whole." Stressing what he and his ministry had done already to secure the free market, he urged the industrialists "to keep their trust in him, especially in the cartel question, that he is still fighting for the legitimate interests of free business in his quarrels with the social democrats, and Allies, and 'reactionary businessmen' for the general good."³⁹ In mid-January, he asked Günther and Risse to draft a bill that maintained the general prohibition on cartels.⁴⁰ To Erhard, maintaining the overall principle of prohibition represented the issue of cardinal importance.

Nevertheless, the controversy unleashed by the Josten proposal also made clear to Erhard and his closest allies the need for legitimacy. It had been relatively easy to capitalize on the widespread antipathy many Germans felt toward what they had derisively termed a *Zwangswirtschaft*. But many West Germans had also long indulged in two comforting myths about Allied economic policy toward West Germany. The first myth was that the British wished to destroy the German economy in order to eliminate competition. The second myth was that the Americans could not understand the inherent contradiction between decartelization and the economic demands of the Marshall Plan. Erhard was sensitive to the charge that decartelization was, *sui generis*, a dogma imported into Germany by New Deal ideologues under Henry Morgenthau. As such, he was not as concerned with salvaging the Josten proposal, a proposal easily associated with the "dogmatic" Americans, as he was with salvaging the legitimacy of market competition protected by an anticartel law. He was at pains to use the Josten proposal to say, in effect, that there must be a strong anticartel law, though not a dogmatic one.⁴¹

38. "Aktenvermerk," 21 January 1950, BA, NL Henle, 384/002.

39. "Aktennotiz" for Jarres, Henle, and Kuhnke, "Betr. Rede Wirtschaftsminister Prof. Erhard vor 'Das Wirtschaftsbild' in Bad Neuenahr am 18.1.1950," *ibid*.

40. "35. Kabinettsitzung am 13. Januar 1950," *Kabinettsprotokolle*, vol. 2, 1950 (Boppard am Rhein: Boldt 1984), pp. 123–33.

41. When news of the Josten proposal first leaked, State Secretary Schalfjew assured the economic council that Josten's relatively radical ideas did not represent consensus opinion in the economics administration, but "as far as the larger issue is concerned, the defense of free competition is unanimously supported by the entire economics administration." "Sitzung des Ausschusses für Wirtschaft am 25. April 1949," BA, NL Henle, 384/314. Etzel followed much the same approach in his addresses to the various economic policy committees; see Etzel, "Wo stehen wir? Bemerkungen zur Wirtschaftspolitik," 20 April 1950, ACDP, VII-004-004/2.

One final obstacle Erhard would face in the years ahead as he tried to institutionalize a competitive ethos as the core of the social market economy lay in the very nature of the West German parliamentary democracy itself. The Josten Draft proposed a radical reform of the traditional German economic order. Such an undertaking quite properly necessitated a wide and fundamental debate involving all levels of government. To be sure, the Economics Ministry had been founded during the 1918 revolution to guide the overall German economic system. In the past, the ministry had approached the economy as a complex of interlocked dependencies, as an organic whole. This tradition had served Erhard well as he laid down the principles of decontrol with which he directed the bizonal economy since 1948. But, after the deregulation of most price controls between 1948 and 1949, he had very little direct power over many other crucial areas of the economy. In the new government he shared control over the banking system with the Finance Ministry. He had no direct control over transportation or public utilities. Moreover, according to the Basic Law, adopted in September 1949, such fundamental legislation as Erhard proposed required the consent of the upper house, the Bundesrat. Consisting of representatives named by the *Länder* governments, all of which advocated closer ties between the CDU and the Social Democrats, the Bundesrat was not the most sympathetic forum for Erhard's ideas. It was no coincidence that the North Rhine–Westphalia government, headed by the erstwhile Christian socialist, Karl Arnold, blocked Erhard's bill in the Bundesrat in 1954. Finally, the fact that the Allies had reserved to themselves, in the 1949 occupation statute, the deconcentration of heavy industry, both because they distrusted each other as well as the Germans, left a large piece of the West German economy, temporarily, out of Erhard's hands. The final settlement in heavy industry would have a profound effect on the development of competition in West Germany.

THE PROBLEM OF HEAVY INDUSTRY

In 1949, the greatest weakness in the West German debate over establishing a competitive system was that the West Germans had no direct control over heavy industry in the Ruhr. In their letter of March 1949, the Allies explicitly reserved the right to determine the fate of the coal and steel industries. In a way, the legal distinction between decartelization and deconcentration policy that had characterized Allied discussions since late 1945 simply remained in place. But the Allies were also not prepared, for strategic reasons, to devolve responsibility over heavy industry to the Germans in 1949. On

the one hand, the unwillingness to devolve responsibility had to do with the lack of any international settlement on the Ruhr. No longer concerned to include the Soviet Union in any Ruhr settlement, the Americans and the British did want to persuade the French that the Ruhr no longer threatened their security.⁴² But equally important to diplomatic considerations, indeed, intimately intertwined with them, was the Allied inability to agree on the ownership structure of Ruhr heavy industry. Although the British had dropped their insistence, which was really only the Foreign Office's insistence, that such industries be taken into public ownership and placed in the hands of the West German federal state of North Rhine–Westphalia, the British and the Americans were still at odds over whether to encourage the private ownership of industry or socialization. This long-standing conflict grew into a crisis again when they invited the French to join them in forming a trizone that would evolve into a West German state. The French would not at first agree to Law 75, because of its guarantee that a German government might decide to take the Ruhr's heavy industries into public ownership. When the Allies could not decide how to resolve their dispute and issue a new Law 27 with the French to supersede Law 75, they invited West German input.

But when the Allies invited West German authorities to submit a plan for the practical implementation of deconcentration, in early 1950, it became clear that the West German debate over the proper role and structure of heavy industry in Germany's future had shifted from a debate over socialization to one over codetermination. The West German left, the SPD and the DGB, had erroneously concluded in 1947 that the Americans had stopped any kind of public ownership in the Ruhr for good. Thus, the DGB in particular worked toward the establishment of widespread management–labor codetermination. The unions, with the support of the Social Democrats and some elements of the left wing of the CDU, continued to press for equal labor representation on all bodies, public or private, that exercised significant influence over economic affairs. They hoped to inject a socialist ethos into German industry and thereby transform West Germany's industrial culture. With the creation of a West German government in late 1949, this debate shifted from the *Länder* to the federal level. When the Allies asked the Germans to submit proposals for the future structure of Ruhr heavy industry, the SPD and DGB wanted above all to preserve and extend the management–labor system of codetermination already established

42. On this issue, see Gillingham, *Coal, Steel, and the Rebirth of Europe*; Hitchcock, *France Restored*; François Duchêne, *Jean Monnet: the First Statesman of Interdependence* (New York: Norton 1994).

in the new steel companies under Operation Severance in 1947. They also wanted to extend union influence over economic affairs in general through the creation of a federal level *Bundeswirtschaftsrat* strengthened by intermediate level *Wirtschaftskammern*, both institutions of which would entail equal management–labor representation. The West German left advocated such institutions because it had by no means reconciled itself to Erhard’s social market economy. Rather, it still wished to introduce a highly coordinated economic democracy.⁴³ To obtain such an economic democracy, the West German left was prepared to support the government in its dispute with the Allies over retaining some measure of *Verbundwirtschaft* in the Ruhr. Though Erhard also supported vertical integration of coal and steel in principle, the more or less united front in Germany that faced the Allies on this question went a long way toward legitimizing the industrialist opponents of a thoroughly competitive economy.

Anglo–American maneuvering over the fundamental ownership structure of West German heavy industry did not stop with the promulgation of Law 75 in November 1948. As the Allies moved toward creating a West German state, the French joined them to form the trizone. Paris thereby won a decisive voice in future Allied policy toward the Germans.⁴⁴ But the enhanced French role in Allied German policy had repercussions for Anglo–American deconcentration policy. At the very least, bizonal Law 75, negotiated over French reservations, would have to be superseded by a trizonal law. Quite apart from the technicalities involved in forming competitive new companies in the Ruhr, French High Commissioner André François-Poncet told his counterparts, John McCloy of the United States and Sir Brian Robertson of Britain, that the French would not accept the preamble of Law 75 in the new law because it left the decision over the future ownership of industry in German hands. The French still considered the possibility of nationalization a fundamental threat to their security.⁴⁵

43. In this judgment, I depart from historians who emphasize too much the defensive posture of the West German left from 1948. But at least until their resounding electoral defeat in 1953, the social democrats and trade unionists very much believed that with mounting unemployment, income inequality, and an aging chancellor allegedly bent on the division of Germany, the SPD would soon get its chance to exercise power. For examples of the literature that stresses a defensive dimension to the West German left, see above all, Horst Thum, *Mitbestimmung in der Montanindustrie: der Mythos vom Sieg der Gewerkschaften* (Stuttgart: Deutsche Verlagsanstalt 1982); Müller, *Strukturwandel und Arbeitnehmerrechte*. Even A. J. Nicholls, to my mind, emphasizes the defensive posture of the SPD a little too early. See, in particular, his discussion of Karl Schiller in 1952, in *Freedom with Responsibility*, pp. 248–69, 300–21.

44. See Hitchcock, *France Restored*, pp. 72–132; Gillingham, *Coal, Steel, and the Rebirth of Europe*, pp. 137–48.

45. Stevens/Kirkpatrick for Bevin, “Decartelisation and Deconcentration of the German Coal and Steel Industries (Law 75),” 21 December 1949, PRO, FO 371/76914.

Meanwhile, the recently installed government of Konrad Adenauer also approached the Allied High Commission with the reminder that Law 75 stated that a German government could decide the future ownership structure of the Ruhr's heavy industry. Ironically, Adenauer's claim that the Germans could now decide the issue of ownership worked to the advantage of the French, as the chancellor had been quite explicit in his rejection of nationalization. He also, however, wanted to secure his government's ability to influence the specific makeup of the new companies.⁴⁶ In any event, French distaste of Law 75 reopened the debate among the Allies over the appropriate wording of a preamble to what would become Law 27. Deeply divided, the Allies had already asked the *Deutsche Kohlenbergbauleitung* (DKBL) to provide a solution. Heinrich Kost, director of the DKBL, understood that his agency, organized as it was with an equal number of representatives from the trade union federation, the DGB, and management could not decide whether to take heavy industry into public ownership or not any better than the Allied High Commission. As a result, the deputy director of the DKBL, Ludgar Westrick, a staunch ally of Ludwig Erhard and his future state secretary, involved Adenauer's government more deeply in the future makeup of German heavy industry.⁴⁷

The British agreed with a heavy heart to accommodate Adenauer's request. Although the cabinet in London rejoiced at McCloy's reluctant agreement to retain the original preamble of Law 75 over French objections, the British also understood the implications for public ownership of Adenauer's increased influence. They had wished to preserve the idea of public ownership of heavy industry for the Germans, but now that a West German government, dominated by neoliberals, existed, there was nothing they could do to preserve socialization as a politically viable option. They had also noticed a shift in emphasis on the part of the West German left over the years that disturbed them greatly but left them no real allies

46. Adenauer to Robertson, 22 January 1950, AA, Noten an AHK, *Adenauer Briefe 1949–51*, vol. 2, pp. 164–5; Wahnerheide to FO, TelNo. 496, 31 March 1950, and AHC, Allied General Secretariat, "Meeting Between the Allied High Commissioners and Representatives of the German Coal Mining Industry," 14 April 1950, PRO, FO 1036/168; See also Brief for McCloy, "Federal Action with Regard to Law No. 75," 16 February 1950, NARA, RG 466, McCloy papers, box 8.

47. Until Adenauer's letter of January 1950, it would appear that no one on the German side really wanted to tackle the contentious issues. For Heinrich Kost's reluctant response, see Berlin to CCG, BGCC 3196, 5 July 1949, PRO, FO 371/76910. The British were also surprised to find Hans Böckler wary of getting involved, though August Schmidt, head of IG Bergbau, appeared willing to take on the responsibility; see CCG to Berlin, BC 57, 7 July 1949, *ibid.*, and Collins to Weir, 27 August 1949, annex to Weir to Stevens, 5 September 1949, PRO, FO 371/76911. On the role of Ludgar Westrick, see Hentschel, *Erhard*, pp. 195–8.

in the debate over the future of West German heavy industry. Robertson stressed to London that the widespread enthusiasm for socialization had dissipated. "In the case of the Trades Unions, who have advocated Socialisation, it is believed that they are more concerned with obtaining improved arrangements for the participation of the Trades Unions and the workers in the running of the industry than they are with public ownership as such."⁴⁸

Historians have often criticized how Law 27, the final Allied law governing the deconcentration of the Ruhr's coal and steel industries, allowed the Germans to whittle away at the original Allied intention both to break the old German *Konzernen* and to sever the *Verbundwirtschaft* between the coal and steel industries. There is no doubt that Adenauer shared the widespread antipathy of West German industrialists toward Allied policies in the Ruhr. The abolition of *Verbundwirtschaft*, for example, had long been interpreted in the Ruhr as an indication that the Allies, particularly the British, wished to render western German industry uncompetitive. Adenauer also received much of his advice on such matters from the head of Klöckner, Günther Henle. Henle reinforced the chancellor's belief that only vertical links between coal and steel could maintain the Ruhr. As he put it in a memorandum in February 1950, "The *iron and steel industry* must stress the fundamental importance of the vertical connection between coal and steel because the known developments in the increase in productivity of raw steel in America and other European countries combined with the restrictions on our own industry will soon bring us a competitive fight to the death."⁴⁹ But as important as the conservative and neoliberal objections to Allied deconcentration policy were, it must also be stressed that the Social Democratic left did not necessarily believe in Allied deconcentration policy either. The left did not have a vested interest in preserving the specific corporate arrangements the Allies wished to dismantle in the Ruhr, but it had never been fundamentally concerned, as had the Americans, with the high level of organization in the German economy. In contrast, the left, and the British, wished to reform German industry by increasing the influence of organized labor in the economy and, thereby, changing its ethos. Indeed, the SPD and the DGB were both quite willing to support the government in its efforts to preserve

48. "CP(50)43. Decartelisation and Reorganisation of the German Coal, Iron and Steel Industries. Memorandum by the Secretary of State for Foreign Affairs," and "CM(50)16th Conclusions," 30 March 1950, PRO, PREM 8/1440; Frankfurt to Wahnherheide, TelNo. 202, 19 April 1950, PRO, FO 1036/168.

49. Henle to Adenauer, 9 February 1950. Emphasis in original. See also "Neuordnung der Kohle-Eisen-Industrie," 9 February 1950, BA, NL Henle, 384/1.

Verbundwirtschaft, for example, in return for progress in guarding and expanding management–labor codetermination in industrial Germany.⁵⁰

Nevertheless, the ability of the West German left to secure codetermination in the coal and steel industries in 1951 has often been depicted as a pyrrhic victory. Much of the early and more radical criticism rested on the belief that the DGB and the SPD helped to stifle revolutionary change through its acceptance of codetermination.⁵¹ More recent criticism draws attention to the fact that the 1951 codetermination law represented considerably less than the West German left had hoped to obtain during the heady days until 1947.⁵² Originally, the SPD and its trade union Allies called for the necessity of an economic democracy to exist alongside a political democracy.⁵³ Drawn from ideas developed during the Weimar Republic, particularly by Fritz Naphtali and Rudolf Hilferding, the theory of economic democracy represented a part of the moderate “revisionist” departure from the Marxist analysis of capitalism. Rather than lead to the complete imiseration of the working class, as Marx had predicted, German capitalism had, by the early twentieth century, become an “organized capitalism,” over which the labor movement could exert important influence for the benefit of the working class.⁵⁴ Rather than abandoning organized capitalism, the Social Democrats wished to ensure equal worker representation over the organs that had traditionally governed the German economy in the name of self-administration (*Selbstverwaltung*). Such organizations ranged from the local *Industrie- und Handelskammern* to the ill-fated *Zentrale Arbeitsgemeinschaft* of the Weimar Republic. As Gloria Müller has pointed out, however, theorists such as Naphtali looked with distrust at establishing management–labor

50. See Heinrich Deist, “Organisationsprobleme der Eisen- und Stahlindustrie,” *Gesetz 75 und Ruhrstatut* (Cologne: 1949), pp. 23–37; Agartz, “Besondere Fragen der Wirtschaftspolitik,” *Das Wirtschaftswissenschaftliche Institut der Gewerkschaften in Köln. Tätigkeitsbericht 1952 und 1953* (Cologne: 1953), pp. 44–7.

51. This is the basic thrust of the essays in Frank Deppe et al., *Kritik der Mitbestimmung: Partnerschaft oder Klassenkampf?* (Frankfurt: Suhrkamp 1969).

52. See, for example, Müller’s excellent survey, *Strukturwandel und Arbeitnehmerrechte*.

53. See, for example, Viktor Agartz, “‘Sozialistische Wirtschaftspolitik’. Referat gehalten am 9. Mai 1946 auf dem sozialdemokratischen Parteitag in Hannover,” BA, NL Agartz 633/14; GZS, “Bericht ueber die Zusammenkunft der Gewerkschaften mit dem Leiter des Zentralamtes fuer Wirtschaft Dr. Agartz in einer Besprechung ueber die kommende Wirtschaftsverfassung,” 29 July 1946, FES, DGB-Archiv, 101/11/2; GZS, “Wirtschaftspolitischer Ausschuss der Gewerkschaften in der Britischen Zone. Bericht über die Sitzung am 8. und 9. November in Brackwede b. Bielefeld,” 14 November 1946, FES, DGB-Archiv, 101/11/3.

54. The literature on Social Democratic revisionism is enormous. For a start, see Peter Gay, *The Dilemma of Democratic Socialism* (New York: Columbia University Press 1962); Carl E. Schorske, *German Social Democracy, 1905–1917* (Cambridge, MA: Harvard University Press 1955); For post-war social democracy, see Kurt Klotzbach, *Der Weg zur Staatspartei, Programmatik, praktische Politik und Organisation der deutschen Sozialdemokratie 1945–1965* (Berlin: J.H.W. Dertz 1982).

codetermination at firm level, because the primary purpose of establishing an economic democracy had been to coordinate the overall economy with a socialist ethos. Limiting codetermination to the firm level only would encourage the “egotism of the individual firm.”⁵⁵ By 1950, labor theorists believed that codetermination at firm level could provide sufficient overall coordination.

In early 1950, when the Allies invited the Germans to participate in the final deconcentration of Ruhr heavy industry, the debate over an economic democracy took place on two levels. First, several of the *Länder* governments continued to deliberate upon whether the business dominated *Industrie- und Handelskammern* (IHKs) ought to give way to *Wirtschaftskammern*, at the local and *Land* levels, entailing an equal number of representatives from business and labor. The chief opponents of transforming the IHKs into such *Wirtschaftskammern* were, not surprisingly, the IHKs themselves. But during the summer of 1949 it appeared likely that North Rhine–Westphalia would pass a law establishing *Wirtschaftskammern* anyway, despite warnings from the Allies that such a law would exceed *Länder* powers. But the SPD and the trade unions were eager to force the British military governor to veto yet another popular reform measure as they had forced him to veto the socialization bill in 1948. Minister President Karl Arnold, now the standard bearer of the CDU’s left wing, also wished to strengthen his grand coalition government with the SPD as an alternative to the more conservative coalition forming under Adenauer at the federal level. In addition, both the states of Hesse and Württemberg–Baden had passed laws mandating management–labor codetermination in large firms, following the model established under Operation Severance, that Clay suspended temporarily as exceeding *Länder* powers.⁵⁶ As the first West German government formed in late 1949, pressure mounted to settle all of the outstanding issues relating to economic democracy at the federal level. Both the new employer’s organization, the *Bundesvereinigung der deutschen Arbeitgeberverbände* (BDA), and the newly established DGB wished to reach an overall settlement. U.S. High Commissioner John J. McCloy told Adenauer that he would have to lift the suspensions that Clay had placed on the codetermination laws in Hesse and Württemberg–Baden now that a federal government existed unless the federal government passed its own legislation on the matter. As a result,

55. See the discussion by Müller, in *Strukturwandel und Arbeitnehmerrechte*, pp. 111–24.

56. Matthiolus, “Niederschrift über die am 21. März abgehaltene Hauptgeschäftsführerbesprechung in Düsseldorf . . .,” 23 May 1949, and Matthiolus, “Niederschrift über die am 29. Juni 1949 in Düsseldorf . . . abgehaltene Hauptgeschäftsführerbesprechung,” 06 July 1949, RWWA, Association of IHKs in NRW, 48/32/2; Clay to Draper, CC 4775, 19 June 1948, *Clay Papers*, vol. 2, pp. 688–90; Clay to Draper, CC 7463, 18 January, *ibid.*, pp. 989–90.

representatives of the BDA and the DGB met with Adenauer's blessing at Hattenheim, in January 1950, to work out a settlement.⁵⁷

As the DGB prepared to enter into negotiations with the employers organization, trade unionists aimed to construct a system of management-labor relations at odds with the free-market competitive goals of the social market economy. Although the Social Democrats continued to advocate the socialization of heavy industry during the first Bundestag campaign, they and their allies in the DGB had concluded that socialization was no longer politically feasible. Yet the technical realities dictating industrial concentration in coal and steel, to their minds, dictated in turn the crucial need to secure labor's equal influence not just over these industries, but over the economy as a whole.⁵⁸ The unions continued to demand a three-tiered system of codetermination. Unlike in 1946, the core union demand centered on the expansion of codetermination beyond the steel industry. The British had introduced such a system into the new unit steel companies, 28 by 1950, under Operation Severance. They had done so both as part of their overall policy of encouraging Social Democratic trade unionism as well as a desire to defang what they considered Communist-leaning works councils established under the quadripartite Law 22 of early 1946. Codetermination at the level of the firm involved allocating to labor representatives half of the seats of the firm's supervisory board (*Aufsichtsrat*), while the other half would go to the managers or shareholders, as well as the creation of a special director of labor, nominated by the union, in the firm's board of directors.⁵⁹ Beyond codetermination at firm level, the DGB continued to advocate the

57. Raymond and Bilstein, "Niederschrift," 15 November 1949, FES, DGB-Archiv, Potthoff collection, 101/23; "Wirtschaftspolitische Grundsätze des Deutschen Gewerkschaftsbundes: Beschluß des Gründungskongresses des Deutschen Gewerkschaftsbundes für das Gebiet der Bundesrepublik Deutschland in München 12. bis 14. Oktober 1949," in Thum, *Wirtschaftsdemokratie und Mitbestimmung*, pp. 133-5; "Minutes of the Ninth Meeting of the Council of the Allied High Commission with the Chancellor of the German Federal Government Held at Bonn-Petersberg," 16 December 1949, NARA, RG 466, McCloy papers, box 5; Whitman to McCloy, Gerhardt, and Dayton, 9 December 1949, *ibid.*; "Aktenvermerk Bühriß über eine Besprechung mit Vertretern der amerikanischen Besatzungsmacht in Frankfurt," 2 December 1949, FES, DGB-Archiv, NL Böckler, 8 reprinted in Gabriel Müller-List, *Montanmitbestimmung*, pp. 8-9; Edward H. Litchfield, Civil Administration Division, "Works Council Laws of Hesse, Wuerttemberg-Baden, and Bremen," 3 June 1949, NARA, RG 260, records of the economics advisor, box 14.
58. "Wirtschaftspolitische Tagung der Sozial-Demokratischen Partei Deutschlands am 19. und 20.6.1947 in Bad Wildungen," FES, Bestand PV/Referat Wirtschaftspolitik 01600A. Heinz Oskar Vetter, "Gewerkschaften und Mitbestimmung," in *Montanmitbestimmung: Geschichte, Idee, Wirklichkeit* (Cologne: Bund Verlag 1979), pp. 7-21.
59. See Harris-Burland, "Memorandum. Worker's Responsibility for Management of Reorganized Iron and Steel Works," 11 July 1947, annex to Harris-Burland to Oxborrow, 11 July 1949, PRO, FO 1036/113. For a more complete examination of British policies on codetermination, see Gloria Müller, *Mitbestimmung in der Nachkriegszeit. Britische Besatzungsmacht, Unternehmer, Gewerkschaften* (Dusseldorf: Schwann 1987).

creation of *Wirtschaftskammern* as well as a federal-level *Bundeswirtschaftsrat* that, unlike the controversial *Zentralarbeitsgemeinschaft* of the early Weimar years, would include an equal number of representatives from management and labor.⁶⁰ Crucial to this three-tiered system of codetermination was the DGB's intention to utilize its influence to guide the overall economy. As Viktor Agartz and Erich Potthoff put it in a DGB memorandum distributed to industrialists, "The unions consider that the right of codetermination has the goal of guarding the interests of the whole working class throughout the entire economy." The purpose of codetermination was not to empower the workforce of any particular factory, but rather to link individual workforces together, through the DGB, to ensure that "a firm does not act as a private profit seeking body, but rather conducts itself as an organ of the economy which has as its goal the common interest in economic productivity."⁶¹

In 1949, the unions continued to enjoy broad support for their overall demand to exercise greater influence over German industrial culture. But it was not clear exactly what this broad support meant. In his first governmental declaration to the Bundestag, Adenauer made clear his view that a successful reconstruction depended on the ability of the "social partners" to arrive at a compromise. Significantly, he added that "the social and societal recognition of the workers makes necessary a new order of the ownership question [i.e., codetermination] in heavy industry."⁶² If Adenauer's overtures to the unions could be interpreted as disingenuous, the same was not the case with left-wing Christian Democrats. The enthusiasm for codetermination among the Christian socialists manifested itself not just in Karl Arnold's activities in North Rhine–Westphalia, but also in a widely publicized declaration of the German conference of Catholics, held at Bochum in late August and early September. On the issue of industrial relations, the congress concluded that "codetermination of all workers in social, personnel, and economic questions is a right of natural law in God's order which corresponds to the needs for mutual responsibility. We favor its legal grounding."⁶³ Nevertheless, with the gradual rehabilitation of the West German

60. The ZAG had included an equal number from management, the free professions, and labor.

61. Agartz and Potthoff, "Die Mitbestimmung der Arbeitnehmer in der Wirtschaft," 23 December 1949, FES, DGB-Archiv, Potthoff collection, 101/23, pp. 11, 20.

62. "Rede von Dr. Adenauer 29.9.49," BA, NL Henle, 384/1.

63. "Entschließung des 73. Deutschen Katholikentages von 1949 in Bochum zur Mitbestimmung," *Gerechtigkeit schafft Frieden. Der 73. Deutsche Katholikentag vom 31. August bis 4. September 1949* (Paderborn: 1949), p. 114, reprinted in Thum, *Wirtschaftsdemokratie und Mitbestimmung*, pp. 136–7. The resolution of the Catholics at Bochum caused some uneasiness in industrial circles. A group of Catholic businessmen met at Bad Neuenahr in late October to counter the impression that all conservatives favored greater union influence in the economy. Volkswirtschaftliche Abteilung,

businessman, following the demise of denazification as well as the success of Erhard's economic policies, industrialist organizations became increasingly confident that they could stave off many union demands. Represented by three organizations, the BDI, the DIHT (*Deutscher Industrie- und Handelstag*, the umbrella organization for the IHKs), and the BDA, industrialists warned that "many businessmen have serious doubts about economic codetermination, because decisions taken at the highest levels of the firm can only be taken by the businessman who shoulders the responsibility for the firm."⁶⁴ Walter Raymond, head of the BDA, entered negotiations with the unions determined to defeat codetermination at the level of the individual firm and replace it with a law similar to the works council law of 1920, which accorded labor rights of consultation only (*Mitwirkung* instead of *Mitbestimmung*). Though the industrialists favored a *Bundeswirtschaftsrat*, they argued that such an institution obviated the need for intermediate-level *Wirtschaftskammern*.⁶⁵

The imminent conflict between the industrialists and the DGB became a defining moment for the social market economy. But as was the case with the economic crisis unleashed by the Korean War, Erhard increasingly lost his ability to define that social market economy. At the negotiations at Hattenheim in January and March 1950, the DGB and the BDA failed to bridge their well-known differences. Union representatives demanded management-labor codetermination at three levels of the economy: *Bundeswirtschaftsrat*, *Wirtschaftskammern*, and the individual firm. The BDA readily agreed to a *Bundeswirtschaftsrat*, but it objected to the replacement of the traditional *Industrie- und Handelskammern* with *Wirtschaftskammern*. When it came to expanding the codetermination model instituted in the steel industry in the British zone, the BDA accused the unions of concealing their "real goal of introducing a socialist economic system." The DGB offered concessions on *Wirtschaftskammern* and agreed to leave the detailed discussion of a *Bundeswirtschaftsrat* to a later date. But the two sides hardened their positions

Klöckner-Werke AG, "Betr.: Tagung des Bundes katholischer Unternehmer in Bad Neuenahr am 29/30.10.1949," 3 November 1949, BA, NL Henle, 384/220.

64. "Auszug aus den Ausführungen des Vorsitzenden des Deutschen Industrie- und Handelstages, Herrn Dr. Petersen, auf der Kundgebung am 27.10.1949 in Ludwigshafen a/Rh.," RWWA, IHK Cologne, 1/234/4.

65. DIHT, "Vermerk über die Ergebnisse der Beratungen der Kammerrechtskommission des Deutschen Industrie- und Handelstages," 9–17 November 1949, RWWA, IHK Cologne, 1/235/3. The unions grew suspicious of industrialist enthusiasm for a *Bundeswirtschaftsrat*. As Hans vom Hoff told the *Frankfurter Rundschau*, "Organized labor does not want codetermination as equal partners at only the highest levels of the economy . . . but also at the district and *Länder* levels," Alfons Montag, "Bundeswirtschaftsrat und Mitbestimmungsrecht: Interview mit dem Vorstandsmitglied des Deutschen Gewerkschaftsbundes Hans vom Hoff," *Frankfurter Rundschau*, 5 November 1949.

on codetermination at company level, and, on this basis, the negotiations fell apart.

With the collapse of the Hattenheim negotiations, the codetermination issue became one that threatened the symbolic role of the social market economy as the West German response to the Communist East. With the outbreak of the Korean War, West Germany had become the front line of defense in the cold war. Adenauer and the CDU owed much of their success to Erhard's social market economy. The evident prosperity attributed to Erhard's policies, and the theory that such a market system fulfilled social ends better than economic planning, provided the Federal Republic with a sense of legitimacy against the ideologically aggressive Communist East. For just this reason, though, Erhard lost his ability to define the relationship between codetermination and the social market economy, to Adenauer. When the chancellor, Minister of Labor Anton Storch, and Erhard brought the DGB and the industrialists together for an additional series of meetings, in late May and early June 1950, they stressed the growing role of the West German economy as a model in the intensifying cold war. Adenauer tersely reminded the group that West Germany must arrive at a social peace to demonstrate its superiority over the East. "In his opinion, Hattenheim ought to have been approached with this purpose in mind." Storch made the same point a few days later. "A spiritual and moral wall against the East is necessary. It is not a question as to which side wins over the other, but a question of social peace." Neither the unions nor the industrialists, however, wanted to compromise. Hans vom Hoff, of the DGB, responded derisively that "in the opinion of the unions, a spiritual wall against the East is only possible if we imbue our economic life with a new sense of responsibility anchored in the equality of capital and labor." Raymond, on the other hand, argued that codetermination would undermine the principle of private property and, hence, eliminate the chief difference between East and West. No progress could be made.⁶⁶

With the deterioration of relations between the industrialist organizations and the unions, it became difficult for Minister of Labor Storch to produce a bill that would satisfy both sides. During the summer of 1951, the BDI, DIHT, and BDA launched a combined public relations offensive against the DGB. In a pamphlet published in May, the industrialists accused the DGB

66. "Vertraulicher Bericht über die von Bundesarbeitsminister Storch einberufene Besprechung zwischen Gewerkschafts- und Unternehmervertretern über die gesetzliche Regelung des Mitbestimmungsrechts in Bonn/Rhein am 24.5.1950." 2 June 1950, "Vertraulicher Bericht über die von Bundesarbeitsminister Storch einberufene Besprechung zwischen Gewerkschafts- und Unternehmervertretern über die gesetzliche Regelung des Mitbestimmungsrechts in Bonn/Rhein am 2.6.1950," 6 June 1950, FES, DGB-Archiv, Potthoff collection, 101/25.

of using the slogan of “equality of capital and labor” (*Gleichberechtigung von Kapital und Arbeit*) to mask its real intention of introducing a planned economy. Indeed, they made the case that Erhard’s social market economy had established a third sacred pillar, next to capital and labor, that the unions would subvert: business leadership. This antiunion campaign culminated in a speech by Fritz Berg in Cologne in November. Offending even Erhard, Berg preached that “wherever it is claimed that there is a chasm between ourselves and our workers, it is a fiction that overlooks reality. Wherever one posits a deepening of an alleged chasm, one is practicing demagoguery. Whoever really tries to provoke a chasm, commits a crime.”⁶⁷ As for the government, it felt pulled in two directions. Since Adenauer had failed to secure an agreement for a federal law by 1 April, the Americans lifted the suspensions on the codetermination laws passed earlier in Wurtemberg-Baden and Hesse.⁶⁸ Many Christian Democrats in the Bundestag felt both sympathy for the union position and fear that the SPD might introduce an extreme bill. Franz Etzel, Theodor Blank, and a young Gerhard Schröder thus authored a codetermination bill that conceded many of the union demands for codetermination at company level. But Adenauer, a lifelong opponent of full codetermination anyway, feared that such a bill might alienate the FDP and thus endanger the government coalition.⁶⁹ In the months ahead, Anton Storch became confident he could draft a successful bill that accorded the unions only consultative rights in individual firms as well as only one-third of the seats in a firm’s supervisory board. He assured the cabinet in late July that Hans Böckler’s rather militant stance on codetermination had divided the DGB. He also claimed to have secured

67. DI, DIHT, BDA, “Das Problem des Mitbestimmungsrechts: Stellungnahme und Vorschläge der Unternehmenschaft,” May 1950, RWWA, IHK Cologne, 1/234/4. See also Otto Seeling to Erhard, 12 June 1950, LES, NL Erhard, NE-I.4)61; “Rede des Herrn Fritz Berg, Präsident des Bundesverbands der Deutschen Industrie, bei der Kundgebung ‘der Deutsche Unternehmer, Leistung und Verpflichtung’, am 8. November in Köln,” 8 November 1950, BA, B 102/40987. “Erhard warnt die Unternehmer, Maßlose Angriffe gegen die Gewerkschaften,” *Hamburger Abendblatt*, 9 November 1950. See also Wiesen, *West German Industry*, pp. 180–90; Plumpe, *Vom Plan zum Markt*, pp. 344–51.

68. Allied High Commission for Germany, “Communique of the Twenty-third Meeting of the Council of the Allied High Commission,” 6 April 1950, NARA, RG 260, records of the economics advisor, box 14. The *Industriekurier* reported that McCloy “did not want to prejudice a final settlement, but rather simply to exert some pressure for action at the federal level.” “Schwierige Mitbestimmung,” *Industriekurier*, 12 April 1950; Berghahn, *Americanisation*, p. 223.

69. “59. Kabinettsitzung am Freitag, den 21. April 1950,” *Die Kabinettsprotokolle 1950*, pp. 325–37. To Otto Seeling, Erhard wrote that “I must refer to the fact that at every stage in the development of this matter in the Bundestag we have had to reckon with a bill from the SPD which would have completely accepted the excessive demands of the unions.” Erhard to Seeling, 16 June 1950, LES, NL Erhard, NE-I.4)61.

Walter Raymond's and Hans vom Hoff's agreement to a more modest bill.⁷⁰ On this basis he worked until the DGB got wind of the specific government proposals at the end of the year.

It soon grew apparent that the government had underestimated the DGB's willingness to confront it. Storch seriously misjudged how much his draft bill offended union sensibilities. Not only did his proposal not extend code-termination to the coal industry, but it foresaw the elimination of full code-termination, as it had existed since 1947, in the steel industry as well. What's more, though allocating one-third of the seats in the supervisory boards to representatives of labor, none of these representatives would actually come from the DGB. In other words, the DGB would be shut out of the board rooms of the Ruhr. The unions had known about some of the provisions in the government bill for a while, but only in November did the threat to union aspirations become clear. On 3 November, the government presented to the Allied High Commission its plan for the technical reorganization of the coal and steel industries under Law 27. The plan did not mention code-termination at all. In a later meeting with Walter Freitag, head of IG Metall, Erhard foolishly told him that "with the soon to be expected transfer to the Germans of the responsibility for carrying out Law 27, the continuation of supervisory boards with equal representation of management and labor and of the post of director of labor is impossible." IG Metall responded with a call for a general strike for the following January.⁷¹

Surprised by this sudden threat of industrial strife, Adenauer again approached the conflict over codetermination as a crisis in West Germany's economic and social model. Conservatives, including Adenauer, at first reacted to the threat of a general strike by characterizing it as an illegitimate interference in the political process.⁷² Walter Raymond and Fritz Berg urged the chancellor to stop what they termed a political strike.⁷³ Adenauer nevertheless became conscious of the importance of social peace to the economic model that was the social market economy. Much has rightly been made of his view that compromising with the unions on codetermination would facilitate West Germany's international rehabilitation and build support for

70. "87. Kabinettsitzung am Freitag, den 28. Juli 1950," *ibid.*, pp. 583–96.

71. "Memorandum der Bundesregierung zur Frage der Neuordnung der deutschen Kohle-, Eisen- und Stahlindustrie," 3 November 1950, PRO, FO 1036/170; DGB Informationsdienst, "Arbeitsniederlegung in der Eisenschaffenden und Stahlerzeugenden Industrie," 3 January 1951, IG Metall, "Aufruf zur Urabstimmung," 29 and 30 November 1950, FES, DGB-Archiv, Potthoff collection, 101/26.

72. Adenauer to Böckler, 14 December 1950, DGB-Archiv, NL Böckler, 99.

73. Open letter of Raymond to Adenauer, 5 January 1951, and BDA, "Zur Rechts- und Haftungsfrage beim politischen Streik der IG Metall," BA B 136/723; DIHT to member IHKs, 16 January 1951, RWWA, IHK Cologne, 1/234/4.

Germany's agreement to the Schuman Plan.⁷⁴ But Adenauer also had reason to fear the basic domestic implications of confronting the unions directly. Gerhard Schröder, a growing confidant of the chancellor's in the Bundestag and a coauthor of the Christian Democratic parliamentary codetermination bill, warned Adenauer that he would have to drop the government's proposal in favor of his party's Bundestag draft to avoid a losing battle with the SPD.⁷⁵ Hans Globke, the trusted state secretary in the chancellery, warned of Karl Arnold's intention to introduce an economic democracy in North Rhine–Westphalia if the government did not act first.⁷⁶ In other words, the government bill was going nowhere. Thus, as Adenauer told representatives of the BDA and the DGB whom he forced to meet again at the chancellery in late January, he was more concerned with constructing a stable social system over the principled defense of business interests. To that end, he proposed a compromise whereby full codetermination would be introduced into the coal and steel companies created under Laws 75 and 27.⁷⁷ The Bundestag accordingly passed the law on codetermination on 21 May 1951. All large companies outside heavy industry would fall under a new works council law (*Bestriebsverfassungsgesetz*) in which labor representatives received one-third of the seats in the firm's supervisory board and no special director of labor, passed in early 1952. On the basis of this compromise, the immediate crisis passed and Adenauer got what he wanted, social peace.

The codetermination law of 1951 was significant not only because it represented the industrial settlement that distinguished West German industrial culture from its past, but also because it possessed important implications for the development of a competitive culture in Germany. A prime objective of American deconcentration policy had been the breakup of the old Ruhr combines that had united coal, raw steel production, and manufacturing in vertically integrated companies. This was the purpose of Law 27. The Americans thought all along that the purpose of such combines had been to restrict competition. As is well-known, they made numerous concessions along the way, with the result that many vertically integrated combines reemerged during the wave of reconcentration in the late 1950s and early

74. Thum, *Mitbestimmung in der Montanindustrie*. See also Hans-Peter Schwarz, *Adenauer, Der Aufstieg*, p. 789.

75. Schröder to Adenauer, 7 January 1951, BA, B 136/723. See also Schröder, "Zum Stahlarbeiterstreik," 8 January 1951, *ibid.*

76. Globke to Adenauer, 18 January 1951, BA, B 136/7548.

77. "Protokoll über die Besprechungen zwischen Bundeskanzler Dr. Adenauer und der Delegations des Bundesvorstandes des Deutschen Gewerkschaftsbundes über die Regelung der Mitbestimmung am 18. Januar 1951," FES, DGB-Archiv, Pothhoff collection, 101/27; Otto Lenz diary entries for January 17, *In Zentrum der Macht*.

1960s.⁷⁸ Historians have often focused on the German business interests that worked against American plans. But it is also important to appreciate the lack of resonance American views had in the internal West German debates about industrial reform in the Ruhr. The unions, for example, did not share the same vested interest in preserving certain specific vertical links between coal and steel, or large factories, though in the most notorious example of the late 1940s, the preservation of the giant August-Thyssen rolling mill, the DGB was flat on the side of the government. But the unions had always assumed a high level of coordination in heavy industry. This was not necessarily an anticompetitive settlement. The unions, like many West Germans, simply did not see how the American focus on questions of competition was relevant.

This was particularly true in the case of industrial holding companies. In general, the Ruhr combines had consisted of coal mines, steel producing plants, and steel processing or manufacturing plants. Since Potsdam, the Allies had called for the abolition of the vertical integration of coal and steel. Thus, when the Allies seized the properties in question in late 1945 and early 1946, they exerted great efforts to sever the relationships between the coal mines and raw steel producing plants that had previously been linked together. Though the Americans had been the principle philosophical supporters of this abolition of vertical integration, the British had in fact taken it a step further with two different deconcentration programs begun in late 1946, Operation Segregation for the coal industry, and Operation Severance for the steel industry. Partly because of their intense criticism of Operation Severance, the Americans soon became receptive to the argument that some measure of vertical integration be maintained in order that the new steel companies become commercially viable. But when it came time to implement the final settlement for Ruhr heavy industry, under Law 27, the Americans were the only real supporters of at least limiting vertical integration.⁷⁹ As a compromise, they agreed that German steel companies should be allowed to supply up to 75 percent of their coal needs from coal mines to which they were linked through a holding company. The holding company usually consisted of the processing or manufacturing section of the old combines, the portion of the combines about which no decision had as yet been

78. See note 7.

79. The British position can be confusing. The British, on the whole, did not share the ideological reservations against vertical integration that motivated the Americans. The purposes of Operations Segregation and Severance had been both following the American lead in abolishing vertical integration as well as in decentralizing Ruhr industry, a more limited goal. In any event, the British had expected both the coal and steel industries to end up publicly owned and thus linked in a public capacity.

made and which had remained in liquidation since 1945. Though the holding company could restore links, it had to preserve the legal independence of the separate coal, steel, and manufacturing companies under its control. As the Americans made these concessions, they faced a united front of West German opposition across the political spectrum. The unions and the SPD had always been more receptive to American views on deconcentration applied to specific firms, but they had always rejected the general American ideological antipathy toward vertical integration in the Ruhr. In any event, they had made a deal with Adenauer and Erhard. In return for DGB support for government arguments in favor of vertical integration put to the Allies, the government promised to expand codetermination beyond the 24 new unit coal and steel companies created under Law 27. The government implied that codetermination would be introduced in the relevant holding companies as well. This was particularly important because the unions feared that the managements of holding companies could undermine codetermination in the nominally independent coal and steel companies under their control.⁸⁰

The extension of full management-labor codetermination to heavy industrial holding companies took place much to the union's liking until April 1953. Adenauer and the DGB had agreed in September 1951 to refrain from an additional law governing codetermination in the holding companies until they could ascertain the exact impact of codetermination in the unit coal, steel, and holding companies founded gradually under Law 27. By the spring of 1953, seven such holding companies had been formed. The boards of these companies and the DGB concluded contracts that extended full codetermination to the holdings. Two problems soon arose with this otherwise amicable procedure. First, it had never been established beyond a doubt that the holding companies properly fell under the provisions of the 1951 codetermination law, because they were not exclusively coal or steel firms. Opponents of codetermination argued that the holding companies ought to fall under the works council act of 1952 (*Betriebsverfassungsgesetz*), which accorded labor representatives (from the workforce only) one-third representation in the company's supervisory board. The concomitant legal issues had appeared resolved through contracts concluded between the DGB and the boards of the individual companies. But therein rose the second problem. Until 1953, private shareholders had not had an institutional voice in the fundamental restructuring of heavy industry. All shares had, of

80. August Schmidt to Westrick, 12 September 1951, annex to Westrick to Globke, 13 September 1951, BA, B 136/726; Deist, memorandum, FES, DGB-Archiv, Potthoff collection, 101/38.

course, been seized by the Allies under Law 52 of late 1945. Since then, the shareholder "interest" had been exercised by the Allies and the relevant German trustee organizations. When the general assembly of shareholders for the Mannesmann holding met for the first time in June 1953, former State Secretary Schmidt, of the association of shareholders, argued successfully that only the 1952 works council law applied to the Mannesmann holding company. Filing suit in Düsseldorf district court, the association of shareholders won a resounding legal victory in early 1954. The entire settlement for the holdings now seemed in danger.⁸¹

Although it took until 1956 to pass a bill establishing codetermination in the holding companies of heavy industry, the unions did achieve almost all of their objectives. After the association of shareholders persuaded the Düsseldorf regional court that the Mannesmann holding company fell under the the works council law of 1952, even if its coal and raw steel producing subsidiaries fell under the codetermination law of 1951, other holding companies that had already contractually agreed to establish full codetermination began to reconsider. Like Mannesmann, these companies were now required to convene annual stockholder meetings. The association of shareholders gave notice to these companies that their representatives would demand the end of codetermination in favor of the 1952 works council law. In turn, the arguments that the association of shareholders made began to resonate among conservative circles. They concurred that as the holding companies themselves were not primarily steel or coal producing firms, they should not come under the jurisdiction of the codetermination law. Adenauer had, after all, depicted the codetermination law at the time as a special compromise measure affecting the coal and steel industries only. The association of shareholders argued, in addition, that according full codetermination to the holding companies would extend codetermination beyond the coal and steel industries, because many of these companies now owned assets, particularly in steel processing, that lay outside the legal definition of heavy industry. Many industrialists, Robert Pferdmenges the most influential among them, began to warn the government that union aspirations for the holding companies represented nothing less than a power play to ensure DGB domination over the entire economy.⁸²

81. Pühl and Haenlein, "Vermerk für die Kabinettsitzung, betr.: Entwurf eines Gesetzes zur Ergänzung des Gesetzes über die Mitbestimmung der Arbeitnehmer . . . ," BA, B 136/723; Potthoff, "Aktennotiz über eine Besprechung . . . mit Herrn Roesler, . . . Mannesmann AG und Herrn Staatssekretär Schmidt stattgefunden hat, betr.: Hauptversammlung der Mannesmann AG in den nächsten Wochen," 14 April 1953, and "Ausführungen von Herrn Staatssekretär Schmidt, a.D. auf der Hauptversammlung," 26 June 1953, FES, DGB-Archiv, Potthoff collection, 101/39.

82. Pferdmenges to Adenauer, 08 July 1954, Berg to Adenauer, 27 January 1954, BA, B 136/723. See also "Stellungnahme des Präsidenten der Bundesvereinigung der Deutschen Arbeitgeberverbände,

But as Adenauer insisted on keeping his promise to the DGB to extend codetermination to the holdings, and as the government had already decided to establish full codetermination in the government-owned holding companies of the former Reichswerke, everything pointed toward compromise.⁸³ In the end, the unions received full codetermination in the supervisory boards of companies in which the majority of the holdings consisted of coal and steel firms. But the DGB made two important concessions. First, the director of labor in the holding company, as opposed to the coal and steel subsidiaries, would be controlled by the shareholders. Second, in paragraph 15 of the law, passed in August 1956, the DGB accepted consultative rights only over the restructuring of the holding. Thus, the unions sacrificed a legal right to influence the reconcentration wave of 1958–59.⁸⁴

Whereas the left enjoyed some success in determining the structure of West German heavy industry, it failed to create an overarching institution that would secure labor influence over the economy as a whole. This is largely because Erhard controlled that part of the German debate. The unions met with some success in extending codetermination to holding companies, but they did not succeed in establishing equal union influence over the IHKs or establishing a *Bundeswirtschaftsrat*. At the original Hatzenheim negotiations with the industrialists, in 1950, the DGB agreed to postpone a discussion of a *Bundeswirtschaftsrat* until codetermination in the coal and steel companies had been determined. Unlike in the settlement over coal and steel, Erhard himself was charged with drafting government proposals for a *Bundeswirtschaftsrat*. He approached the matter quite differently from Adenauer. The chancellor had been concerned to secure social peace to guard the West German economic and political model. He was also determined to make overtures to the DGB in order to detach the trade union federation from the SPD. Erhard, in contrast, was concerned to limit union influence over the economy. Conscious that union representatives operated within the framework of an economic democracy, he considered that framework diametrically opposed to his desire to create a social

Dr. H. C. Paulssen, zur Ausdehnung des Mitbestimmungsgesetzes Eisen und Kohle auf die Holdinggesellschaften," annex to BDA to Adenauer, 04 August 1954, *ibid*. The allegation of DGB aggressiveness seemed borne out to many industrialists by the simultaneous demands to extend codetermination to the successor companies of the chemical cartel, IG Farben.

83. "Ausschnitt aus dem Prot. unter der 34. Kab.Sitzg.am 1.6.54," 1 June 1954, BA, B 136/724; Brenner, "Aktenvermerk, betriff: Reichswerke Holding," 06 March 1953, annex to Brenner to Freitag, 14 March 1953, FES, DGB-Archiv, Potthoff collection, 101/38. See also Pühl to Adenauer over Globke, 18 May 1954, BA, B 136/723.
84. See "Vermerk: Betr.: Arbeitsdirektor in der Montan-Holdinggesellschaft," 03 December 1954, annex to Westrick to Globke, 04 December 1954, BA, B 136/723. Gloria Müller is very critical of the holding company law primarily because of the loophole in paragraph 15. See Müller, *Strukturwandel und Arbeitnehmerrechte*, pp. 280–91.

market economy. As a result, he clashed with the DGB on two major issues. First, he argued that a *Bundeswirtschaftsrat* should have consultative rights only vis-à-vis the Bundestag. Second, a *Bundeswirtschaftsrat* would include representatives from the free professions as well as other occupation groups. Though the DGB could agree on the essentially consultative nature of the *Bundeswirtschaftsrat*, union representatives did not want to see members of other groups represented diluting union influence. But the unions had already ceded an area of pressure over Erhard in their promise not to pursue new *Wirtschaftskammern* in the *Länder* until the contours of the *Bundeswirtschaftsrat* had been agreed. The new *Bundeswirtschaftsrat* would thence determine the structure of the subordinate-level *Wirtschaftskammern*. This promise took the wind out of the sails of Karl Arnold, who had threatened a new law on *Wirtschaftskammern* in North Rhine–Westphalia during the early 1950s. Unlike Adenauer, Erhard was not really inclined to pay much attention to Arnold. As it became clear that the DGB and Erhard could not agree on the structure of a *Bundeswirtschaftsrat*, Erhard allowed the issue to fade away. The DGB never succeeded in reviving it.⁸⁵

COMPETITION AND THE ANTICARTEL LAW, 1950–57

Not until March 1957 did the West Germans pass their own anticartel law. The law departed from German tradition in that it established a general prohibition of cartels. But it permitted enough exemptions from the general prohibition that most historians have seen it as emblematic of a basic restoration of the pre-1945 highly organized and cartelistic German economy. Whatever real effect the anticartel law possessed, then, has been due to American influences.⁸⁶ The Americans had, of course, long pressured the West Germans to adopt a stringent anticartel law. But the social market theorists around Erhard also, and independently, argued that only a strict abolition of cartels could preserve the competitive order at the heart of the social market economy. The Economics Ministry consistently advocated a law that contained a general ban on cartels (what became known as the *Verbotprinzip*). Industry (represented by the BDI) responded by defending the traditional view, embodied in the 1923 ordinance, that the state should

85. See Lenz to Adenauer, 3 September 1952, KAS, NL Lenz, I-172-058/1 K I/1; Schalfjew to state secretaries, 19 May 1950; Erhard to state secretary BKA, 10 November 1951; Haenlein, "Vermerk für die Kabinettssitzung betr.: Bundeswirtschaftsrat," 10 December 1954, BA, B 136/2453.

86. See Robert, *Konzentrationspolitik in der Bundesrepublik*; Peter Hüttenberger, "Wirtschaftsordnung und Interessenpolitik in der Kartellgesetzgebung der Bundesrepublik 1949–1957," *Vierteljahrshefte für Zeitgeschichte* 24 (1976): 287–307. See also Hentschel, *Erhard*, pp. 223–31. For a slightly more sympathetic view, see Berghahn, *Americanisation*, pp. 155–81.

permit cartels, but outlaw “abuses of power” (*Missbrauchsprinzip*). Gradually, the BDI accepted the *Verbotssprinzip*, but in return the government permitted so many exceptions as to render the *Verbotssprinzip*, in the eyes of many historians, illusory.

In evaluating the anticartel law, historians have placed great emphasis on the role of the BDI. This organization had a vested interest in weakening any law that abolished cartels. But the attention focused on the interest-laden politics of the BDI obscures many of the important issues Erhard’s plans to introduce a stringent law raised. Erhard immediately distanced himself from the Josten Draft of 1949. But he consistently stressed the importance of a strong anticartel law to the social market economy. He echoed social market theorists when he emphasized that only free competition could bring prosperity and even social justice. Many West Germans, however, did not necessarily believe in the benefits of competition. Rather, they often considered free competition fundamentally destructive. (This was of particular concern to those members of the CDU interested in *Mittelstandspolitik*).⁸⁷ Others believed that some restrictions on competition ultimately raised productivity because it protected investments necessary for technological progress (such as rationalization cartels.) Another reason for the delay in passing a bill until 1957 lay in its very scope. In his efforts to infuse a competitive ethos through the economy, Erhard trespassed onto the bailiwicks of other governmental ministries, such as transportation, finance, and agriculture. Moreover, an anticartel law of such fundamental importance to the entire West German economy had to pass through the Bundesrat. There it ran into Christian Democratic representatives, such as Karl Arnold and Christian Sträter, who held fundamentally different views of industry and competition from Erhard. In other words, the debate over the proper role of competition in West Germany during the 1950s that Erhard unleashed was a real one and not simply determined by the narrow economic interests of the BDI.

After the embarrassing controversy surrounding the Josten Draft of 1949, it took until early 1952 before the Economics Ministry submitted another proposal to the cabinet. It would nevertheless be a mistake to conclude that Erhard had retreated from his wish to introduce a fundamental anticartel ban. He reacted very angrily to the accusation of the SPD that he had buried the Josten Draft during the summer of 1949 because of the financial contributions of industrialists for the CDU’s first Bundestag campaign. In defending himself from such criticism, he often promised that, as he

87. For an in-depth look at such issues, see Ursula Beyenburg-Weidenfeld, *Wettbewerbstheorie, Wirtschaftspolitik und Mittelstandsförderung 1948–1963* (Stuttgart: F. Steiner 1992).

dismantled the statist *Zwangswirtschaft* of yesteryear, so would he resist attempts on the part of business to introduce an industrial (*unternehmerischen*) *Zwangswirtschaft* through cartels. He also enjoyed publicly chastising industrialists, by whom he felt not a little betrayed. He had not removed controls in 1948, so he argued, simply to allow the complacent businessman to avoid the strenuousness of competition. As he warned a gathering of businessmen in Coblenz in November 1949, "A market economy is not a system that guarantees a comfortable (*bequemes*) existence for the businessman. On the contrary, a market economy . . . compels the economy to its highest efforts . . . and thereby at the same time fulfills its principal social function." In Unkel, in January 1950, Erhard accused industrialists of desiring a business *Rentertum*.⁸⁸ In private letters to BDI president Fritz Berg, Erhard chose a friendlier though equally determined argument that as economics minister he must approach the economy as a functioning, indivisible whole (*unteilbares Ganzes*). In this way, he justified a prohibition of cartels because such a provision would establish the proper parameters for a competitive market economy. He was not oblivious, he assured Berg, to the need for some exceptions to a general rule. But such exceptions must not undermine his efforts to establish a necessarily interconnected economy on the basis of competition. To that end, he ordered Günther and Risse to continue work on a draft bill that contained a general prohibition.⁸⁹

One area of uncertainty for Erhard throughout 1950 was the American position on decartelization. OMGUS's decartelization program had, of course, run aground in 1947. Its staff had been cut. But with the changeover from military government to a civilian high commission, in October 1949, the decartelization program received a shot in the arm. Partly owing to the negative publicity of the Ferguson Committee report, which had alleged a recartelization of the West German economy, the U.S. high commissioner, John J. McCloy, replaced OMGUS's decartelization branch with a more powerful and fully staffed decartelization and deconcentration division.⁹⁰

88. "Keine Beschränkung des Leistungswettbewerbs," *Die Welt*, 29 July 1949, in Hohmann, ed., *Ludwig Erhard: Gedanken, Reden und Schriften*, p. 155; "Bundesminister für Wirtschaft Professor Dr. Erhard auf der Tagung der CDH am 26. November 1949 . . . in Koblenz," RWWA, IHK Cologne, 1/228/4.

89. "35. Kabinettsitzung am 13. Januar 1950," *Kabinettsprotokolle* 2: 123–33.

90. J. H. Penson, British Embassy, and George Baker, "Memorandum of Conversation. Decartelization Policy in Germany," 10 February 1950, NARA, RG 466, Decartelization and Deconcentration Division, general subject files, box 5. McCloy's views on German industry and industrial culture have often been misunderstood by the emphasis scholars have placed on his controversial decision to release Alfred Krupp and other prisoners from Landsberg prison and the concessions made to the West Germans to hasten the creation of the European Coal and Steel Community. See, for instance, Werner Bühner, "Return to Normality: The United States and Ruhr Industry, 1949–1955," in Jeffrey Diefendorf, Alex Frohn, and Josef Rupieper, eds., *American Policy and the Reconstruction of*

The reinvigorated decartelization regime manifested itself in McCloy's decision to urge the Allied High Commission to pursue vigorously the outstanding cases of collusion that violated the Allied decartelization laws of 1947. The high commission responded with a successful prosecution of the West German abrasives industry by late July 1950. The Americans also signaled a renewed interest in the breakup of Bosch, Degussa, Siemens & Halske, and Vereinigte Glanzstoffwerke. Finally, the Americans consulted closely with the Economics Ministry to strengthen the cartel law drafted by Günther and Risse.⁹¹ Interestingly enough, this new American decartelization drive worried the British. Robertson, who had stayed on in Germany as British high commissioner, urged the Americans to approach the decartelization of the German economy from the standpoint of security. The British no longer thought it wise to pursue decartelization as a means of reform.⁹² Not surprisingly, the American position encountered bitter opposition in Germany and further discredited by association the ideas in the Josten Draft. Erhard worried that what he considered excessive American zeal might endanger his goals. On the other hand, as he warned Fritz Berg, he worried that intense industrial opposition to the Americans on the abrasives case might provoke the United States to implement a permanent and undesirable cartel law by *Diktat*. Though he advocated the *Verbotsprinzip*, he would not, like the Americans, run around like a "bull in a china shop."⁹³

If concrete American action against the abrasives industry alarmed the industrialist in the BDI, McCloy's confrontation with West German artisans in 1950 worked even more to discredit American views on competition. At issue was the overwhelming desire of artisan organizations (*Handwerkskammern*) to reintroduce the requirement that any artisan, and

West Germany, 1945–1955 (Cambridge: Cambridge University Press 1993), pp. 135–53. For a well-balanced account of McCloy on these issues, see Schwartz, *America's Germany*, pp. 156–75, 185–203.

91. "McCloy Orders a German Cartel Inquiry as Charges Are Filed Against 2 Groups," *New York Times*, 19 May 1950; HICOG press release No. 419, "Judge Robinson Imposes Fine of DM140,000 in Abrasives Case," 26 July, NARA, RG 466, records of U.S. high commissioner (McCloy papers), box 17; McCloy to State, 4789, 9 December 1950, NARA, RG 466, Decartelization and Deconcentration Division, general subject files, box 5. When asked their opinion about the proposed decartelization of the other companies, the West Germans urged that any action be postponed until the passage of a West German law. See "Memorandum of the Federal Government Regarding the Question of the Deconcentration of the Firms Bosch, Degussa, Vereinigte Glanzstoffwerke and Siemens & Halske," annex to Erhard to chairman, Economics Committee, AHC, 23 December 1950, *ibid*.
92. Kelleher to Bowie, "Comments on Robertson's Letter of 21 June 1950 on Decartelization," 13 July 1950, NARA, RG 466, Decartelization and Deconcentration Division, general subject files, box 5.
93. Erhard used the phrase "sämtliches Porzellan zerschlagen," Erhard to Berg, 3 July 1950, LES, NL Erhard, I-4), map 36.

any retailer for that matter, first obtain a “certificate of competency,” (*Befähigungsnachweis*) before he opened shop. To obtain this certificate, one had to undergo a period of apprenticeship under the supervision of a master artisan recognized by the local *Handwerkskammer*. To the artisanal community represented in the *Handwerkskammern*, this process guaranteed quality, honesty, safety and, not least, control. Over the years, the *Handwerkskammern* had by and large succeeded in convincing the majority of Germans that this restriction on entering an artisanal or retail trade prevented unfair and unsafe trade practices that could deepen an economic crisis. The American problem with this arrangement was twofold. First, unless any artisanal organization could demonstrate that an abolition of the requirement to obtain a certificate of competency would endanger public health, the requirement represented to them an illegitimate restriction of competition. The Americans rejected such restrictions on principal and pointed to the additional fact that in an economy of shortages, any restriction on trade hampered productivity. The other American objection to the law, though this view receded in significance over time, was that the law requiring any aspiring artisan or shop owner to obtain such a certificate from the local *Handwerkskammer* had been promulgated by the Nazis in 1934 to exclude nonmembers of recognized *Handwerkskammern* (mostly Jews, of course) from exercising their trade.⁹⁴ The law was declared null and void in July 1945 by all of the Allies, but only the Americans prevented its reintroduction in their zone. In 1949, when Baden attempted to pass a new law, the issue moved front and center in the Allied relationship with the Germans.⁹⁵

From the West German point of view, the issues raised by American objections to certificates of competency centered on how one should approach the *Mittelstand*. The issue of preserving a *Mittelstand* had been a staple of German politics for some time skillfully exploited by Hitler. But social market theorists had also concerned themselves with the question of the *Mittelstand*. Indeed, the underlying objective of free competition in the social market economy was to protect the *Mittelstand* from the anticompetitive practices of the cartels and large combines. Politically, the CDU responded to the concerns of the *Mittelstand*, both because its left wing represented many artisanal and small business interests, and because the prosperity of the

94. Frederick McKittrick argues that artisans increased their competitiveness during the 1930s and 1940s in spite of, or because of, these protectionist regulations. See his “An Unexpected Path to Modernization: The Case of German Artisans During the Second World War,” *Contemporary European History* 5 (1996): 401–26.

95. Brief for McCloy, “Law of Land Baden for the Regulation of Handicrafts,” 12 January 1950, NARA, RG 466, McCloy papers, box 6.

Mittelstand lent legitimacy to its political, economic, and social ideology.⁹⁶ American objections to the certificates of competency raised two issues. On a more polemical level, many Germans simply did not view regulations on small businesses and trades as an issue of competition. To them, the issue of competition concerned cartels and large combines. The American position simply represented an extremism that would bring disorder. As the *Industriekurier* complained, the Americans could not distinguish between a truly competitive system in the economy as a whole, which everyone wants, and “the chaos that will ensue if everyone could start a business (*Grundungschaos*).”⁹⁷ A more serious objection, one shared by Erhard, involved appropriate and inappropriate forms of competition. (Many Germans preferred the terms *fair* and *unfair* (*lauteren* and *unlauteren*). In other words, could a competitive order survive without regulations against unfair trade practices that might appear to the American High Commission as anticompetitive? Erhard added the point that certificates of competency encouraged consumer confidence and trust. The larger issue of fair competition, of course, transcended the particular issue of certificates of competency. But interpreted through the fundamental question of the role of the *Mittelstand* in a competitive economy, and encouraged by the *Handwerkskammern* and the DIHT, the CDU in particular rejected the American view.⁹⁸

The Americans found themselves isolated on this issue. Responding to German criticism, John McCloy tried to argue that the United States did not wish to impose American methods onto German industry, but rather to restore the freedom to trade (*Gewerbefreiheit*), first established in the 1869 code of the North German Confederation, which had been gradually undermined by anticompetitive rulings, such as the 1897 Reichsgericht decision permitting cartels, and finished by the 1934 Nazi law on handicrafts. To no avail. McCloy faced not only West German opposition. He also failed to gain the support of his British and French colleagues in the High

96. See Wilhelm Röpke, “Klein- und Mittelbetrieb in der Volkswirtschaft,” *ORDO*, 1: 155–74. See also Müller-Armack, “Die Wirtschaftsordnung sozial Gesehen,” *ibid.*, pp. 125–54. Knörr stresses the collectivist origins of the use of the word *sozial* in Franz Böhm’s work, in *Die Leiden des Privatrechts*, p. 114. The CDU referred to this dichotomy in the Dusseldorf program for the first Bundestag campaign. “The ‘social market economy’ includes freedom of occupation, the freedom to open business branches [*Niederlassungsfreiheit*], freedom of trade [*Gewerbefreiheit*] and freedom of movement. With artisanal trades, however, a certificate of competency [*Befähigungsnachweis*] must be produced as before.” “Düsseldorfer Leitsätze” in Ossip K. Flechtheim, *Dokumente*, p. 65.

97. “Bizonales Gewerbesgesetz um jeden Preis? Starker Andrang zum Handelsgewerbe,” *Industriekurier*, 9 January 1949. See also “Gewerbefreiheit,” *DUD*, 11 January 1949.

98. “Niederschrift über die am 30. 9.1948 . . . abgehaltene Hauptgeschäftsführer-Besprechung,” 13 October 1948, RWVA, Associations of IHKs in North Rhine–Westphalia, 48/32/2; “Niederschrift über die Sitzung des Handelsausschusses des DIHT am 24. Juli 1950,” 12 August 1950, RWVA, IHK Dusseldorf, 70/331–00/1.

Commission. To François-Poncet, a requirement to obtain a certificate of competency differed little in principle to many artisanal and retail trade regulations in France. He thus joined Robertson in criticizing the United States on the grounds that Allied intervention in West German industry and trade should focus on abolishing practices that might endanger Allied security. According to the British high commissioner, “the policy of decartelisation had been determined in the interests of security in which the question of restraint of trade through licensing had no part.”⁹⁹ Despite McCloy’s continued efforts, he could not persuade his colleagues in the High Commission to adopt his views. As a result, a German law requiring such certificates passed in 1953.¹⁰⁰

In January 1952, Erhard presented an anticartel bill to the cabinet. It had been a year-and-a-half since the Josten bill had reached his desk. The new draft, authored primarily by Eberhard Günther, differed from Josten’s proposals in a significant way. As Knut Nörr has pointed out, “The proposal dutifully adhered to the principle of free competition. At the same time, with the help of a differentiation between complete and incomplete competition, it recognized wide areas of the economic and legal order, in which this idea would have to be restricted or it would pale into insignificance.”¹⁰¹ It would nevertheless be a mistake to conclude that Erhard and the Economics Ministry had softened its demand for a thorough prohibition of cartels. As Böhm and other social market theorists frequently insisted, competition had to undergird the creation and preservation of an organic, interlocking, though competitive, order. (In this they differed from U.S. decartelization authorities, who seemed to the Germans to insist on the a priori benefits of competition.) With this in mind, the Günther proposal conceded that some restrictions on competition would in fact benefit a competitive order. There was a broad consensus, for example, that rationalization cartels could ultimately increase productivity enough to compensate for any anticompetitive practices. Cartels that established common conditions for wholesaling, such as resale price maintenance, enjoyed the legitimacy of appearing fundamentally

99. “Statement of the U.K. Member on ‘Policy Regarding Freedom to Engage in a Trade, Business or Profession,’” 4 May 1950, annex to “Minutes of the Twenty-seventh Meeting of the Council of the Allied High Commission,” 4 May 1950, NARA, RG 466, McCloy papers, box 13. For French views, see brief for McCloy, “Law of Land Baden for the Regulation of Handicrafts,” 12 January, *ibid.*, box 6. For McCloy’s position, see McCloy to State, 314, 16 November 1950, *ibid.*, box 21.

100. See McCloy to State, 3586, 31 January 1951, NARA, RG 466, Decartelization and Deconcentration Division, general subject files, box 7. On the final law, see Frederick McKittrick, “Modernization and Social Identity: German Artisans and Capitalism in the mid-Twentieth Century,” *Passato e Presenti*, p. 42.

101. Nörr, *Die Leiden des Privatrechts*, p. 192.

fair, as well as providing a macroeconomic instrument with which to control inflation. Moreover, since the Havana Charter of the International Trade Organization (ITO) had not outlawed international cartels, Erhard felt compelled to allow German firms to participate in them. Finally, the Günther draft allowed for the possibility of price cartels in the event of a temporary and anomalous fall in demand if such a temporary market collapse endangered jobs. As significant as these changes from the Josten Draft were, Erhard made clear in a letter to Berg that none of the three major exemptions, that is, condition, rationalization, and international cartels, could be allowed to degenerate into price fixing or quota arrangements within West Germany.¹⁰² It was on this insistence that Erhard quarreled with the BDI in the years to come.

The draft law that Erhard introduced to the cabinet, on 25 February 1952, presented U.S. High Commissioner McCloy with a difficult problem. McCloy had begun his tenure as high commissioner with a reinvigoration of the American decartelization program in West Germany. His efforts had met with opposition from nearly every quarter. From the disputed handicraft law to the planned decartelization of Bosch, Degussa, and Siemens & Halske, McCloy faced not only West German opposition, but the dismay of the British and French as well. As the Americans worked with Erhard's Economic Ministry throughout 1950 and 1951 to dissuade the Germans from allowing too many exemptions from the prohibition principle, they faced the oft repeated argument, met with sympathy from the British and French, that the Americans demanded a body of law that went far beyond the requirements of even American antitrust traditions, let alone British and French law. McCloy himself came to believe that U.S. courts had more discretion under the Sherman antitrust act than the officials of the decartelization and deconcentration branch wished to allow the West German *Kartellamt*. Indeed, the Havana Charter of the ITO itself, upon which the Allied High Commission required the West Germans to base their law, followed the "abuse of power" rather than the "prohibition" principle.¹⁰³ The Economics Ministry submitted its final version of the Günther draft on 12 September 1951 to the Americans for approval (as required by the 1949 occupation statute). Though the Americans recommended changes

102. See the text submitted to the Americans in September 1951 and passed along to the cabinet unchanged in January 1952. "Entwurf eines Gesetzes gegen Wettbewerbsbeschränkungen," 12 September 1951, annex to V. Trütschler, AA, to Joseph Slater, secretary-general, AHC, 17 November 1951, NARA, RG 466, Decartelization and Deconcentration Division, general subject files, box 9; Erhard to Berg, 30 January 1952, NL Erhard, LES, NE1-4)36.

103. McCloy to State, No. 3437, 20 June 1952, NARA, RG 466, records of the Decartelization and Deconcentration Division, box 9.

that strengthened the prohibition principle, Erhard decided to mount an end run around the Americans and send this version to the cabinet the following February. Despite the State Department's displeasure, McCloy, considering the political atmosphere in Germany and British and French criticism of a stronger law, advised that the Americans keep their reservations to themselves.¹⁰⁴

Erhard encountered his first major obstacle, not from the BDI, but from the cabinet itself. The finance minister, Fritz Schäffer, and the minister of transport, Hans-Christoph Seebohm, objected to its scope. Here Erhard ran into the perennial problem, particularly with regard to Schäffer, of his ministry's authority. The economics minister had repeatedly referred to a strong anticartel law as the foundation of the social market economy. With some reason, he believed that the Economics Ministry had been conceived as a ministry charged with guiding and coordinating the overall economy. With the anticartel law, he proposed to do just that. In doing so, however, he unavoidably trespassed on other minister's areas of responsibility. Schäffer did not want the Economics Ministry's cartel law to include the banking and insurance systems, particularly as new banking and capital accumulation laws had not yet been agreed. Seebohm did not want the federally owned railroad system, the Bundesbahn, defined as an excessive concentration of power ripe for breaking up. Schäffer thus joined Seebohm in demanding that all government-owned businesses, which at the time included Volkswagen, be exempted from the law. Schäffer's disagreement with Erhard was not a real surprise as their clashes over economic policy had largely dominated the previous two years. But Seebohm possessed an added importance to Adenauer because he was the cabinet representative of the Deutscher Partei upon which the government coalition in part depended.¹⁰⁵ In any event, the concessions to Schäffer and Seebohm, which Erhard had to accept, set a precedent in which other government agencies and lobbying groups would simply find a way to limit the anticartel law's scope. In time, the BDI would make the not unreasonable argument that the remaining provisions of the law were directed solely against heavy industry and thus discriminatory in nature.

The most notorious opponent of a strong anticartel law was, of course, the BDI. Founded in 1949 to represent West German industry in matters of

104. Acheson to McCloy, Bonn 2500, 11 April 1952, and McCloy to State, no. 3437, 20 June 1952, NARA, RG 466, records of the Decartelization and Deconcentration Division, box 9.

105. "203. Kabinettsitzung am 22. February 1952," *Kabinettsprotokolle* 5: 119–26. On Seebohm's importance as a member of the more nationalist DP in Adenauer's political strategy before 1953, see Schwarz, *Adenauer, der Aufstieg*, p. 655.

overall economic policy, the BDI, unlike the employer's organization (BDA) or the umbrella organization of the local *Industrie- und Handelskammern*, the DIHT, was more or less dominated by heavy-industry and steel-processing interests. The president, Fritz Berg, ran a steel-processing firm in Hagen, Westphalia. On any other issue, the BDI worked in tandem with Erhard. The economics minister saw the industrial organization as his principal ally outside the government in his efforts to defeat the Social Democrats and consolidate the social market economy. The BDI embraced the concepts, if not the practices, of the social market economy because it in effect rehabilitated the German businessman. To enhance this cultural and political rehabilitation of German industry, the BDI invested heavily in an economic research institute (*Institut der deutschen Wirtschaft*) founded in Cologne and headed by an important player in the cartel debate, Fritz Hellwig.¹⁰⁶ The close cooperation of the BDI and Erhard had been demonstrated in the debate over an investment law in 1951. But, much to Erhard's chagrin, friction soon surfaced over the anticartel bill. The BDI sought to exercise influence in a number of ways. First, it founded its own committee on cartels and competition, headed by Gerhard Erdmann. Secondly, it worked to influence the Bundestag economic policy committee through the influence of Hellwig, who was in the Bundestag and on that committee. Most notoriously, Guido Ziersch, who ran the BDI's market committee, regularly contacted Adenauer over Erhard's head to discuss BDI views on competition.¹⁰⁷ But the most successful method of exercising influence lay in direct negotiations with Erhard himself.

In consultations carried on between Erhard and the BDI from 1950 to mid-1953, the industrialists tried to persuade Erhard to back away from an outright prohibition of cartels. The BDI wished to return to the "abuse of power" principle (*Missbrauchsprinzip*), which had been the foundation of the 1923 decree. Under the abuse of power provision, cartels would be legal unless one could demonstrate an abuse. The burden of proof lay on the plaintiff, and action against the cartel in question would depend upon the discretion of the economics minister (something both Josten and Böhm wished to prevent through the creation of an independent Kartellamt).¹⁰⁸ Aside from advocating the abuse of power principle, BDI negotiators

106. Berghahn, *Americanisation*, pp. 64–6. On the question of the rehabilitation and relegitimation of West German industry, see Wiesen, *West German Industry*.

107. Alfred Mierzejewski, "Business Against Free Markets: The Opposition of the Bundesverband der Deutschen Industrie to Ludwig Erhard's Kartellgesetz" paper presented to the German Studies Association meeting, October 5, 2000, Houston, Texas, p. 6.

108. "Industrie fordert erneut Mißbrauchgesetzgebung," *Tagesnachrichten*, 31 July 1952; Berg to Erhard, 10 March 1953, LES, NL Erhard, I.4)36.

encouraged Erhard to expand the number of exemptions from any envisioned prohibition. They questioned Erhard's belief that one could allow German firms to participate in international cartels without any ramifications for the domestic market. BDI officials slyly used the free market rhetoric of the social market economy to attack the proposed Kartellamt. They characterized the Kartellamt as a new mammoth bureaucracy that would undermine the free market. As the disagreements between Erhard and Berg became increasingly public, the industrialists continued to attack a cartel prohibition as excessively draconian and inherently bureaucratic. The late 1952 arrest of Günther and Risse for having leaked the original Josten proposal in 1949 only reinforced the impression that Erhard's proposal would invest the state with arbitrary powers it would abuse. But Berg and the BDI also sought to increase support among small businesses with the argument that cartels preserved middle-class firms and prevented monopolization. Indeed, Berg advanced what he termed a controlled (*gebundene*) competition within cartels that could enhance, not retard, productivity.¹⁰⁹

Before the second Bundestag election in September 1953, Erhard made a great effort to meet BDI demands. The industrialist organization enjoyed a favorable political atmosphere for its views. After the cabinet approved Erhard's draft law of February 1952, a proposal that already allowed for the possible exemption of rationalization, condition, and foreign trade cartels from the prohibition principle, the Bundesrat recommended additional changes. Further, the Bundestag economic policy committee, though chaired by the relatively friendly Wilhelm Naegel, had every intention of moving slowly on an anticartel bill in order to wait out the American occupation.¹¹⁰ In March 1953, Erhard wrote the committee of his willingness to make further concessions, the principal one of which was the introduction of the abuse of power principle for rationalization, condition, and foreign trade cartels instead of requiring such cartels to apply to the Kartellamt for an exemption. The BDI responded to this suggestion by demanding additional changes, such as the removal of any restrictions on rationalization cartels, permission to allow foreign trade cartels to fix domestic prices, the sanction of condition cartels that determined such things as rebates, and the simultaneous introduction of rules on competition (*Wettbewerbsordnung*), which would prohibit what the BDI termed unfair competition (*unlauterer*

109. "Präsident Berg antwortet Prof. Erhard. Die Auffassung der Industrie zur Kartellfrage," *Wirtschaft und Wettbewerb* (1951–52): 857–69. See also the influential essay by Rudolf Isay, "Gegenvorschlag zum Regierungsentwurf eines Gesetzes gegen Wettbewerbsbeschränkungen," *ibid.*, 1954, pp. 100–17.

110. Günther to Oberregierungsrat Dr. Meyer-Cording, BJM, 24 February 1953, BA, B 102/192483; Mierzejewski, "Business Against Free Markets," pp. 5–6.

Wettbewerb). Astoundingly, the coalition parties agreed, for the most part, to these demands. Even so, the Bundestag could not finish its work in time for the election.¹¹¹

After the CDU's resounding electoral victory in September 1953, Erhard backed away from the compromises he had appeared to make with the BDI. Many of his supporters had grown uncomfortable with the economics minister's willingness to negotiate changes with industrialists who so clearly stood to benefit from the reintroduction of cartels. Many social market theorists, such as Franz Böhm, believed it fundamentally antidemocratic to negotiate a bill with an interest group before the Bundestag as a whole had even had a chance to see it. To them, as well as to Erhard, the election was a referendum on the social market economy. The government had long felt that Erhard's policies, which they fully believed had unleashed the "economic miracle," deflected attention from Adenauer's still controversial foreign policies. To be sure, the suppressed uprising of 17 June 1953 in East Berlin probably cast Adenauer's foreign policy of Western integration in a more positive light. Emphasis in the campaign had nevertheless been placed on Erhard's economic policies, and he felt vindicated. He bragged to Franz Etzel, now the German representative on the High Authority of the European Coal and Steel Community, that the BDI would soon be brought to heel because "public opinion is increasingly on my side."¹¹² Erhard's renewed sense of confidence manifested itself at the meeting of the *Aktionsgemeinschaft sozialer Marktwirtschaft*, held in Bad Godesberg in November, where social market theorists Böhm and Alexander Rüstow, as well as Erhard, indulged in their strongest criticism of the BDI yet.¹¹³ At the beginning of the next legislative session, in early 1954, Erhard made the controversial decision to reintroduce to the cabinet the original government bill of February 1952. Though technically the correct procedure, since the bill had not passed the previous session, supporters of the BDI claimed that by

111. Müller-Armack to Erhard, 9 July 1954, BA, B 102/192496; "Der Ausschuss für Wirtschaftspolitik teilt mit," 25 June 1953, BA, B 102/192483.

112. Erhard to Etzel, 15 December 1953, LES, NL Erhard, I.-4)41; Stanley Disney, Bonn dispatch 1568, 27 November 1953, NARA, RG 466, Decartelization and Deconcentration Division, general subject files, box 9. See also Lenz to Adenauer, 4 August 1952, Lenz NL, ACDP, I-172-58/2 K I/2. For a more critical assessment of Erhard's role in the election of September 1953, see Hentschel, *Erhard*, pp. 258-68.

113. See Alexander Rüstow, "Wir fordern die Fundierung der Demokratie durch die Wirtschaftsordnung," speech delivered to the *Aktionsgemeinschaft soziale Marktwirtschaft*, 18 November 1953, in Rüstow, *Rede und Antwort* (Ludwigsburg: Hooch 1963). See also Böhm, "Marktwirtschaft von links und von rechts," *FAZ*, 24 October 1953; "Erhard bleibt hart. Scharfe Rede auf der Tagung der Aktionsgemeinschaft soziale Marktwirtschaft," *FAZ*, 20 November 1953; Nicholls, *Freedom with Responsibility*, p. 298.

reintroducing the original bill, Erhard had reneged on an “agreement” made with the BDI. From Erhard’s point of view, there had been no agreement. In any event, the economics minister and his new state secretary, Alfred Müller-Armack, attempted once again to reach out to the BDI. Even Müller-Armack, though the originator of the term *social market economy*, a figure more sympathetic to the BDI, echoed his more radical colleagues when he warned that the BDI wished “to soften the prohibition principle by ever expanding the number of exemptions so that all forms of cartelization would be possible.”¹¹⁴

Just as supporters of a stringent anticartel law felt momentum on their side, however, Erhard suffered a serious setback in the Bundesrat in May 1954. The cabinet had sent along Erhard’s bill to the Bundesrat with the promise, unbeknownst to the insulted BDI, to consider the compromises worked out in the Bundestag’s economic policy committee the previous year, before sending the bill to the floor of the Bundestag for a vote. Even so, the Christian Democratic economics minister for North Rhine–Westphalia, Christian Sträter, persuaded a majority of the *Länder* representatives to recommend the abuse of power principle rather than an outright ban on cartels. Specifically, Sträter proposed that the anticartel bill contain a provision empowering the government to overrule the Kartellamt and allow any cartel it deemed necessary for the health of the economy. Sträter justified this approach with the bizarre explanation that as Erhard’s bill already contained so many exemptions, one might as well go all the way. Clearly, his proposal could empower a future government, unsympathetic to the policies of the social market economy, to change course. Though the BDI had sought to influence the Bundesrat, more was at work here. Sträter’s *Land* government, under Minister President Karl Arnold, had given little support to Erhard since 1948. Rather, the CDU in North Rhine–Westphalia consisted of a coalition between business interests and Christian socialists still wishing to adhere to the now outdated Ahlen Program. In any event, Erhard reacted angrily to this development. He resented the insinuation that his willingness to negotiate exemptions with other ministries and the BDI had created

114. “18. Kabinettsitzung am 17. Februar 1954,” *Kabinettsprotokolle* 7 (1954): 61–70. See also Böhm to Erhard, 22 December 1953 and “Kritik am Regierungsentwurf und den Vereinbarungen zwischen BMW und BDI,” n. d., ACDP, NL Böhm, I-200–006/3. With regard to his ongoing negotiations with the BDI, Erhard told Adenauer that “these efforts must now, for all practical purposes, be considered failures, as the BDI was not prepared to make any concessions . . .” Erhard to Adenauer, 1 July 1954, LES, NL Erhard, NE-I.3)3. To the Bundestag’s economic policy committee, he wrote, “No one can with a clear conscience claim that the legitimate needs of industry have not been taken seriously.” “Der Stand der Kartelldebatte. Vorgelegt von Prof. Dr. Ludwig Erhard, Bundesminister für Wirtschaft, am 9. Juli 1954,” BA, NL Henle, 384/218.

a fuzzy bill. But the damage was done. Adenauer forced him back to the negotiating table with the BDI.¹¹⁵

With the setback Erhard experienced in the Bundesrat, he acceded to Adenauer's request to resume discussions with the BDI. This time, Fritz Berg and the economics minister agreed to convene a "cartel working group" consisting of regular representatives from the industrialist organization and the Economics Ministry. When discussions began, under new State Secretary Alfred Müller-Armack, it became clear that the BDI had hardened its position since the preceding April. Fritz Berg, in particular, had grown angry at the proponents of a stringent anticartel law. Demonstrably offended by the anti-industrialist criticisms meted out by prominent members of the famed Freiburg School at the meeting of the *Aktionsgemeinschaft soziale Marktwirtschaft*, Berg shot back by characterizing his critics as wooly headed academics who had no understanding of the real world of business.¹¹⁶ Berg had also been caught off guard by Erhard's reintroduction of the original 1952 government draft bill into the cabinet in February 1954, without the changes worked out in the Bundestag's economic policy committee to which he thought Erhard had agreed. Believing himself aggrieved, he allowed BDI representatives in the new working group to introduce numerous new demands. Erhard had signaled his willingness to adopt the Bundesrat's recommendation to apply the abuse of power principle to condition, rationalization, and export cartels. But he wanted to make sure that such cartels would not degenerate into price or quota arrangements (though it was difficult to see how he could prevent condition cartels from embarking down that road). The BDI now demanded that rationalization cartels permit price and marketing arrangements, that export cartels allow domestic price fixing, that the government prohibit "predatory pricing," and, in general, allow any future government to permit "crisis" cartels perceived to be in the public interest. The BDI also sent mixed signals indicating that it might accept the prohibition principle if all its demands, which in effect liberated much of industry from the prohibition principle, were met. In disgust, Erhard broke off negotiations in July.¹¹⁷

115. Hüttenberger, "Wirtschaftsordnung und Interessenpolitik," pp. 500–2; Erhard to Altmeier, 14 May 1954, NL Erhard, LES, NE-I.4)34.

116. "Berg geht zum Gegenangriff über. BDI-Präsident verteidigt den Kartellstandpunkt der Industrie—Gegen 'Professoren-Marktwirtschaft'," *Handelsblatt*, 7 December 1953.

117. Müller-Armack to Erhard, "Entwicklung des Meinungs-austausches mit dem Bundesverband der Deutschen Industrie betreffend das Gesetz gegen Wettbewerbsbeschränkungen," 9 July 1954, BA, B 102/192496; Müller-Armack to Naegel, 05 November 1954, BA, B 102/192498; Erhard to Beutler, 10 July 1954, NL Erhard, LES, NE-I.4)37; Erhard to Adenauer, 01 July 1954, NL Erhard, LES, NE-I.1)3.

As he broke off discussions with the BDI, however, the situation in the Bundestag got more complicated. First of all, the SPD announced its general support for the prohibition principle. This support gave Erhard the votes with which to pass the bill. But he was determined to avoid any dependence on the SPD, with whom he still considered himself in conflict over the fundamental aims of economic policy. Second, Hans Höcherl, of the CSU, introduced a rival bill advocating the “abuse of power” principle and, in general, corresponding to BDI demands. Many Christian Democrats, wishing to preserve coalition solidarity against the SPD and having noted Erhard’s willingness to introduce the abuse of power principle for condition, rationalization, and foreign trade cartels anyway, saw much of value in the Höcherl bill. Erhard nevertheless came to an important though controversial understanding with the BDI in October 1954. For the first time, the industrialist organization endorsed the general prohibition principle. In return, however, Erhard had agreed to many of the BDI’s demands.¹¹⁸

Why did the BDI have such success in forcing modifications in the anti-cartel law from 1952 to 1954? Many historians have focused on industrialist attempts to wait out the Americans. Erhard constantly warned that only a West German law could replace the otherwise onerous U.S. Law 56, and that if the Germans could not quickly agree on an adequate anticartel law, the Americans would impose a far worse one themselves. Yet, at the same time, Erhard too believed that if the West Germans moved slowly and kept quiet about it, American influence would inevitably wane and the West Germans could then organize their economy as they saw fit.¹¹⁹ Opponents of Erhard’s vision of the cartel law, particularly in the BDI, thought the same thing. As a matter of strategy, friends of the BDI in the Bundestag, such as Fritz Hellwig, who nearly managed to win the chairmanship of the crucial economic policy committee upon Wilhelm Naegel’s death in 1953, were accused of dragging out the negotiations on an anticartel law to wait out the American occupation. Finally, the Allies signed the Bonn contractual agreements with the West German government in May 1952. The Bonn agreement served as an ersatz peace treaty and awarded sovereignty to the Federal Republic on domestic matters. To be sure, the Bonn contractuals contained a provision stating that the allied decartelization laws would

118. “Änderungsvorschläge zum Kartellgesetz-entwurf: Die Beratungsergebnisse des Arbeitskreises Kartellgesetz,” *Wirtschaft und Wettbewerb* (1954): 728–36; Disney to State Department, 1269, “Erhard–Berg Agreement re Modifications in Cartel Law,” 15 December 1954, E. M. Brown, “Office Memorandum,” 8 November 1954, E. M. Brown, “Memo,” 25 August 1954, NARA, RG 466, Decartelization and Deconcentration Division, general subject files, box 9; Erhard to Etzel, 06 October 1954, NL Erhard, LES, NE-I.4)41.

119. Erhard to Berg, 03 July 1950, NL Erhard, LES, I-4)36.

remain in effect until a sufficiently stringent West German law emerged to take its place. But it is safe to say that the BDI and other opponents of the Americans on economic issues felt much freer after May 1952 than they had before.¹²⁰

As important as waning American influence may have been, two other important factors contributed to the BDI's ability to drum up opposition to Erhard's anticartel proposals within industrial Germany from 1952 to 1954. First, the early 1950s witnessed a rationalization wave that was often compared to the rationalization movement of the mid-1920s. The tax system of 1946 had encouraged self-investment because of the lack of a viable private capital market and the generous depreciation allowances under section 7a of the German tax code. As a result, companies freed from controls in 1948, especially in heavy manufacturing, overinvested in new plant during the brief inflationary period of late 1948 and early 1949.¹²¹ When prices declined dramatically from the spring of 1949 until the outbreak of the Korean War, many firms suffered from overcapacity. The overcapacities of the late 1940s signaled the need for another period of rationalization. Though the demand for West German goods skyrocketed during the Korean War, the efforts to promote productivity in, for example, the coal industry involved a considerable amount of rationalization. This emphasis on rationalization in part legitimated the BDI's calls for rationalization cartels, since the last period of industrial rationalization, during the 1920s, had been managed by such cartels. In any event, the BDI found itself in a position of influence when decisions over rationalization were made, whether under the provisions of the European Coal and Steel Community or through the "productivity councils" funded by the American Mutual Security Agency.¹²² Along with the concern over rationalization, the general economic outlook in 1953 worked in favor of the BDI's opposition to Erhard's anticartel proposals. Though the Korean War had stimulated demand for West German manufactured goods in both the United States and Western Europe, demand tapered off in mid-1953 as the war ended. As a result, the government faced another "Konjunktur" crisis in which Adenauer's confidence in his economics minister took a characteristic beating. But the uncertain economic climate of late 1953 and into 1954 lent some credibility to the BDI's efforts

120. On the Bonn contractals, see Schwartz, *America's Germany*, pp. 269–78; Schwarz, *Adenauer; der Aufstieg*, pp. 925–56.

121. On the tax system, see Reuss, *Fiscal Policy for Growth Without Inflation*, pp. 101–15, 233–44. See also Roskamp, *Capital Formation*, pp. 121–38.

122. "Vemerck über die konstituierende Sitzung des Deutschen Produktivitätsrates vom 2.4.1952," 3 April 1952, annex to BDI Circular, 3 April 1952, BDI-Haus, Institut der deutschen Wirtschaft, NB/22052.

to define legitimate competition, warn of the monopolization that might result from full competition, and thus claim cartels as a necessary defense against short-term economic crises.¹²³

Even so, as its quarrel with Erhard dragged on, the BDI's support in industrial Germany for returning, in effect, to the 1923 decree that had enshrined the abuse of power principle as the basis of cartel law began to backfire. The BDI claimed to represent all of business in its opposition to Erhard's proposals. With a reputation for favoring heavy industry, the organization was particularly concerned to depict cartels as useful instruments to defend small business from incipient monopolization. The leadership was also concerned with the somewhat maverick "organization of self-employed entrepreneurs" (*Arbeitsgemeinschaft selbstständiger Unternehmer*), a subordinate organization of the BDI. But during the summer of 1954, a considerable number of manufacturers, led by the influential Günther Henle of Klöckner, broke from the BDI, rejected the abuse of power principle, and advocated accepting Erhard's proposal of a general prohibition with appropriate exemptions instead. Henle found it distasteful to characterize Erhard and his supporters within the academic world as pinheaded intellectuals who knew nothing of the world of business. He agreed with Erhard's view that a macroeconomist (*Volkswirtschaftler*) might better assess the needs of the economy as a whole than the isolated businessman. But what he feared most if the BDI insisted on reintroducing the 1923 abuse of power decree, as he wrote Berg, was that the BDI would then legitimize the demands of the unions for codetermination beyond heavy industry into manufacturing. Along with retired *Bergbauassessor* F. W. Ziervogel, Henle organized a meeting of like-minded industrialists with Erhard at the Petersberg on 12 July 1954 to express support for the prohibition principle. Though the BDI reacted angrily to this development and questioned the legitimacy of Ziervogel's and Henle's group, the episode increased Erhard's confidence as he reentered negotiations with the BDI in October.¹²⁴

Another complication for the BDI emerged in the shifting position of the DIHT (*Deutscher Industrie- und Handelstag*). As the umbrella organization of the local *Industrie- und Handelskammern*, the DIHT represented more of a small business and even artisanal constituency than the more heavily

123. See Haenlein, "Niederschrift über die Besprechung wegen Massnahmen zur Überwindung einer Stockung der wirtschaftlichen Entwicklung—am 13. März 1954," 13 March 1954, BA, B 136/654.

124. Henle to Berg, n. d., Ziervogel to Berg, 13 July and 26 July 1954, BA, NL Henle, 384/218; "Einheitliche Auffassung in der Kartellfrage. Entschließung des Präsidiums des Bundesverbandes der Deutschen Industrie," *Industriekurier*, 17 August 1954. On the ASU, see Robert, *Konzentrationspolitik*, p. 254.

industrial BDI. It therefore pursued different interests. The DIHT viewed Erhard's plans (not to mention American plans) for competition with skepticism. It echoed BDI arguments that free competition, through predatory pricing, could lead to monopolization and thus marginalize small business. As a result, the organization favored the insertion of a *Wettbewerbsordnung*, or "rules of competition," in the anticartel law. But the DIHT devoted much of its attention on the subject of competition to the issue of certificates of competency for artisans and small-scale retailers. When a law to its liking requiring certificates passed in the Bundestag in late 1953, the DIHT's position on the anticartel law began subtly to change. Whereas in mid-1953 the DIHT advocated the abuse of power principle, by 1955 the organization endorsed an overall prohibition with the exemptions to which Erhard had long agreed. The DIHT also advocated a one-year crisis cartels with provisions designed to ensure that a crisis cartel would not outlive the crisis. By early 1955, much to the BDI's chagrin, one of the three most important business organizations had moved much closer to Erhard.¹²⁵

On the whole, the two sides on the cartel debate had reached a stalemate by the mid-1950s. On the one hand, the BDI's dispute with Erhard had by now created a negative impression politically that might work to the detriment of the governing coalition in the next election, scheduled to take place in 1957.¹²⁶ On the other hand, the government still faced the awkward reality in the Bundestag that a large number of the Christian Democrats supported Höcherl's bill for the abuse of power principle. The support Höcherl enjoyed within the CDU left Erhard and the government with the undesirable option of siding with the SPD, which had since decided to back Erhard's original bill (though with some qualifications).¹²⁷ For its part, the BDI had effectively utilized the language and symbolism of the social market economy to suggest that an outright ban on cartels would increase monopoly, marginalize small business, empower a new and punitive bureaucracy, and thus undermine the very competitive system that Erhard sought to champion. Though the industrial organization could persuade other business associations to join it in this overall argument, it could not get other groups to advocate explicitly outright price and quota

125. DIHT to the Bundestag, "Entwurf eines Gesetzes gegen Wettbewerbsbeschränkungen," 11 March 1955, RWVA, 70/412/30.

126. "Nr. 10: 10. November 1955," in Günter Buchstab, ed., *Adenauer: "Wir haben Wirklich etwas Geschaffen."* *Die Protokolle des CDU-Bundesvorstands 1953–1957* (Dusseldorf: Droste 1990), pp. 657–64.

127. BDI Ausschuss to members, 28 September 1955, BDI-Haus, NB259–1955/56; Hentschel, *Erhard*, pp. 359–70; Nicholls, *Freedom with Responsibility*, pp. 300–22.

arrangements, or an abandonment of the prohibition for the abuse of power principle.¹²⁸

The economic situation of 1956 provided Erhard with a final opportunity to confront the BDI's views on the place of competition within West German industry. By 1956, West Germany had reached full employment. Though a great economic triumph for which Erhard lost little time claiming credit, the effect of full employment on the labor market gave him cause for concern. He now worried that workers enjoyed the bargaining power to fight for wage increases beyond increases in productivity. As he warned Adenauer on several occasions, this situation contained dangerous inflationary potential. Since late 1954, IG Metall had demanded wage increases far beyond those awarded during the early 1950s. Erhard believed the industrialists insufficiently vigilant in holding the line on wages. When the iron and steel association within the BDI raised steel prices, in November 1956, to levels beyond those the Economics Ministry felt justified by the general economic situation in order to compensate for rising wage rates, Erhard felt confirmed in his belief that labor and management would conspire in embarking on a wage-price spiral. The BDI also angered Erhard through its resistance to tariff reform. A reduction in tariffs, he hoped, would counteract any inflationary tendencies he saw on the horizon. But the BDI met his argument by harkening back to the trade crisis of 1949–51. Though the deficits of the early 1950s had been replaced by the surpluses of the mid-1950s, the BDI would not change its position.¹²⁹ This led to another explosion between Adenauer and his economic's minister.¹³⁰

Under the circumstances, Erhard applied renewed pressure to the Bundestag to pass an acceptable anticartel law as a means to stifle the inflationary impulses he saw at work in the economy. As he told the Bundestag in September 1956, "The federal government has laid great stress on these facts in its statements about the economic cycle of 19 October 1955 and

128. See "Gemeinschaftserklärung zum Entwurf eines Gesetzes gegen Wettbewerbsbeschränkungen," September 1956, BDI-Haus, Institut der deutschen Wirtschaft, NB-25955/56.

129. BDI, "Memorandum. Sicherung der Wettbewerbsfähigkeit der deutschen Außenwirtschaft," 27 September 1955. See also BDI circular, "Vorschläge zur Sicherung gleicher Wettbewerbsgrundlagen für die deutsche Außenwirtschaft," BDI-Haus, NB 220/1956. In March 1957, Berg met with Erhard to present the industrialist demand for upholding tariffs to ensure the competitiveness of West German industry, BDI HGF circular, "Zollsenkung," 20 March 1957, BDI-Haus, NB 220/1957.

130. "Niederschrift über die am 2. November 1956... abgehaltene Hauptgeschäftsführerbesprechung," 26 November 1956, RWWA, associations of IHKs in North-Rhine Westphalia, 48/33/1; Erhard to Adenauer, 30 January 1956, NL Erhard, LES, NE-I.1)4; "Zur Diskontopolitik," annex to Erhard to Adenauer, 12 March 1956, StBKAH, NL Adenauer, III/23. Erhard could take small comfort in the fact that this time Schäffer sided with him. See Hentschel for a view more critical of Erhard in *Erhard*, pp. 318–29.

22 June 1956, and it declared the speedy passage of a law [that is on cartels] as one of the most important measures that it has suggested to deal with the present cyclical situation.”¹³¹ Of assistance to Erhard was the fact that remaining Allied authority for the execution of the 1947 decartelization laws had recently devolved to him. Various outstanding cases, in abeyance because of internal Allied disagreements over how to proceed judicially, now lay at the economic minister’s disposal as a weapon with which to pressure the Bundestag to replace the near universally unpopular Allied law with a native German one. Though still willing to negotiate with the BDI on acceptable legislation, he allowed Günther to warn the association that “a competitive order represents a unified whole and that the law prohibiting restrictions on competition cannot be decidedly hemmed in its applicability by exceptions that depart from the absolutely necessary.”¹³² The momentum had shifted decidedly against the BDI.

Altogether, opponents of a strong anticartel bill entered the year 1957 with pessimism. With an election year looming, the CDU could scarcely risk once again the impression that competition policy was dictated by the industrialist interests within the BDI. Berg tried again to press upon Erhard his view that, as the BDI had sacrificed its insistence on removing the general prohibition from the law, that prohibition should be tempered by numerous exemptions.¹³³ But with the SPD now clearly in favor of a strong anticartel bill and willing to support Erhard, the economics minister now had enough votes in the Bundestag to ignore BDI entreaties.¹³⁴

Nevertheless, the anticartel law that passed the Bundestag and Bundesrat by July 1957 remained true to the periodic compromises struck between the BDI and the Economics Ministry. In the end, Erhard decided that he could not risk siding with the SPD against industry. Though the law contained the general prohibition enshrined in Erhard’s initial 1952 government proposal, the law did not prohibit restraints of trade as such, but only those that promised to have a negative impact on the competitive order. The law thus allowed many of the exemptions for which industry had been clamoring since 1949. The law also contained a set of rules on fair competition (*Gewerbeordnung*) long advocated by both the BDI and the various organizations representing the *Mittelstand*.

131. Erhard to Bundestag, 6 September 1956, annex to BDI Ausschuss für Wettbewerbsordnung to members, 17 September 1956, BDI-Haus, NB 259/ 1955–56.

132. Günther to Berg, 16 June 1956, BA, B 102/19284.

133. Berg to Erhard, 10 January 1957, LES, NL Erhard, NE–I.4)36.

134. BDI Ausschuss für Wettbewerbsordnung to members, 19 January 1957, BDI Ausschuss für Wettbewerbsordnung to members, “Annahme des Kartellgesetzes im Bundesrat,” 19 July 1957, BDI-Haus, NB 259/1957. “183. Kabinettsitzung,” *Kabinettsprotokolle*, 21 May 1957, pp. 266–75.

CONCLUSION

Erhard's anticartel law has enjoyed controversy since its passage in 1957. This is largely because a notorious period of reconcentration in West German industry followed quickly upon the heels of the new law. The mergers of the late 1950s appeared to undo the policies of deconcentration and decartelization first introduced by the Allies immediately after the war. In the face of reconcentration, the law, as the historian Rüdiger Robert later put it, acted as a paper tiger.¹³⁵ Eberhard Günther, one of the main authors of the law and later the first chief of the Kartellamt, commented that the 1957 law suffered from two largely unforeseen weaknesses. First, though cartels had been eliminated by outlawing cartelistic contracts, the oligopolistic industrial world of the 1960s permitted more subtle forms of business cooperation that legal instruments could not grasp, and therefore outlaw. Second, and not entirely unforeseen, the law's concentration on combating Germany's cartelistic legacy left it unable, unlike American antitrust law, to control the merger boom of the late 1950s.¹³⁶ The law was amended in 1965 and again in 1973 to strengthen its antimonopolistic provisions.¹³⁷ The number of cartels in West German industry in the 1960s nevertheless went down, in comparison with the 1920s, from the thousands to around 200. Indeed, the merger boom was due as much to the prohibition of the alternative to concentration, cartelization, as it was to changes in capital accumulation laws, the acquiescence of labor in the 1956 codetermination act governing holding companies, and the opening of the European Economic Community.

Nevertheless, as Erhard repeatedly characterized a strong anticartel law as the foundation of the social market economy, it has been difficult for historians to escape the conclusion that the law, with its many exemptions, represented a failure. Instead of establishing a wholly competitive economy, the social market economy became, as Volker Berghahn described it, "oligopolistic."¹³⁸ Yet it would be an exaggeration to suggest that vested industrialist interests, represented in the BDI, played the greatest role in stifling movement to a more competitive culture in Germany. Erhard, and the Americans for that matter, helped to unleash a legitimate and far-reaching debate within Germany concerning the appropriate role of free

135. Robert, *Konzentrationspolitik*, p. 349.

136. See Günther, "Gesetz gegen Wettbewerbsbeschränkungen: Entstehung und Auswirkungen," in *Ludwig Erhard. Beiträge zu seiner politischen Biographie. Festschrift zum Fünfundsiebzigsten Geburtstag* (Frankfurt: Droste 1972), pp. 111–20.

137. Eric Owen Smith, *The German Economy*, p. 437.

138. Berghahn, *Americanisation*, p. 181.

competition in a modern postwar economy. Though at many times wrapped in anti-American polemics, the discussion over competition during the 1950s did not result in the fulfillment of all the BDI's demands. From the beginning, Erhard had been prepared to entertain cartelistic arrangements if they worked in the interests of the market as long as they did not degenerate into crude price cartels. In any event, many of the restrictions on competition in postwar German industry originated from the demands of traditionally *mittelständische* interests in favor of "fair" trade regulations directed against, in their mind, large business, as well as Social Democratic and trade unionist efforts to secure labor's influence in an industrial sector they thought properly concentrated. In the end, Erhard compromised as much as he did, not from BDI pressure, but rather because of his deep disdain for the SPD, which he saw as the largest danger to the free-market-oriented social market economy.

Finally, to evaluate the legitimacy of the anticartel debate in West Germany during the 1950s in a proper way, one must adopt a broader comparative perspective. Opponents of the strong anticartel bill had a point when they argued that even the Americans had never attempted to replace the modern and heavily concentrated economy with a largely mythical nineteenth-century competitive order. The Americans helped to set the parameters for the initial anticartel debate in occupied Germany. But those parameters were in large part set by American officials who were veterans of similar debates in the United States during the New Deal.¹³⁹ The agenda set by OMGUS's decartelization branch did not necessarily mirror reality in the United States. It mirrored the views of members of the decartelization branch about what should obtain in the United States. One must be cautious in concluding, therefore, that every restriction on trade allowed by Erhard in the 1957 law represented a unique departure from international antimonopoly traditions.

139. This is one of the most important points Carolyn Woods Eisenberg makes in *Drawing the Line*.

Conclusion

The year 1957 marks a convenient end point for a study of the introduction of the social market economy. The anticartel law passed that year, though disappointing to many of its supporters, nevertheless represented the ideological foundation for the social market economy. After all, the idea of a social market had gained prominence within the context of postwar debates about how best to address the problematic legacies of German economic and industrial history. To the neoliberal economists who supported Erhard, the great problem of German history had been a level of organization that sapped not just the economic potential of the individual, but the meaning of individuality in German politics and culture as well. The high levels of cartelization evident during the Wilhelmine era and the Weimar Republic had represented the economic manifestation of a nefarious “cult of the colossal.” Within the context of the occupation, when Allies and German administrators attempted unsuccessfully to cope with the legacy of National Socialist “collectivist” organizations, social market theorists made the argument that a market economy maintained by a strong state could better achieve the social ends deemed essential in the twentieth century. The free competitive order that the anticartel law of 1957 aspired to establish gave meaning to the word *social* in the term *social market economy*.

Today, the term *social market economy* is well-nigh synonymous with the European welfare state. The word *social* is assumed to refer to the extensive social safety net meant to cushion the ill effects of a free-market economy. Indeed, this modern definition of the social market economy began to emerge in 1957. In that year, Konrad Adenauer pushed through a pension reform that allowed the CDU to enter the year’s Bundestag campaign as Germany’s “most socially progressive political party.”¹ Unlike traditional state pensions,

1. Hans-Peter Schwarz, *Adenauer II: Der Staatsmann, 1952–1967* (Stuttgart: Deutscher Taschenbuch Verlag 1991), p. 285

Adenauer's pension reform established the "pay as you go" principle, which did not limit pensions to the relatively paltry sums of individual contributions. Against the opposition of much of the cabinet, and certainly against the opposition of Erhard, Adenauer initiated the process whereby the social market economy became associated with the welfare state. This dramatic pension reform, combined with the different economic problems Erhard faced from the late 1950s until the recession that ended his career in 1966 (problems arising from full employment rather than reconstruction), and the now public animosity between Adenauer and Erhard arising out of the succession question, make it appropriate to consider the years between 1945 and 1957 a closed period in the formulation of the social market economy. As such, four important issues stand out.

The first point to be made is that despite the obvious presence and power of the Anglo-American military government in occupied Germany, the West Germans enjoyed considerable space to develop their own set of policies for the economy by 1948. The interplay between Allies and Germans followed complicated patterns that reached beyond the role of Allied power or German conscious efforts to avert that power. In planning for the occupation of Germany, the Allies had to decide whether to view a future Germany as a vibrant participant in a rebuilt international economic order or to impose upon Germany a punitive form of isolation and economic inferiority. By 1945, this discussion became embroiled in a polemical debate between proponents of a "hard" and a "soft" peace. When the occupation began in earnest, however, American and British officials working on the ground in Germany soon realized that the debates over German policy conducted in Washington and London did not correspond to reality. In Germany, it had become clear that an entire distribution and financial system had broken down. Hardly any economic activity could take place without the reactivation of the distribution network. This observation led to a considerable commitment to the construction of a planning regime, staffed with German civil servants, and charged with the task of allocating scarce raw materials and maintaining Nazi-era price and wage controls to increase production and avoid a hyperinflation.

In any event, alongside debates between proponents of a hard or soft peace, there was also a perceived irreconcilability between different notions of reform. Radical decartelization, as advocated by OMGUS's decartelization branch, could not be easily squared with the social democratic aspiration for a centrally directed economic democracy. The most prominent Germans working in the economics administration during the immediate postwar years, the Social Democrats, wished to replace the existing regime

with a relatively decentralized socialist planning system that involved government ownership of major industries, increased worker influence over the traditional organs of economic self-government, and the institutionalization of a socialist ethos in German industrial culture. But the mounting frustrations endured under the planning regime in ensuring an adequate amount of raw materials, food, and consumer goods soon discredited the entire idea of economic planning. Instead, advocates of the free and “social” market gained strength with the argument that only the introduction of market relationships could ensure the success of the long-awaited currency reform. The new bizonal director of the economy, Ludwig Erhard, accordingly began to dismantle the planning regime on 20 June 1948.

Yet the social market economy was not introduced overnight. Erhard had simply freed a number of consumer goods from the price controls inherited from the Nazis. In the years to come, he and the government sought to extend the free market to the remaining areas of the economy by exposing West German industry to international markets by reducing tariffs, creating a vibrant private capital market, and instilling a competitive order through the anticartel law. The interrelationship between international (primarily American, but also British and French) and domestic German forces in the shaping of the West German economy into the 1950s changed from what it had been during the occupation in that there now existed a set of “social market” doctrines around which economic policy debates revolved.

Erhard made compromises to overcome specific challenges to the new doctrine during the 1950s. Historians have generally interpreted these compromises as fundamental retreats from the social market economy. Hence, the investment aid law of 1952 represented a return to a “corporatist” model of industrial organization and decision making. The anticartel law debates made evident the ability of organized industry to undermine a central tenet of social market theory in order to reintroduce the traditional model of German capitalism. There is nevertheless more to be said on these two defining episodes. First, a recognition that market conditions did not exist in some sectors of the economy, such as the capital market, did not necessarily entail an abandonment of market principles that shaped the overall economy. Rather, the government agreed to compromise as long as the envisaged solution worked in a “market conforming” fashion. Indeed, Erhard resisted pressures from the Americans, the SPD, and the Finance Ministry to use the investment–unemployment crisis afflicting the Ruhr to introduce Keynesian style national planning. The investment law of 1952, of all the possible solutions presented at the time to overcome the critical industrial bottlenecks in heavy industry, involved the least amount of government intervention

and offered a solution that would nurture a private capital market. In addition, the anticartel law must be approached within the larger context of the role of competition in the functioning and organization of the German economy after the World War II. Erhard helped guide a larger debate over competition that aroused the interest of more than the BDI. The ultimate settlement in heavy industry also reflected the priorities of the West German left in its desire to secure equal labor influence over what it took for granted as a highly organized economy. Establishing and maintaining a competitive order (*Ordnung*), moreover, rather than lionizing competition as such, allowed Erhard and the CDU to countenance anticompetitive regulations for small business designed to legitimize the *Mittelstand* as a fundamental actor within that competitive order. The anticartel law, while having jettisoned the more emphatic provisions against economic power, did in the end prevent the formation of price cartels. Price cartels had formed the backbone of the notorious cartel movement of the interwar period. Though West German industry did indeed experience a reconcentration wave in the 1960s, Germany's cartels did not reappear in anywhere near the numbers of the 1920s.

Finally, the institutional reforms that established the social market economy played a key role in West German economic success during the late 1940s and into the 1950s. The relationship between institutional reform and economic success is clearer when examining the real economic policy choices that faced West Germans in 1948. By June 1948, the alternative to Erhard's vision of the social market economy was the social democratic economic democracy. In 1948, the Social Democrats still argued that price deregulation was too risky. Yet the abolition of many price, and then wage, controls played a crucial role in the success of the Allied currency reform. Combined with the SPD's commitment to grant organized labor an equal role in determining Germany's economic and industrial culture, it is difficult to imagine Social Democrats in the position to take advantage of the beneficial supply-side preconditions extant in West Germany at that time. In the 1950s, despite challenges to Erhard's vision of a competitive social market, he ensured West Germany's ability to grow rapidly through export led growth.

In the end, the legitimacy of the social market economy rested on the assumption that it represented a radical break with Germany's past. It is this claim that links economic policy debates during the 1940s and 1950s with the larger issue of continuities and discontinuities in German history transcending 1945. As Volker Berghahn once commented, "The society and economy of West Germany experienced both a restoration *and* a fresh

start.”² That continuities transcending 1945 existed does not necessarily imply a restoration of discredited elites, but rather that the economic policy debates during the 1940s and 1950s were shaped by ideas formed in response to the various tragedies of the interwar period. This was as true of the Allies, obsessed with avoiding a repeat of the infamous reparations dispute following the Versailles treaty, as with the Germans, who were more concerned with the social and cultural ramifications of traditional capitalism in Germany. The discontinuity lay in the simple fact of change itself. The American-sponsored international trading regime, of course, played a role in that change. But the development and application of the social market economy did as well. By rejecting the complex of economic institutions ultimately utilized by the Nazis, by legitimizing a competitive order meant to ensure the independence of the small businessman, by embracing the free international trading regime offered by the Americans, social market theorists backing Erhard facilitated a dramatic transformation of German economic and industrial culture.

2. Volker Berghahn, *Americanisation*, p. 4.

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Index

- Abelshauer, Werner, 6–7, 186
 On corporatism, 15, 191–195, 220, 225, 231
- Abs, Hermann Joseph, 218, 226
- Ackroyd, E., 59
- Adenauer, Konrad, 14
 Ahlen Program, 143–149
 Anti-Cartel law (1957), 281, *see also* cartels
 Codetermination, 257–267
 Deconcentration, 253–255, *see also* deconcentration
 Development of CDU, 140–149
 Dominance of CDU, 114
 Economic Council, 149, 158
 Erhard-Schäffer rivalry, 204, 221, 223–225
 Founding myth of social market economy, 3
 “Josten” draft bill, 246
 Korean War crisis, 218, 219, 221–222, 227
 Neheim-Hüsten (1946), 114, 148
 “mixed ownership” (*Vergesellschaftung*), 74, 146, 148–149, *see also* socialization
 Support for Erhard, 167
 Trade liberalization, 208
 Views on Erhard, 176–180, 184, 204, 211, 217, 218, 223–224
- Adorno, Theodor, 4
- AEG, 84
- Agathenburg Resolution, 110
- Agartz, Viktor
 Codetermination, 258
 Criticism of Fusion-Agreement, 116
 Economic Council, 117
 Economic democracy, 95, 110, *see also* economic democracy
 Efforts to eliminate the compensation economy (*Kompensationswirtschaft*), 131–135
 Endverbraucherkontingentierung, 133–135
 Foreign trade, 106
 General views, 47, 63
 Rudolf Mueller, 98, 112, 118–120
 Resignation, 135, 141
 Socialization, 74, 79, *see also* socialization
 Views on British, 64, 103–104, 111
 Views on ZAW, 103, 99–104
- Agatz, Hans, 123
- Aktionsgemeinschaft sozialer Marktwirtschaft*, 279
- Albers, Johannes, 47, 113, 114, 143
 Social Policy Committee, 145, 146, 148
- Albu, Austen, 50, 66, 67
- Alexander, John, 101
- Allied Control Council (ACC), 19, 39–41, 82, 101, 153
- Allied High Commission, 191
- Ambrosius, Gerold, 143
- Americanization, 2, 11–12
- Anglo-American Fusion Agreement, 70, 115–117

- Arbeitsgemeinschaft selbständiger Unternehmer* (ASU), 284
- Arnold, Karl, 47, 73, 113, 143, 146, 177–179, 250–252, 256, 258, 263, 269, 280
- Asbury, William, 73
- Attlee, Clement, 60
- August-Thyssen, 264
- Bank deutscher Länder, 191, 198, *see also* Deutsche Bundesbank
- Basic Law (*Grund Gesetz*), 250
- Bennet, Jack, 198
- Berg, Fritz, 227, 261, 262, 277–287
- Bergbahn, Volker, 11, 234, 288
- Bernstein, Bernard, 23, 39
- Bevin, Ernest, 36–37
 - Attitude toward British zone, 102, 126
 - German foreign trade, 105
 - Sensitivity toward French views, 60, 62, 70, 73
 - Socialization, 58, 60, 62, 69–73, 88, 91, *see also* socialization
 - Views of SPD, 70
 - Washington Coal Conference, 88, 91, *see also* socialization
- Berzirkswirtschaftsämter (BZÄ), 108
- Blank, Theodor, 261
- Blücher, Franz, 188, 216–218
- Bochem conference of Catholics, 258
- Böckler, Hans
 - Codetermination, 261–264
 - Einheitsgewerkschaft, 173
 - General strike of November 12, 1948, 173–175
 - On coal exports, 123
- Böhm, Franz, 161, 185, 241–243, 245, 247, 274, 279
- Bonn contractual agreements (1952), 282
- Bretton Woods Agreement, 8–10
- British Control Commission, 34, *see also* Great Britain
 - Economic planning in British zone, 104
 - Socialization policy, 55, 59–60, 62, 65–68, 77–78, 87–88
- Bronson, Richardson, 84, 244
- Buchheim, Christoph, 8, 17
- Bundesrat, 250, 269, 280
- Bundesverband der deutschen Industrie (BDI)
 - Anti-Cartel law (1957), 234, 268–270, 284, 276–287, *see also* cartel
 - Codetermination, 259, 260
 - Korean War crisis, 220, 227
- Bundesvereinigung der deutschen Arbeitgeber (BDA)
 - Codetermination, 256–265
 - Korean War crisis, 220
- Bundeswirtschaftsrat, 252, 267–268
- Byrnes, James, 42
- Cadogan, Sir Alexander, 33
- Cartels
 - Anti-Cartel law (1957), 16, 17, 233, 274, 268–278, 289
 - Anti-Cartel law – Erhard’s views, 17, 233, 274, 268–278, 286–287, 289, *see also* Erhard
 - Anti-Cartel law – “Josten Draft” law, 236–237, 241–242, 250, 269
 - Anti-Cartel law – McCloy’s views, 270, 275–276
 - Anti-Cartel law – Müller-Armack, 280, 281
 - Anti-Cartel law – SPD, 282, 287
 - Anti-Cartel law – U.S. views, 268, 275–276
 - Artisanal trade regulations, 272, 271–274, 284–286
 - BDI views, 18, 234, 268–270, 276–287
 - Cartel Ordinance of 1923, 243, 245, 268
 - Centrality of competition to Erhard’s social market economy, 233–236, 243–244, 248–250
 - Decartelization, 14, 16, 55–56, 79, 81–85
 - Decartelization – Bizonal law (1947), 83–84, 237
 - Decartelization – British views, 82–84, 237, 271, 274, *see also* Great Britain
 - Decartelization – Erhard’s views, 237–238, 241–243, 270–271
 - Decartelization – U.S. views, 55–56, 79, 83, 81–85, 237, 243–244, 270–271

- Erhard and the BDI, 278–284, 286–287
Missbrauchsprinzip, 245, 269, 277–287
 Monopolamt (or Kartellamt), 245, 247
Preisbindung der Zweiten Hand, 246
 Reichsgericht Decision of 1897, 273
 Schäffer, 282, 287
Verbotssprinzip, 245, 268
Wettbewerbsordnung, 278
- Cattier, Jean, 228
- Christian Democratic Union
 Adoption of social market economy,
 139–142, 157–158, 167, 176, 188
 Artisanal trade regulations, 273
 Ahlen Program, 74, 139, 148, 143–149,
 280
 Christian socialism, 45, 47–49, 113, 139,
 143–146, *see also* socialization
 Codetermination, 258
 Düsseldorf, 139, 143, 185
 Electoral ascendancy, 98, 113
 Election victory of September 1953, 279
 Heidelberg meeting (1949), 188
 Königswinter meeting (1949), 184–185
 Neheim-Hüsten (1946), 114, 148
 Party Congress in Berlin (1946), 113
 Recklinghausen meeting (1948), 176,
 180
 “Restoration” Paradigm, 5
 Role of Christianity, 48
 Rudolf Mueller’s ouster, 120
 Social Policy Committee, 145, 146, 148
 Stuttgart meeting (1946), 147
- Christian socialism, *see* Christian
 Democratic Union
- Churchill, Winston, 26
- Clay, Lucius, 34
 Codetermination, 256
 German economy, 127, 200
 Law, 17, 240, *see also* deconcentration
 Reparations stop, 40
 Socialization, 80, *see also* socialization
 Views of British, 85
 Views of ECA, 199
- Clayton, William, 88
- Coal Sales Syndicate, 83, 238
- Codetermination, 12, 251, *see also*
 economic democracy
Betriebsverfassungsgesetz, 263, 265
 Bochum conference of Catholics, 258
 Codetermination Law of 1951, 263, 265
 Hattenheim negotiations, 259–260
 Cold War paradigm, 19–21
 Collins, H.E., 59, 89, 123
 Conference of Foreign Ministers in Paris
 (1946), 61, 68
 Conference of Foreign Ministers in
 Moscow (1947), 77
 Corporatism, 2, 15, 194–195, 225, 230–232
 Cowley, John, 101, 104, 132
 Currency reform, 139
 Relationship to Erhard’s economic
 reforms, 142
- Dahrendorf, Gustav, 157, 179
 Dahrendorf, Ralf, 4
 Dalton, Hugh, 35–36
- Decartelization, *see* cartels
 Deconcentration, 16, 82, 84, 266
 Adenauer’s views, 253–255
 DGB views, 254
 Holding companies, 264–267
 Law 75, 92, 241, 240–243, 251–254
 Law 27, 253–255, 262, 263
 Problem of *Verbundwirtschaft*, 236,
 252–255
 SPD attitude toward deconcentration,
 254, 265
 U.S. views, 263–265
- De Gaulle, Charles, 2
- Degussa, 271, 275
- Deissmann, Ernst, 128, 152
- Diekmann, Bruno, 119
- Dismantling, 135
- Dollar Gap, 8
- Deutsche Bundesbank, 17, *see also* Bank
 deutscher Länder
- Deutsche Kohlenbergbauleitung (DKBL),
 91, 253
- Deutsche Gewerkschaftsbund (DGB), 63
 Banken, Handel, und Versicherung
 (BHV), 173
 Codetermination, 251, 256, 255–268
 Deconcentration, 254, 265, *see also*
 deconcentration

- Deutsche Gewerkschaftsbund (DGB)
 (*contd.*)
 Deutsche Angestellten Gewerkschaft (DAG), 173, 174
 Einheitsgewerkschaft, 172
 General strike of November 12, 1948, 142, 167, 173–175
 IG Metall, 262, 286
 Korean War crisis, 225, 226
 Öffentliche Dienst, Transport und Verkehr (ÖTV), 173, 174
 Price and Wage controls, 172–175
- Deutsche Industrie- und Handelstag (DIHT)
 Artisanal trade regulations, 273
 Anti-Cartel law (1957), 284
 Codetermination, 259, 260
 Korean War crisis, 220
- Draper, William, 80, 87, 90, 127
- Dunn, James, 28
- Economic Constitution
 (*Wirtschaftsverfassung*), 107, 243
- Economic Council, 107, 149
 Arbeitsgruppe Kohle (AGK) and Points System, 124–128
 Economic Guide Plan 1947/48, 122
 Ordinance on the Control and Allocation of Commodities (*Warenverkehrsordnung*), 130–131
 Ousting of Rudolf Mueller, 112
 Reorganization, 135–136, 156–157
- Economic Democracy, 5, 54, 236, 252, 255–268, *see also* codetermination
 British attitudes toward, 109
 Industrialist opposition, 110–111
 Transformation of IHKs into Wirtschaftskammern, 108, 110, 111
 Wuppertal Meeting (1947), 111
- Economics and Industrial Planning Staff (EIPS)
 Inflation, 32
 Morgenthau Plan, 32
 On reparations, 25
 On socialization, 57–59
- Eisenberg, Caolyn Woods, 20
- Eisenhower, Dwight D., 34
- Endverbraucherkontingentierung, 133–135, 153
- Erhard, Ludwig, 1
 Anti-Cartel Law (1957), 17, 233, 274, 268–278, 286–287, 289, *see also* cartels
 Bavarian Minister of Economics, 64, 117
 Balance of payments crisis, 204–209
 BDI, 278–284, 286–287
 Becomes Director of the economy, 156
 Codetermination, 267–268
 Competition, 233–236, 248–250, *see also* cartels
 Conflict with Hans Schlange-Schöninggen, 181–183
 Currency reform, 142, 167, 168
 Debate with Erik Nölting, 175
 Decartelization, 237–238, 241–243, 270–271, *see also* cartels
 Founding myth of social market economy, 3
 Economic Reforms of 1948 (*Leitsätze*), 14–16, 140–143, 161, 164–167, 186–187
 Equalization of Burdens (*Lastenausgleich*), 168
 General strike of November 12, 1948, 173–175
 Hoarding, 164
 Inflation, 168–170, 183
 Investment, 189–190, 211–212
 Investment Aid Law (1952), 17, 228, 230
 Jedermann program, 183
 “Josten” draft bill, 236–237, 241–242, 244, 247–250, 269–271
 Königswinter meeting (1949), 184–185
 Korean War Crisis, 17, 213–215, 222–223, 225–227
 Marshall Plan counterpart funds, 170, 197–200, *see also* Marshall Plan
Preisspiegel, 183
 Recklinghausen meeting (1948), 180
 Reconstruction savings plan (*Sparmarkenplan*), 214, 218–219
 Relationship with Adenauer, 204, 223–224

- Rivalry with Schäffer, 221, 223–225
 Self-image, 202–203
 Sonstelle Geld und Kredit, 157, 159–161
 Trade liberalization, 205, 208, 216
 Unemployment, 170–171, 190–191, 211–212
 Wissenschaftliche Beirat (Advisory Board to the VfW), 161–162
- Etzel, Franz, 210, 235, 237, 246–248, 261, 279
- Eucken, Walter, 157, 159–161, 185, 244, 247
- European Advisory Commission (EAC), 25
- European Coal and Steel Community (ECSC), 279
- European Coal Organization, 122
- European Economic Community, 288
- European Monetary Union, 1
- European Payment Union (EPU), 8, 191, 213, 215–217
- Federation of British Industries (FBI), 43
- Flanders, Allan, 75–76, 115
- Ferguson Committee, 244, 270
- Forestell, James, 87
- France
 Central Administration in Germany, 40
 Dependence on Ruhr coal, 85
 Law 17, 241–243, 251–253, *see also* deconcentration
 Monnet Plan, 2
 Ruhr Question, 40, 57
 Socialization, *see also* socialization, 68, 70, 72
- François-Poncet, André, 252, 274
- Free Democratic Party (Freie Demokratische Partei Deutschlands – FDP)
 On socialization, 76
 Support for Erhard, 141, 143, 159
- Freiburg School, 138, 141, 159, 161
- Friedrich, Otto, 192, 213, 220, 228
- Freitag, Walter, 262
- Frings, Cardinal, 128
- Frowein, Abraham, 99–102, 109
- Gebrüder Böhler, 177
- Gemeinschaftsausschuss der deutschen Wirtschaft, 220–221, 225–228
- German Economic Advisory Board (GEAB), 41, 101, 99–103, 106
- German Economic Problems
 Balance of payments crises, 204–209, *see also* Korean War crisis
 Black Market, 39, 153
 Breakdown of system, 38
 Coal industry, 217–218
 Codetermination, 236, *see also* codetermination and economic democracy
 Currency reform, 139, 159, 167, 168
 Dollar shortage, 105, 205
 Economic reforms (*Leitsätze*), 139, 167, *see also* Erhard
 Electricity system, 152
 Equalization of Burdens (*Lastenausgleich*), 168
 Foreign Trade, 105–107
 General strike of November 12, 1948, 173–175
 Hoarding, 153, 164
 Inflation, 168–170
 Investment, 189–190, 228
 Law 75, 235, 240–241
 Kompensationswirtschaft, 130–135
 Points system, 151–152, *see also* DGB
 Price and Wage controls, 39, 96, 117, 139, 150, 172–175, 217
 Railway repair program, 151
 Rationalization, 283
 Tax system, 117, 197, 283
 Trade liberalization, 204–209
 Unemployment, 170–171, 190–191
 Verbundwirtschaft, 236, 252–255, *see also* deconcentration
- German state tobacco monopoly, 84
- Globke, Hans, 53, 263
- Great Britain
 Attitude to tradition of self-administration, 108
 Concern over competition from Germany, 43–44

- Great Britain (*contd.*)
 Concern over Soviet intentions, 40–41
 Criticism of Erhard, 208
 Currency reform, 139
 Decartelization, 82–84, 237, *see also*
 cartels
 Dollar shortages, 105
 Economic administration in British zone,
 99–103, 108–110
 Economic Crisis (1947), 126
 Economic policy in British zone,
 103–107, 109
 Efforts to build alliance between SPD
 and Christian socialists, 49, 73–76, 146
 Foreign Trade, 105–107
 Law 75, 241, 252–254, *see also*
 deconcentration
 North German Iron and Steel Control
 (NGISC), 239
 Operation Segregation, 264
 Operation Severance, 239, 252, 257, 264
 Relationship with Social Democrats, 14,
 45, 49, 61, 97
 “Restoration” Paradigm, 5
 Socialization policy, 55, 73–78, 146,
 238–240, 253–254, *see also*
 socialization
 Sparta Plan, 104–105
 US/UK Coal Control Group, 80, 91
 Washington coal conference, 89–92, 235,
 238, *see also* socialization
 Günther, Eberhard, 246, 247, 249, 274,
 278, 288
 Güttehoffnungshütte, 84

 Handwerkskammern, 271–274
 Hanes, Robert, 199, 209
 Hardach, Gerd, 8
 Harriman, Averell, 206
 Harris-Burland, William, 178,
 239
 Hartenstein, Stephen von, 120
 Hartmann, Alfred, 159
 Harvey, Oliver, 68
 Havana Charter, 244, 275
 Hawkins, Phillips, 84
 Hayek, Friedrich von, 3

 Heine, Fritz, 114, 133
 Hellwig, Fritz, 277, 282
 Henderson, Loy, 33
 Henle, Günther, 254, 284
 Henssler, Georg, 133, 157
 Henschel, 84, 151, 237
 Hentschel, Volker, 9, 17, 235
 Hermes, Andreas, 47, 48, 144, 181
 Hickerson, John, 88
 Hilferding, Rudolf, 95, 255
 Hilpert, Werner, 117
 Höcherl, Hans, 282, 285
 Hoff, Hans vom, 260, 262
 Hoffman, Paul, 206
 Holzapfel, Franz (Friedrich?), 136, 149,
 150, 182
 Homburger Plan, 159
 Hoover, Calvin B., 38
 Hopkins, Harry, 26, 28, 33
 Hoyer-Millar, F. R., 91
 Hull, Cordell, 26–28, 30
 Hynd, John, 37–38, 42
 Attitude toward British zone, 102
 Relationship with SPD, 64
 Views on socialization, 66, 70–72,
see also socialization

 IG Bergbau (*Industriegewerkschaft Bergbau*),
 98, 121
 IG Farben, 58, 82, 84
 IG Metall
 On dismantling, 135
 Imperial Chemicals Industries (ICI), 43
 Industriekredit Bank, 227
 International Authority of the Ruhr (IAR),
 218
 Investment Aid Law (1952), 17, 192
 Industrie- und Handelskammern (IHS)
 On economic democracy, 95, 110,
see also economic democracy
 Role in economic administration, 100,
 107, 109

 Joint Chiefs of Staff, 34, 271
 Joint Export-Import Agency (JEIA)
 Creation, 107
 Dissolution, 206

- “Josten” draft bill, *see* cartels
 Josten, Paul, 241–242, 245, 247
- Kaiser, Jacob, 47, 113, 143, 146–147
 Keiser, Günther, 153
 Currency reform, 159–160
 On economic crisis (1957), 128–129
 On points system, 152
 Kindleberger, Charles, 7–10
 Keynes, John Maynard, 3
 On reparations, 21, 24–25
 Kilgore Committee, 42
 Koch, Harald, 119, 162
 Kogon Eugen, 4
 Kohler, Heinrich, 117
 Kopf, Heinrich, 179
 Korean War Crisis, 15, 17, 213, 283
 Coal industry, 217–218
 Investment Aid law (1952), 228, 230
 Kost, Heinrich, 253
 Kraus Maffei, 151
 Kreditanstalt für Wiederaufbau (KfW), 198, 224
 Kreyssig, Gerhard, 157
 Kriedemann, Herbert, 150, 165, 171
 Kubel, Alfred, 119, 127, 136, 150, 210
 Kuhnert, Klaus, 117
- Labour Party, 35
 Lampe, Adolf, 161
 Laski, Harol, 58
 London Agreements (1948), 156
 Lovett, Robert, 89
- Maier, Rheinhold, 127
 Malkim Committee Report, 24–25, 57
 MAN, 151
 Mannesmann, 266
 Marshall, George, 87
 Marshall Plan, 8–9, 20, 80
 Economic Cooperation Administration (ECA), 199–202, 207–209
 Electricity system, 152
 Long-term program (1951), 209–210
 Use of Marshall Plan counterpart funds, 170, 197–200
- Martin, James, 14, 56, 81, 84–86, 234, 239, 244
 Maschinenfabrik Esslingen, 151
 Massigli, René, 68
 Matthews H. Freeman, 28, 69
 McCloy, John J.
 Anti-cartel law (1957), 275–276, *see also* cartels
 Codetermination, 256, *see also* codetermination and economic democracy
 Criticism of German economic policy, 209
 Decartelization, 270, *see also* cartels
 Korean War Crisis, 191, 192, 213, 219–220
 Morgenthau Plan, 29, *see also* Morgenthau Plan
 Meitmann, Karl, 132
 Meyer-Sevenich, Maria, 179
 Miksch, Leonard, 157, 159, 165, 244
 Mills, Sir Percy, 58, 59
Mittelstand, 16, 25–26
 Morgenthau Plan, 20, 22, 26–34
 Morgenthau, Henry, 20, 22
 Origins of Morgenthau Plan, 26–34
 State Department reaction, 28–32
 War Department reaction, 29–30
 Morrison, Herbert, 61
 Mueller, Rudolf, 65, 97, 98, 112, 117–120, 130, 141
 Müller, Gloria, 255
 Müller, Joseph, 182
 Müller, Max, 112
 Müller-Armack, Alfred, 157, 159, 170
 Anti-Cartel Law (1957), 280, 281
 Wissenschaftliche Beirat (Advisory Board to the VfW), 161
 Murphy, Robert, 86
- Naegel, Wilhelm, 278, 282
 Naphtali, Fritz (Franz?), 95, 255
 Nazi economic policies, 23
 Gleichschaltung, 100
 Law on Handicrafts, 273, *see also* cartels
 Price controls, 26, 39, 96, 117
 Use of IHKs, 108

- Nicholls, Anthony J.
 On corporatism, 194, 231
- Niederbreisiger Kreis, 215
- Noel-Baker, Phillip, 50
- Nolan, Mary, 12
- Nölting, Erik, 74, 75, 117, 119, 149
 Debate with Erhard, 175
 On the compensation economy
 (*Kompensationswirtschaft*), 134
 Points system, 124–128
 Wissenschaftliche Beirat (Advisory Board
 to the VfW), 161
- Nörr, Knut, 274
- North German Coal Control (NGCC), 67,
 80, 121
- North Rhine–Westphalia, 68, 69, 78, 79,
 90, 113, 144, 235, 241–242, 256
- Office of Military Government–United
 States (OMGUS), 21, 34, 237, 239
- Ollenhauer, Erich, 133
- O’Neill, Con, 202
- Organization for European Economic
 Cooperation (OEEC), 191, 199, 210,
 215
- “Organized Capitalism”, 3, 255
- Pakenham, Lord, 127
- Patterson, Robert, 86, 87
- Pasvolsky, Leo, 26
- Pferdmenges, Robert, 145, 159, 204,
 266
- Phillips, Morgan, 50, 114
- Platow, 245
- Playfair, E. W., 25, 33
- Podeyn, Hans, 181
- Points System, 98, 121–122, 124–128
- Potthoff, Erich, 258
- Potsdam Agreement (1945), 19, 39–40, 82,
 99, 101, 264
- Pünder, Hermann, 161, 202
- Quebec Conference (1944), 26
- Raymond, Walter, 259–263
- Reichswerde, 267
- Reichswirtschaftsrat, 110
- “Restoration” Paradigm, 5–6, 20, 53–55,
 81, 92
- Reuss, Frederick G., 7
- Riddleberger, James, 28, 69, 86
- Risse, Roland, 246, 247, 249, 278
- Rittershausen, Heinrich, 166
- Robert Bosch, 84, 238, 271, 275
- Robert, Rüdiger, 288
- Robertson, Sir Brian
 Decartelization, 271, 274, *see also* cartels
 Economic policy in British zone, 122
 Socialization, 59, 68, 72–77, 87,
 241–243, 254, *see also* socialization
- Roosevelt, Franklin Delano, 25, 26, 29, 30,
 33
- Röpke, Wilhelm, 157, 160, 215, 233
- Rosenberg, Ludwig, 109, 111, 117, 118
- Roskamp, Karl W., 7
- Ruhr Question, 40, 57
- Rüstow, Alexander, 279
- Scammon, R.M., 58
- Schäffer, Fritz
 Anti-Cartel law (1957), 276
 Rivalry with Erhard, 203–204, 221,
 223–225
 Special turnover tax (*Sonderumsatzsteuer*),
 213, 218–220, 222
- Schalfejew, 224
- Schiller, Karl, 161
- Schlange-Schöningen, Hans, 142, 181–183
- Schmidt, August, 123
- Schmidt, Otto, 49
- Schniewind, Otto, 198
- Schoettle, Erwin, 136, 150
- Schonfield, Andrew, 3, 10–12, 195, 232
- Schumacher, E. F., 66, 67, 124
- Schumacher Kurt, 14, 45–47
 Cologne Resolutions, 133
 Economic Reforms of 1948, 157
 “Restoration” Paradigm, 5
 Anti-SED, 63
 Views on CDU, 115
- Schröder, Gerhard (1950s), 261, 263
- Schröder, Gehard 4
- Schuman Plan, 263
- Schwarz, Hans-Peter, 203

- Seal, Eric, 43
- Seebohm, Hans-Christoph, 276
- Seidel, Otto, 159, 182
- Semmler, Johannes, 98, 136, 137
 Dismissal, 141, 155–156
 Economic policy, 141, 150–156, 160
 Electricity system, 152
 Railway repair program, 151
- Siemans and Halske, 84, 271, 275
- Sievert, Paul, 247
- Social Democratic Party of Germany
 (*Sozial-Demokratische Partei
 Deutschlands* – SPD), 3, 21
- Anti-Cartel law (1957), 282, 287, *see also*
 cartels
- Anglo-American fusion agreement,
 115–117
- Bad Vibel meeting (1948), 163
- codetermination, 255–268, *see also*
 codetermination and economic
 democracy
- “Cologne Resolutions”, 65, 68, 70, 97,
 117, 119, 132
- Deconcentration, 254, 265, *see also*
 deconcentration
- Economic Council, 93
- Economic Reforms of 1948 (*Leitsätze*),
 17, 162–165
- Economic Democracy, 5, 54, 63, 95,
 108, 109, *see also* economic democracy
- Efforts to bring down Erhard, 171–175
- Expectations for post-war period, 45–47,
 96–98
- General strike of November 12, 1948,
 142, 167
- Hannover Party Congress (1945), 46
- Hannover Party Congress (1946), 47, 63
- Historians and SPD, 98
- Kassel meeting (1948), 157–158
- Korean War crisis, 194
- Points System, 98, 125
- Relationship with British, 14, 45, 62–65,
 97, 109, 111
- “Restoration” Paradigm, 5
- Revisionist socialism, 255
- Socialization, 5, 64–65, 74, 75, 93,
 241–242, 250, *see also* socialization
- Springe meeting (1948), 171
- Transformation of IHKs into
 Wirtschaftskammern, 108, 256, *see also*
 economic democracy
- Unemployment, 210
- Verwaltungsamt für Stahl und Eisen
 (VSE), 112
- Withdrawal into opposition (1947), 150
- Worries over American influences, 64,
 97
- Worries over growing strength of CDU,
 113–115
- socialism, 44, 45
- socialization
 Adenauer, 74, 146, 148–149
 Agartz, 74, 79
 Bevin’s views, 58, 60, 62, 69–73, 88, 91
 British socialization policy, 55, 60–62,
 73, 73–78, 146, 238–240, 253–254
 Christian socialism, 45, 47–49, 113, 139,
 143–146
 Clay’s views, 80
 Differences between British Control
 Commission and Foreign Office, 55,
 59–60, 62, 65–69, 77, 77–78, 87–88
 FDP views, 76
 French reservations, 68, 70, 72
 Hynd’s role, 66, 70–72
 Marshall’s views, 87
 Robertson’s views *see* Robertson
 Social Democrats, 5, 64–65, 74, 75, 93,
 241–242, 250
 U.S. attitudes toward, 68, 79–81, 85–87
 Washington coal conference (1947),
 89–92, 235, 238
- Socialist Unity Party (*Sozialistische
 Einheitspartei* – SED), 41
- Sombart, Werner, 243
- Sonderstelle für Geld- und Kredit*, 138, 157,
 159–161
- Soviet Union, 5, 40–41, 57
- Spiecker, Carl, 147
- Supply-side explanation for Germany’s
 post-war growth, 7–8
- Stability Pact, 1
- Steel, Christopher, 73, 126, 179
- Stettinius, Edward, 30–32

- Stillwell, Joseph, 90
 Stimson, Henry, 29
 Storch, Anton, 260–263
 Strang, William, 41, 59, 90–91
 Sträter, Christian, 269, 280
 Strauß, Walter, 158
Stunde Null, 4–5
- Thorp, Willard, 90
- United States
 Anti-Cartel law (1957), 268, 275–276,
see also cartels
 Artisanal trade regulations, 271–274, *see also*
also cartels
 Attitude toward tradition of
 self-administration, 108,
see also economic democracy
 Currency reform, 139
 Decartelization, 55–56, 79, 81–85, 237,
 243–244, 270–271, *see also* cartels
 Deconcentration, 263–265, *see also*
 deconcentration
 Economic crisis (1947), 126
 Economic Reform, 40, 55–56, 108
 Government Relief in Occupied Areas
 (GARIOA), 199
 Investment, 198–202
 Law 75, 252, *see also* deconcentration
 Mutual Security Agency (MSA), 283
 New Deal, 2
 “Restoration” Paradigm, 5, 81
 Rudolf Mueller’s ouster, 119
 Semler’s dismissal, 155–156
 Socialization, 68, 79–81, 85–87, *see also*
 socialization
 Trade liberalization, 205
 US/UK Coal Control Group, 80, 91
 View of Erhard, 192–194
 Washington coal conference, 89–92, 235,
 238, *see also* socialization
- Veit, Hermann, 119
 Vereinigte Glanzstoffwerke, 271
 Versailles, Treaty of, 21, 24
 Verwaltungsamt für Stahl und Eisen (VSE),
 112, 131
 Verwaltungsamt für Wirtschaft (VAW)
 Creation, 116
 Vicker, Sir Geoffrey, 60
 Vocke, Wilhelm, 196, 201, 206, 208, 216
 Volkswagen, 276
- Wall, Irwin, 12
 Washington coal conference, *see*
 socialization
 Weir, Cecil, 67, 77, 87, 127
 Weisser, Gerhard, 161, 162, 210
 Welty, Eberhard, 48, 144
 Westrick, Ludgar, 224, 227, 253
 Wirtschaftssicherungsgesetz, 221
 Wissenschaftliche Beirat (Advisory Board
 to the VfW), 157, 161–162, 207
 Working Security Committee (WSC),
 25–26
 Wuppertaler Plan, 218
- Zentralamt für Wirtschaft (ZAW), 64,
 95
 Creation, 99, 102
 Ziersch, 277
 Ziervogel, F.W., 284
 Zonal Advisory Council, 68, 71
 Zorn, Rudolf, 119, 141
Zwangswirtschaft, 3, 96, 163, 185
 Zwicknagl, Max, 182