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978-0-521-83362-2 - Rebuilding Germany: The Creation of the Social Market Economy, 1945–1957

James C. Van Hook

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Rebuilding Germany

The social market economy has served as a fundamental pillar of postwar Germany. Today, it is associated with the European welfare state. Initially, it meant the opposite. After Nazism's defeat, West Germany departed from a tradition of state-directed economic policy. Coinciding with the 1948 Allied currency reform, West Germany abandoned Nazi-era economic controls for the free market. Supporters of this "social market economy" argued that Germany's historical experiences proved that such a free market could better achieve social ends than could socialism itself.

Rebuilding Germany examines the 1948 West German economic reforms that dismantled the Nazi command economy and ushered in the fabled "economic miracle" of the 1950s. Van Hook evaluates the U.S. role in German reconstruction, the problematic relationship of Chancellor Konrad Adenauer and his economics minister, Ludwig Erhard, the West German "economic miracle," and the extent to which the social market economy represented a departure from the German past. In a nuanced and fresh account, Van Hook evaluates the American role in West German recovery and the debates about economic policy within West Germany, to show that Germans themselves had surprising room to shape their economic and industrial system.

James C. Van Hook is the joint historian of the U.S. Department of State and the Center for the Study of Intelligence at the Central Intelligence Agency. He received his Ph.D. in modern European history from the University of Virginia. He has taught modern German and European history at the University of Virginia, Mary Baldwin College, and Trinity University in San Antonio, Texas.

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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

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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

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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).

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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-Demokratische 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

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

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