The Man Who Created the German Economic Miracle

On April 2, 1948, Ludwig Erhard, a little-known economist who had opposed Nazism, was appointed Director of the Economic Council of *Bizonia*, the territory resulting from the merger of the British and American occupied territories in post-WWII Germany.

Few suspected that, only two months later, he would unleash the power of free markets and trigger the so-called *German Economic Miracle*: the extraordinary economic recovery that West Germany experienced in the aftermath of the war, which resulted in the tripling of per capita income in barely a decade.

A veteran from World War I, Erhard earned his Ph.D. in Economics in 1925 from the University of Frankfurt. His career was cut short when he refused to join the Nazi party. This led him to abandon academia and join a business research institute located in Nuremberg. In 1945, Erhard started to work for the American occupation forces as an economic advisor. He held several positions until he was commissioned by the American and British authorities to steer the devastated postwar West-German economy.

Erhard was deeply influenced by *ordoliberalism*, a school of economic thought that has its roots in the University of Freiburg of the 1930s. *Ordoliberalism* is closely linked to the classical liberal tradition, although it differs from it in some respects, especially in the role that government must play in the economy.

His classical liberal convictions led him to make a decision that would prove decisive for the development of postwar Germany. On June 18, 1948, the military governments of the three occupied territories in West Germany passed legislation for currency reform aimed at replacing the old Reichsmark for a new currency: the Deutsche Mark.

On the same day, the Bizonal Economic Council, led by Erhard, made a decision that was harshly criticized at the time: it eliminated most price ceilings and economic controls that had been in place since 1936. An exception was made for certain commodities like iron, steel or coal.

As pointed out by Larry White in his book *The Clash of Economic Ideas*, John Kenneth Galbraith, who at the time worked for the US State Department supervising economic policy in Germany, was one of the outspoken critics of removing all economic controls from the German economy.

Contrary to what Galbraith had predicted, the impact of Erhard's liberalization policies was extremely positive. Overnight, shortages disappeared; the new Deutsche Mark displaced barter – which had become a common practice – while black markets vanished.

These economic-policy measures together with a tax reform that reduced income taxes by around 30 percent boosted economic growth: in the first six months after the removal of economic controls, output grew by 53 percent.

After the unification of the French, British and American zones into the Federal Republic of Germany, Erhard became Minister of Economics and then Chancellor after Adenauer stepped down in 1963. He died in 1977.

In a time when socialism was winning the intellectual battle against classical liberal ideas, Erhard dared to implement a sweeping free-market reform. As a result, West Germany rose from the ashes, laying the foundations for what would later become the hegemonic economic power in Europe.

—

[Image Credit: Bundesarchiv, , GermanWikimedia]