Economic Revival of West Germany in the 1950s and 1960s

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The economic revival of the Federal Republic of Germany (FRG) in the two decades following the second world war saw a period of unprecedented growth, which in the 1950s stood at some 8% a year before falling to a still impressive 4.6% in the 1960s. This figure is particularly impressive given that the immediate post war growth figures were just 1% per annum. This impressive leap in growth figures, which bought about greatly increased living standards for the populace, found its roots among underlying economic conditions, foreign influences and the domestic drive towards competition and consumerism.

It must be remembered that the economic recovery , referred to as a miracle by state authorities, was not as instantaneous event and that the revival had strong underlying foundations. The immediate post war conditions were not as grave as they were in the likes of the German Democratic Republic. Indeed, Braun, has calculated that some 50% of all fixed assets in 1948 were between 0-10 years old, thus, the physical capital required for recovery was evident even after the wide-spread destruction of the war. Furthermore, capital that was older and less efficient tended to dismantled and replaced to a higher standard anyway by the occupying forces of the Tri-zone. In general, the dismantlement policies were relatively un-severe with no more than 5% of Germany's pre-war industrial stock being cut. This is particularly important given that between 1936-45, gross industrial fixed assets had actually increased by 20% and, as such, even before the impressive growth rates commenced, the FRG contained adequate physical capital at its disposal to greatly increase its industrial capabilities.

In light of this, it has been argued by the likes of Borchadt, and economist Janossy that West Germany's economic revival fits within a much broader framework of natural growth potential that is sourced in the industrialization process a century earlier. Borchadt has shown that per capita growth within Germany had increased by some 500 marks between the years 1850 and 1914 and was only curtailed by the war, which thus created 'back logs' of growth to be utilized by the FRG. This fits in with the 'Reconstruction model' as propagated by economist Janossy, who argues that the so-called 'miracle-years' were but a continuation of pre-existing economic trends from 1870; with the economic growth of West Germany being contained within a trend line calculated on the basis of productivity increasing on average 1.9% annually between 1919 – 1963 . While I agree to an extent that there certainly was growth potential for the West German economy to exploit, as shown by the capital stock, I do not agree that such exceptional growth figures can be rationalized by looking at pre-existing trends. I would echo the views of Berghahn in that such a recovery was a 'slow process of evolution', but to say that the economic revival of West Germany was but a continuation of economic trends belittles the unprecedented economic gains throughout the 1950s and into the first half of the 1960s which are shown with gross national product increasing some 200 billion marks between these decades.

Braun's argument of a strong post-war capital stock fuelling growth has its merits statistically in that only 6.5% of machine tools had been damaged during the war, but such capital is ineffective without a highly skilled workforce. This potential hazard was bridged by an influx of cheap, skilled workers in the form of refugees from East Germany and other lands that fell within Soviet influence. Indeed, Abelshauser calculates that between 1939 and 1948, the West German workforce increased by over 3 million as a result of this influx, and that continuing into the 1950s this immigrant workforce grew by a further 3 million. This would provide a great deal of slack for a rapidly expanding economy and would also prevent any labor supply bottlenecks that could curtail the increasing expansion of firms.

In light of this comment, we should view this immigration as key to preventing a skills shortage rather than providing a pool of free labour for industry to call on, as growth in national product over the 'miracle years' was around 8% annually yet population growth over this period was just 1%. Thus, it was not the quantity of migrants but the quality which affected the growth potential of the West German economy and therefore its revival. Their initial effect on the expansion of production cannot be understated, with the production index rising from some 61 points in 1948 to 165 in 1954. Therefore, not only was the FRG equipped with a modern stock of capital, it also had a large, specialist workforce capable of operating it. This would promote an economic revival, as shown by the share of employment in secondary industries standing on average at 48.9% between 1950 and 1972.

This surge in production would require a greater market than that available domestically to spearhead the economic revival. In the initial phases of recovery, between 1948 and 1954, consumption within the FRG was yet to be fully realized as the population adjusted from the 'collapsed economy' of post war Germany in which objects such as American cigarettes were used as 'substitute currency' and some 50% of production was hoarded. The creation of new markets was to be fulfilled through both the 1948 currency reform and integration into the European Coal and Steel community in April 1951. Combined, these created a larger market for German industry which was now more price competitive given that the new currency was undervalued and indeed Johnston calls it, 'the first step towards recovery'. In light of the capital stock and workforce, such markets allowed West German firms to have rising demand for their goods allowing for a continued expansion of output.

Such foreign trade would stimulate the recovery and was greatly aided by political tensions between the Soviets and America. This is emphasized by exports being initially centered on the high value trade of armaments, as shown by the exportation of weapons from the FRG to NATO members. This fell within the "policy of strength" held between the US and Adenauer as a way to 'roll back the frontiers of the Soviet Empire'. This exporting of armaments was further aided by the Korean war in 1950 and as such, these high value exports help account for the value of exports between 1950-1960 growing from 10%-19% of gross domestic product, which represents a much greater amount of money entering the domestic circular flow of money.

The tensions between the United States and the Soviets would have a further effect in stimulating industrial output by promoting the re-armament of the FRG. As Pommerin points out, this was 'acknowledged to be a military necessity' for Nato to match Soviet forces, which still numbered some 6 million in Europe. The Korean war had shown that the Soviet Union were prepared to use force and, as such, the acceptance of the Spofford plan in 1950 laid the foundations for the creation of the Bundeswehr in 1955. The subsequent expansion of military capabilities divisions in which 12 division of 500,000 men and an air force of 1,326 planes were created, would fuel the development of secondary industries to create what Leaman calls a 'commercial substructure'. This is evident through the 75% increase in the output of the aerospace industry. Therefore, the growth of the armaments industry had a cumulative impact on growth and thus greatly aided the recovery.

The positive impact of the global political deadlock and the subsequent growth of the armaments industry cannot be understated. Indeed, such growth substituted previous high value imports, with the value of armament imports decreasing their share of total imports from 60% to 22.7% between 1957 and 1969. When this is coupled with the aforementioned increase in exports, it is clear that foreign trade greatly aided the revival as it improved the balance of payments and thus kept money capital within the economy of the FRG.

Within this role of foreign influences falls the role of Marshall Aid, which was specifically designed to stimulate the recovery by raising productivity within the West German economy. Berghahn argues that this aid spurred the economic growth of the 1950s through its 'generous terms' which provided an injection of modern capital, a view furthered by Braun who believed that without the liquidity and technical assistance provided through Marshall Aid, 'West Germany's economic and political revival is hardly imaginable'. I find these views highly insufficient given that, as previously stated, much modern capital was still in existence after the war with some 50% of all fixed assets in 1948 being only 0-10 years old. As such, it would be wrong to view Marshall Aid as giving the platform for which recovery could be established.

In light of the initial conditions within West Germany, I would agree with Abelshauser that the economic recovery 'had begun long before the arrival of the first shipments of Marshall Plan Aid' and that Marshall Aid allowed for economic reconstruction 'on the basis of her [Germany's] own resources and capabilities'. Indeed, aid for West Germany amounted to just twelve dollars per capita , unlike Austria who received $36.2 per capita, yet who's growth over the period 1950s was 5.4%; a fair way short of the FRG's 8.0% annual growth. Therefore, foreign aid should not be viewed as a deciding factor in the recovery.

However, it would be incorrect to say that Marshall Aid had a negligible affect in enabling the recovery of West Germany. Much important infrastructure owed a great debt to the counterpart funds, with loans to public electricity companies amounting to some 729 million Deutsche Marks by the end of 1952. These were vital to prevent bottlenecks that could limit production possibilities, as shown by an increase in electricity generation by public utilities of 70% between 1948-1952. This was hugely important given that Germany was pursuing an export-orientated growth strategy centered on high technological goods, such as armaments, which therefore required a modern infrastructure. Therefore, whilst I agree with Abelshauser that the role of Marshall Aid in terms of enabling the recovery has been overstated, it was certainly another strong factor that allowed for the continued expansion of industry.

This continuous expansion of output which fuelled the recovery was also made possible by a number of domestic factors. The general framework for economic recovery was along the lines of the American market system, as outlined by the 1949 Basic Law. This American aspect to the recovery is further shown through the great interaction between managers of American and German firms; with the likes of tire firm Phoenix Gummwaren A.G overcoming technological bottlenecks by linking with Firestone Tire Company to allow for the German production of tubeless tires. Such technological advantages in the 1950s are evident through the rise in capital intensity from 2.6% to 5.7% in the proceeding decade. Again, linkages with the West are key to explaining the so-called 'economic miracle'.

More importantly, the role of American market-based thinking promoted the economic recovery by promoting competition over monopoly, as shown by the breaking up of cartels of over 10,000 employees; an obvious equivalent to the Sherman act in 1890's America. This was particularly applicable to the Iron and Steel industries, which had historically created much growth, with the 12 largest firms being divided into 28 smaller firms. This helped fuel the efficiency of firms, as only under conditions of competition would they have sought to lower their costs in order to maximize profits whilst for the consumer, such firms would be much more responsive to shifts in taste. As such, I disagree with Braun who talks of this de-cartelization as 'reducing competition'.

The profitability of West German firms was furthered by the states emphasis on supply side policies, which gave high returns to investment in order to quickly expand firms. Such profitability was furthered through the 'social market economy' which was very pro-industry, with tax exemptions between 1949-1957 equaling some 28 billion Deutsche Marks. These profits were 'inflated' by the 1948 currency reform, with no proportionate rise in costs taking place due to firms taking advantage of economies of scale. This allowed for the expansion of firms output resulting in the great growth figures attributed to West Germany's economic recovery.

The West German revival was also aided by relatively good industrial relations. At a time when Germanys international competitors faced industrial militancy, with the British coal mining industry alone recording some 2400 strikes in 1954, industrial relations within the FRG remained positive. The simple idea of 'ein-Betrieb-eine-Gewerkschaft', aimed at quick, amicable negotiations being established without much potential impact to a factories output. Such favorable relationships were helped by the aforementioned refugee workforce, who put downward pressure on wages, thus weakening the bargaining power of trade unions. As such, low strike figures, as shown by a figure of 381,121 working hours lost in 1950 and a staggeringly low 37,723 work hours lost in 1960 were crucial in creating internationally competitive firms and to encourage investment.

This idea of co-determination was furthered by the entrepreneurial class, who Berghahn argues 'ploughed large sums back into their enterprises', thus promoting 'welfare tempered consumerism' by dispersing wealth among the workers in order to fuel domestic demand for goods and services. This idea of a trickle-down effect of wealth within the West German economy is flawed as workers did not have a great deal of purchasing power due to excess labour supply, which kept wages below the international level until 1958. However, I would agree with Berghahn's analysis given that, despite relatively low wages, people put a premium on material goods as a result of their experiences during the hyper-inflation years of the Weimar system and more recently the collapsed Nazi regime. Therefore, the people of the FRG embraced consumption, as shown by its continued increase throughout the period of economic recovery, with advertisements and radio broadcasts urging people to spend. Between 1960-1975, West German consumption more than doubled that of Britain, emphasizing that there was high domestic demand for German goods, thus helping the continued expansion of firms and therefore economic recovery well into the 1960s.

Such consumption was driven by increasing living standards, which rose some 58% between 1953-1960; again more than double that of the UK's 25% increase. This increase is tangibly shown through the building of modern apartments with central heating and modern kitchen appliances. Such amenities eased the burdens of everyday life and promoted greater leisure time, and as such, I certainly agree with Sywottek that these improved living standards 'significantly stimulated demand'. Such demand was essential to off-set the huge demand for German exports abroad and hence lower the FRG's exposure to volatility in world markets.

It is important therefore to distance ourselves from the political rhetoric that surrounded the economic growth of the FRG in the 1950s and 1960s. However, whilst not miraculous, it must be remembered that the growth of the West German economy in this era was unprecedented in Europe and as such it deserves great attention. Through the use of its pre-existing capital stock and the inflows of skilled labour, the FRG was in a position to rapidly expand its industrial output. This came at a time of continuing global tension which the West German economy took advantage of, becoming the key player in a lucrative arms trade to NATO members which allowed for the pursuit of an export-led growth strategy. Further interactions with the West, principally aid and linkages with America industries, allowed for the surpassing of technological bottlenecks that would have other-wise contained growth whilst cordial industrial relations allowed for the continued exploiting of foreign trade. As growth progressed into the 1960s, domestic demand inevitably increased as the trauma of war disappeared and, as such, the FRG was to see impressive economic expansion for another decade.

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Written by: Cameron Payne

Written at: UCL

Written for: Phillip Mueller

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