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Wirtschaft ohne Wunder (Domestic Economy without Miracle)

BY L. EINAUDI, F. A. HAYEK, W. RÖPKE, AND OTHERS

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Dr. Hunold, director of the *Volkswirtschaftliche Studien für das schweirerische Institut für Auslandforschung* (Political-Economic Studies for the Swiss Institute for Foreign Research), should be congratulated on his happy choice of subject. The first book in his series was entitled *Plein Emploi, Inflation et Economie planifiée* (Full Employment, Inflation and Planned Economy); the second, which we here present, concerns the German economy. Twenty authors, all well qualified, explain in it why the spectacular resurrection of this economy is not a miracle. Nothing is more timely or more useful, for, given that the supernatural plays no part in this extraordinary revival, it becomes possible for all peoples to study this example with profit.

The book is divided into three parts: general foundations, application, and particular problems. The first part is the work of President Luigi Einaudi of Italy, F. A. Hayek, University of Chicago, W. Röpke (whose contribution is particularly important since he was the theorist of the German experiment), and Alexander Rüstow of Heidelberg. The second part contains studies by F. Baudhuin of Louvain, Ludwig Erhard, German minister of economics and the man chiefly responsible for his country's recovery, Harry D. Gideonse, president of New York's Brooklyn College, Dr. Franz Nemschak of Vienna, and Jacques

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Rueff, President, International Council for Philosophy and Humanistic Studies. The last part includes exposés by Paolo Baffi, director of economic studies of the Bank of Italy in Rome, Fritz W. Meyer of Bonn, Carlo Mötteli, one of the editors of the *Neue Zürcher Zeitung*, and three citizens of Frankfurt: R. Mueller, Volkmar Muthesius (whose articles are familiar to readers of the *Zeitschrift für das gesamte Kreditwesen*, and Erich Welter, of Mainz.

Although they are all centered around the German economy, these contributions are very diverse. Some authors, like President Einaudi, discuss general problems; others, Baudhuin, Gideonse, Nemschak, engage in discussions of comparative economy; Herr Erhard takes the European point of view while Röpke and Rueff limit themselves to Germany; several writers consider only certain aspects such as currency reform and foreign commerce. We shall therefore disregard the order of the studies and try rather to present a synthesis, indicating references as we go along.

First, let us review the facts. Germany, after its defeat, was in a desperate situation. The flow of refugees had increased its population by one-third, while its cities were in ruins and its factories dismantled; industry in 1945 was at the 1860 level; agricultural production was reduced by 40 per cent; unemployment was rife; and the direction and control of German territory was shared by four foreign powers (R. Mueller, p. 311). It was in this situation that the currency reform was applied on June 20, 1948. After that everything changed: in five years agricultural production doubled, industrial production tripled, unemployment was absorbed, real wages increased by half, more than seven thousand million marks in gold and notes flowed into the till, and the Deutsche Mark became one of the strongest currencies in the world. What had happened?

At the beginning of 1948 two courses were open to the leaders of Western Germany—one (followed by the majority of states) which may be described as Keynesian, and the other that of liberty, the choice of a small number of nations, notably Switzerland and Belgium.

The aim of the first course is full employment—a phrase which has been popularized to the point of a catchword. In the words of the man in the street, its essential goal is to furnish work to the labor force. This work is a function of the development of business enterprise, that is, of investments. Normally, savings provide investments, but savings are insufficient and the state is invited to supplement them by credit expansion. In this way, it is supposed, the twelve million refugees might have found jobs. The details of the reasoning are well known to theorists: the increase in the volume of money drives the interest rate down, incites business leaders to expand their operations through new investment, and thus brings about an over-all increase in production and revenue which is several times greater than the sum originally invested to cause the rise (theory of the multiplier). Inflation need not be feared so long as the limit

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of productive capacity is not reached—a vague and distant possibility. If the threat becomes serious, then the public powers must take all the measures which constitute "repression of inflation," such as price control, control of currency exchanges, rationing (W. Röpke, p. 80).

It is paradoxical that the Allies, obeying Marshall Plan officials, New Dealers, Socialists or Laborites, recommended to defeated Germany a program which probably would have restored National Socialism. In June, 1948, General Lucius Clay telephoned to Dr. Erhard to urge him to maintain control over markets and received the negative answer he should have expected. In 1950 the Allies asked the German government to present them with a program of credit expansion, accompanied by measures for stopping the inflation which might result from it, under threat of blocking Marshall Plan counterpart funds.

Hypnotized by the "great depression," Lord Keynes feared deflation, a source of unemployment, and not inflation, from which the Germans had suffered so much. He looked at the first danger with a telescope but looked at the other from the opposite end of the glass (W. Röpke, p. 94). In any case his thesis is incomplete, for it rests on general conceptions and therefore gives an over-simplified and inexact view of reality. More often than not, when there is full employment in one branch of activity, there is unemployment in another, so that even in the most favorable case inflation remains latent.

On the other hand, workers complain of unjust distribution in a free-market economy. But even without a thorough examination of the problem, it appears that in Germany this economy is singularly favorable to the workers, since their living standard has increased 40 per cent since it was established.

The merit of the German leaders is to have rejected the Keynesian ideology of planning, still so much alive in England and France, and to have adopted a realistic policy by following the second, classic course, despite the objurgations of outdated theorists. After the situation had been cleaned up by means of a Draconian currency reform, the suppression of directives, controls and price-fixing blew the fresh air of liberty across the economy, which was re-invigorated and developed magnificently. The individual ceased to be shackled by the imperative demands of a fixed plan and was able to give free rein to his initiative. The price mechanism guided him toward the manufacture of the most-wanted merchandise and the most productive occupations. Fraud and the black market, natural consequences of all economic control, disappeared. Neither men nor circumstances were suddenly transformed during the night of June 20–21, 1948; it was the principle of order that had changed (J. Rueff, p. 212).

We must not be transfixed with admiration for the currency reform which was put into effect on this date: it was not this which caused the rise we have described. The currency measure took the drastic form of a cancellation of 93.5 per cent of the value of notes and bank accounts. The operation would have been dangerous in a country like France, where it might have provoked a deflation, but it was salutary in Germany, where a "repressed inflation" was rife (P. Baffi, p. 225).

The *deus ex machina* was, rather, the application of the liberal system or, more precisely, of the neo-liberal system as it was established in the Dusseldorf program of July 15, 1949, on the eve of the Bundestag elections. Controlled economy was rejected as was the old Manchester type of liberalism; the *soziale Marktwirtschaft* was instituted. This untranslatable term signifies the establishment of a market which plays its classic role of selection and guidance within an institutional framework fixed by the state. "The character of society and the type of liberty are Siamese twins" (C. Motteli, p. 306). The reader will do well to refer to works on neo-liberalism if he wishes to undetstand this complex system in which the state retains a great authority and exercises it for the benefit of the individual, insures the functioning of the price mechanism without believing in its spontaneous establishment, and tries to make economic laws work in conformity with the general interest, without directly intervening in the market. Thanks to this controlled liberty there is new confidence in savings, and enterprise again becomes dynamic (L. Einaudi, p. 23). The "German miracle" is nothing more or less than the putting into practice of the neo-liberal teachings (J. Rueff, p. 221).

It goes without saying that the recovery of the German economy was not devoid of difficulties. Herr Erhard tells us of its vicissitudes. The European Payments Union had the advantage of putting an end to bilateralism, but the Korean war brought about a rise in prices and thus endangered the equilibrium which Germany had reached on the international plane. Nevertheless, the government maintained its liberal position, despite an increase in Germany's EPU deficit, and it very honestly used American credits to support the mark and not to make up budgetary deficiencies or to maintain a costly system of controls, as did some other countries which were less well inspired.

Today the public powers in Western Germany are reaping the fruits of their wisdom: the situation is flourishing, and far from considering a policy of austerity, as some had suggested, the country is following a policy of economic expansion (L. Erhard, p. 149). This policy is being successfully carried out by two men of opposite character whom Adenauer was clever enough to place side by side so that they might combine their efforts: Fritz Schäffer, a man of precise mind, "a conscience in figures," and dynamic, imaginative Ludwig Erhard. "Schäffer calculates, Erhard gambles," it is said in Bonn. The formula is exaggerated, but it does typify the two men.

The reader may wonder whether the German success did not also have extra-economic causes. The adoption of neo-liberalism presupposes a mentality already convinced of the excellence of this system; the price mechanism, certainly, is not enough in itself; a predisposition on the part of the people is called for—that is to say, a certain sociology, a certain moral attitude (H. Gideonse, p. 186), and above all a certain psychology. This latter, in the final analysis, constitutes the essential basis of all economy. The so-called mechanical forces of the market are the expressions of human wills, conscious and acting in a climate of liberty. Each of us has his share of responsibility for the way they interact (E. Walter, p. 351).

This is not all. Social democracy, by embarking on a program of socialization, would have led the country in the direction of totalitarianism, that is, towards a rapprochement with communism, ideologically at least. The duty of the thinker today is to initiate a program opposed to that of the communists—and the most effective program, as Germany's example shows, is that of neo-liberalism. This, consequently, is the program which must be studied, publicized and applied (A. Rüstow, p. 97). It is not enough to know that one is on the side of truth, for truth does not impose itself; one must struggle to spread it and permit it to triumph (E. Walter, p. 356).

Historically, the German experiment presents itself as a reaction against an evolution which, especially since the beginning of the twentieth century, tended to modify the old conception of liberty expressed in Great Britain in the eighteenth century as the *rule of law*. The law, it was said, is intended to limit and moderate power, to circumvent the arbitrary judgments and inconstancy of men; judges are only "the mouths which pronounce the words of the law," as Montesquieu put it. But socialist theorists and practitioners upset this concept by proclaiming (in H. Finer's words) that "in a democracy, right is what the majority wants it to be." Germany today is returning to the traditional doctrine (F. Hayek, p. 33).

Belgium's experience, we see, completes and reinforces that of Germany. A long illness cannot be cured by waiting for fortuitous circumstances; it can be cured only through conscious effort in an atmosphere of individual liberty and responsibility (F. Baudhuin, p. 127). And in Austria, where two powerful parties reign, one bourgeois and the other socialist, a third way is being sought to bring about order in liberty (F. Nemschak, p. 203).

Finally, the creation of a free Europe, a federation of states which have liberated themselves, is not unthinkable. Some attempts at rapprochement were made before this liberation, but they were premature and failed for that reason—like the meeting in Torquay where the participants might have adopted as a slogan: "Protectionists of the world, unite!" as Herr Erhard facetiously suggests (p. 152). As for the Schuman Plan, it has two aspects, one positive (the formation of an international market), the other negative (the creation of a supra-national system of controls). Everything, then, depends on the men who may be in a position to insure the predominance of one or the other of these possibilities (L. Erhard, p. 153).

In conclusion we should note that much remains to be done in Germany, for fiscality and interventionism, "two branches of the same trunk," are wastes which are very slowly eliminated. Five years is too short a time to hope for complete success (V. Muthesius, p. 338). But destiny is favorable. Germany is "beyond the quota" in the EPU—in other words, its credit balance is so large that whatever excesses it may have from now on will be paid entirely in gold. So there is more and more talk about convertibility of the Deutsche Mark in the near future (F. W. Meyer, p. 284). It is true that the interest rate is high, but for this very reason German capital is kept at home and will even attract American capital as soon as the mark becomes convertible. At that point, however, it is probable that Dr. Erhard will find it advisable to get out of the EPU in order not to be obliged to give unconditional credit to members of the Union, and to be enabled to hand over capital only to those who offer commercial advantages in exchange.

Finally, Chancellor Adenauer's electoral successes in these last years give clear assurance of the triumph of neo-liberalism. In vain the German socialists have tried to win enough favor with the middle classes to make up for the rebuffs they have received from the workers. The country of Hegel and Marx is becoming the country of economic freedom.