PUBLIC POLICIES TOWARD BUSINESS IN POST-WORLD WAR II GERMANY

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This paper is an attempt to synthesize the complex policy history of postwar Germany. The focal point chosen is German public policy toward business. Insofar as this paper deals with the major forces shaping these policies, the content of these policies, and their impact and repercussions, the purviews necessarily go far beyond the central theme. In the final analysis it is clear that a nation's public policies toward business are an integral part of the political and philosophical context shaping an overall policy framework, and this framework is continuously subject to modification in modern democratic societies. Since public policies toward business affect the utilization and distribution of the bulk of Germany's productive resources, this policy area is the very heart of all postwar economic policy.

Forces Shaping German Postwar Policies

Three sets of forces were primarily responsible for shaping the economic policies of West Germany after World War II. These were: (1) the power and wishes of the Allied occupational authorities; (2) Germany's then past and present political experiences; and (3) the crystallizing realities of the postwar international economy.

The initial Allied position on West Germany can be typified as harsh, and the policies initially adopted as misdirected in relation to the subsequent Allied position. The most serious misdirection until about 1950 took the form of industrial dismantling and reparations, and a prohibition on production in some key industries.[1] It soon became clear, however, that this type of policy would not serve the needs of the West in the long run. The Morgenthau Plan of 1944, whereby Germany was to be reduced to a peaceful, agrarian state, was not a factor in German economic development beyond 1947. This was true partly for political reasons, such as fear of fostering radicalism inside Germany and the reality of a lowering Iron Curtain outside, and partly for economic reasons, such as the American desire to reduce the future burden of her foreign aid commitments.[2] By 1947 American policy towards Germany had shifted from the victor-vanquished phase to one of reconstruction. This change took the form of relaxed industrial restrictions, and particularly Germany's inclusion in the Marshall Plan. Together, these two policy changes initiated by the Americans over the objections of their sometimes reluctant allies, provide the most tangible forces for Germany's eventual reconstruction and for the meaningful formulation and deployment of a new policy framework.

However, precisely because the Allies, particularly the Americans, had an economic policy philosophy that was initially to be obeyed, and later to be remembered, the Allied role was much more far-reaching than merely that of the starting gunner. Essentially, Allied economic policy was directed against the concentration of German economic power in whatever form, but particularly in the form of cartels, monopolies, and heavily oligopolistic industrial concentrations, in industry as well as in banking. This basic leitmotif of Allied policy holds the key to an understanding of the action taken in these years, with ramifications, of course, reaching far into the future.

The Allied wish for a significant German union movement encouraged the formation of the largest German national union (Deutscher Gewerkschaftsbund) in 1949.[3] Also in line with the basic Allied policy design was the creation of a decentralized national banking system in 1947-48, consisting of a central bank in each of the "states" (Länder) under Allied control.[4] Most significant, however, were the Allied anti-cartel laws (Dekartellierungsgesetze) of 1947, which not only resulted in attempts at deconcentration of some key industries (e.g., iron and steel, and coal), but also made it clear that these restrictions would be removed in the future only through enactment of German legislation of similar intent.[5] Beyond these primary policy activities, the Allies also engaged in restrictive tax measures (e.g., through exorbitant corporate taxes)[6] and tight control of the nation's money supply during the occupational period, apparently in keeping with the original policy intent of economic suppression.

Aside from such restrictions, the Allies played an important positive role in the shaping of German policy. This was particularly true in the fostering of an indigenous political revival which could serve as the base for the new nation. The embodiment of that development was the 1947-created

American-British Bizonia, a prototype, perhaps, of the Federal Republic of Germany established in 1948. The economic council of Bizonia, naturally enough, became a crystallization point for German economic policy in the future, a fact that is underscored by the assumption of the directorship of that council in March, 1948, by Ludwig Erhard.[7]

It is with the creation of this leadership under Allied hegemony that Germany gradually achieved the right to shape her own economic policy. In this process, Economics Minister Erhard was to play the leading role. If one were to suggest a triad of aims of this new German economic policy, they would have to be first, returning order to the economy through currency reform; second, promoting reconstruction and growth of the economy through fiscal policies and expenditures; and third, endorsing the principle of a market economy. On all three counts, the Allied role was paramount: it timed and determined the mechanics of the Currency Reform of 1948; the Marshall Plan primed the pumps of fiscal investment spending; and the American return to the principle of a market system after World War II had an ideological demonstration effect that boosted the stock of the so-called "neo-liberal" thinkers in Germany.

So far as German historical experience is concerned, postwar economic policy developed under its shadows. The failures of the past were hardly forgotten, particularly the policy failures of the Weimar Republic, the Great Depression, the double collapse in the monetary system, and the oppressive centralization and abuse of economic power under Hitler's totalitarianism. These were ghosts that had to be exorcised again and again in the postwar period, and they provided the basic guidelines for the new economic policy. It seems clear that postwar economic policy in Germany was played under the aegis of "encourage and prevent," rather than "dictate and implement." If that formula appears inexplicably timid, the lingering ghosts of history may have something to do with it.

A third force shaping German economic policy in the postwar period is the international economy. On the one hand it is clear that a policy decision was made quite early to reactivate the foreign trade sector of the economy, as can be seen from eager German joining of the major foreign trade agreements, particularly the EPU, ECSC, EEC, and EFTA. The motivations behind these moves are not just the normally expected economic benefits, but undoubtedly also an apparent need for political rapprochement - a return to a respectable position at the table of western nations.

But this new venture into foreign trade brought with it also the need to critically analyze Germany's economic structure and performance, and perhaps to make some necessary policy changes in this area. One German economist, for instance, writing in 1956, suggested that a maximal investment policy was a stark necessity for Germany precisely because of the rapid progress and dynamic development of the American economy.[8] Various other considerations relating to the international economy were at work as well: the need to build up a highly rationalized and modern export sector in order to be internationally competitive; the need to conform to EEC rules requiring a clamping down on restrictive business practices and excessive governmental interventionism in the economy; and the need to promote economy-wide competition and innovation for the sake of survival in the international marketplace.

The Social Market Economy Policy Framework

Perhaps at least as much as any modern society, Germany after the war was in search of euphemistic slogans to dispel the fears of the past and to tack the ship into the fair winds of public consolidation. When the Federal Republic and the monetary system were secured in 1948-49, the time was ripe for formalizing a philosophy of economic policy and to place it under the banner of an appropriately ambiguous slogan. For Germany that slogan became "social market economy" (Soziale Marktwirtschaft). The superior popularity of the concept clearly attests to its linguistic vagueness. This slogan became the rallying point and the key organizational concept of the initial postwar German economic policy.

There are two key ingredients of substance in this motto, which represent goals to which economic policy was pledged. These ingredients are, first, an endorsement of the primacy of the market system, and second, an assurance of social accountability. More specifically, the goals were to relax the state controls over the economy and return the economy to an optimal degree of private ownership of the means of production under the general functioning of market forces, while employing economic policy to insure a high degree of competition and the satisfaction of adequate social needs for which a market economy is notoriously insensitive.[9] There appears to be a dual power limitation in this philosophy: a reduction of direct economic power in the hands of the federal government, and a proposed prevention of excessive economic power in the hands of producers vis-a-vis consumers. It is clear that, to varying degrees of success, many of the economic policies employed in Germany in subsequent years continued to take at least some aim at these fundamental goals.

The intellectual heritage of the "social market economy" philosophy is not difficult to trace. The Freiburg School in Germany, though it opposed what it felt to be the normal resultant evils of unchecked laissez faire, such as maldistribution of wealth and excessive concentration of economic power in the private economy,[10] reiterated the famous Hayek thesis that political freedom is a direct consequence of economic freedom. In the long run, however, the most persuasive and effective proponent of this so-called neo-liberal group (i.e., "liberal" in the classical sense) was Ludwig Erhard, Germany's first Economics Minister, who became the symbolic embodiment of the social market economy as well as of the unfolding "economic miracle." However, no matter how convincing the philosophical slogans, the contours of the immediate postwar economy wear the epithet "market economy" with some visible discomfort: the steering of the economy through massive government incentives, and the heavy degree of government ownership and control in some major industries such as transportation, banking, energy, insurance, and housing (leaving primarily manufacturing, commerce, and parts of the service industries to the private sector) suggest some caution regarding conclusions about the entire concept. Nevertheless, beginning in 1949 under the broad slogan "social market economy," a new economic policy program developed and was implemented. For private enterprise this program turned out to be characterized by ample business incentives and a high degree of governmental non-interventionism.

a. Investment policy

In the initial reconstruction period of the German economy, in fact through most of the 1950's, economic growth was the most actively pursued policy goal, and investment stimulation was the most effective tool. This basic policy orientation found its expression in a series of measures designed to stimulate business, especially a reduction of corporate taxes in 1948-49, followed by a string of investment incentives. On the demand side, these policies were complemented by measures designed to restrain demand pressures for consumer goods. The most dynamic area of German economic policy in the earliest years was clearly the direct and indirect fostering of physical capital formation. For German business these were crucial tools that would affect the operational success, growth, and even structure of German industry far into the future. The specific tools in this policy area were legion.

Among the indirect policies fostering a revival of investment activity, the Monetary Reform of 1948 stands out as a major turning point. Most fundamentally, that legislation brought order back to the economy and laid the basis for an orderly market in which profits, production, and investment functions became renormalized.[11] Also, past wealth accumulations were basically unchanged by this change in currency systems, so that holdings of productive wealth remained strongly centralized. Another indirect policy in this area was the maintenance, throughout the postwar period, of a relatively non-progressive tax structure. In this sense, much of the cost of reconstruction was borne by the broad population base. The raising of the highly regressive national turnover tax from three to four percent in 1951 pretty much illustrates this point, since it came at a time when substantial sums of actual and potential public revenues were employed in the subsidization of business enterprises. Finally, public intervention in the private capital markets must be viewed as another indirect public policy area designed to shape investment activities. Particularly starting in 1951, a series of policy measures was passed to increase private savings and to foster a more active private capital market. This was accomplished through diverse measures, such as tax exemptions on certain types of savings instrument incomes, as well as governmental savings bonuses for low income groups. Another significant step in encouraging a more functional and active private capital market, and decreasing the inordinately high reliance on internal business financing, was the 1958 provision for a reduction of tax rates on paid-out business profits. Apparently it was felt that this provision would draw investment funds out of capital-saturated firms, which then could be reallocated through the normal capital markets.

Among the direct investment stimulation policies was a general tax write-off provision, whereby the replacement of outdated or war-damaged industrial equipment could be substantially written off the taxable income of firms.[12] Target-directed investment promotion, too, was used aggressively by the government. Special write-off and tax privileges were granted such major bottleneck industries as iron and steel, coal, construction, and shipbuilding.[13] Quite similar in intent, though somewhat curious, was the Investment Aid Law (Investitionshilfegesetz) of 1952, designed to funnel capital into various government-controlled industries (especially iron and steel, coal, energy, and transportation) from industries benefiting most directly from low prevailing prices in those government enterprises.[14]

These various investment policies are part of the complex and continuously changing policy framework in which business operated. In general, it appears that the earliest years (especially 1949-1951) saw a heavy stimulation of internal business finance, undoubtedly motivated by the need to wait for a revival in the nation's propensity to save and financial institutions. With the early 1950's came policy adjustments which gradually shifted more of the investment generating function to the private capital markets.

b. General incentive policy

Some miscellaneous incentives for business played a lesser role for the economy as a whole, although they were significant for some specific industries and sectors. For example, the export sector received a variety of incentives designed to satisfy the federal government's goal of strong, competitive, though subsidized, export industries. The excessive 1949 devaluation of the Deutsche Mark and the very inflation-conscious German fiscal and monetary policies are two highly indirect tools in this strategy. Specific policies include the following: governmental guarantees against export risks, special depreciation allowances and other subsidies, preferential Central Bank credit availability and rates, and special bank discounting services.[15] Selectively, then, various incentives of this type could be used to achieve desired performance in different industries and sectors of the economy.

c. Antitrust and business regulation policy

Governmental regulation of business in this period was ambivalent and controversial. German governmental policy was quite willing to allow market forces to play over a substantial range of the economy, but it reserved to itself the right - indeed, the obligation - to watch over business concentration and competitive practices. The Allies had imparted a strong initial policy bias in this area, as we have seen, and had insisted on reasonable continuity along those lines. Institutionally, however, Germany did not appear to be in favor of moving decisively into the field of business regulation; it militated against the spirit of freedom expressed in the 1949 Federal Constitution, and the federal courts could not be counted on to have a favorable disposition toward anti-cartel and anti-concentration legislation. It is quite clear that both within and outside the framework of legislation, Germany tended to rely more on what M. Postan has aptly termed "exhortations and appeals to patriotism"[16] than on explicit restriction and prosecution.

The history of economic policy in the area of business regulation after the war is marked by a series of debates and compromises that progressively widened the sieve until all but the coarsest chunks of business concentration would pass unmolested. The Josten draft of 1949, with a humble glance to the Allies, was by far the most extreme attempt in this direction, outlawing cartels and carefully specifying illegal business practices and their penalties. This was followed by drafts in 1951 and 1952, influenced by some industrial pressure groups, and resulting in much milder proposals, such as various exceptions to the illegality of cartels.[17]

The ultimate outcome was the famous Law Against Restraints on Competition (Gesetz gegen Wettbewerbsbeschränkungen) of 1957, which established the Federal Cartel Authority (Bundeskartellamt). The overall intent of the law was to check competition-restraining agreements in business, to control the abuse of power by large and market-dominating firms, and to keep a watchful eye on substantial intra-industry mergers. Restrictive agreements affecting supply and competition (e.g., price agreements) were to be particularly scrutinized, though the specification of such practices and its prosecution is an apparently universal problem typically resulting in ambitious intent but few results. Even the merger provision of the 1957 law is vague; mergers of firms that result in a combined market share in excess of 20% are afterwards to be reported to the Economics Ministry.[18]

The history of cartel development following the 1957 law indicates the extent of permissiveness under this legislation. By that time an outlawing of cartels had become politically and economically inconceivable, so that a total of eight exception clauses were built into the cartel prohibition, permitting "desirable" cartels. Some of the broadest of these exceptions include cartels formed for the rationalization of production and resulting in improved efficiency and better meeting of market demand; and cartels necessary for the "macro-economy and the common good."[19] The result of this apparent laxity was an accelerating flood of cartel applications into the 1960's,[20] and an understandably low kill ratio in cartel prosecution.[21] It is clear that this legislation is largely window-dressing, and is not intended to prevent the evident concentration of business.

d. Labor policy

Finally we must take a brief look at the government's labor policies. For one thing, the wage policy of the German government was basically one of noninterference. The government refused the functions of state arbitration in labor disputes and wage freeze impositions. However, the Economics Ministry and the Bundesbank have resorted to consultations and moral suasion with labor and management in significant cases involving key settlements and exorbitant wage demands.[22] Also, it is difficult to overlook the role government played in holding back demand pressures through tax legislation, making possible relative price stability and a rapid rate of capital formation, and in effect temporarily sacrificing the potentially rapid improvement in living standards of the working population. The government's reluctance to stimulate demand paid heavy dividends in the form of rapid investment, price stability, and a rapidly growing export sector. Finally, government policy had a crucial impact on labor supply through the financing of training programs, subsidized housing, the willingness to absorb millions of Iron Curtain refugees in West Germany, and lastly the intermediary role in the recruitment of foreign labor beginning in 1956.[23] On all these counts it appears that governmental labor policies were essentially favorable for business investment and expansion.

Economic, Social, and Political Impact

Having now traced some of the most fundamental aspects of the rise and nature of the "social market economy" policies toward business the remaining task is clearly an analysis of the repercussions that can reasonably be linked to this policy framework. Though many of these causal relationships remain difficult to quantify, no one can possibly suggest that modern economic policy, as practiced in modern nations, fails to influence the structure, relationships, and performance of these economies.

a. Impact on savings, investment, and financial institutions

First, let us deal with the postwar German policy impact on savings, investment, and financial institutions. Since savings and investment decisions play a central role in determining the performance of an economy, this area became one of the most vital tasks of postwar policy. Both short-run exigencies and probable long-run repercussions had to be considered in this effort, however. The most immediate postwar exigency was the requirement for massive capital mobilization in the face of low levels of personal income, low propensities to save, and consequently inadequate capital availability through the private capital markets. The major long-run effects in this policy area centered on the implications of savings and investment patterns for the concentration of economic power and the distribution of income. The various modifications in German policies in the savings and investment area indicate a sensitivity to both of these concerns.

After political stabilization, the German economy was confronted by high investment needs and the inability to meet these needs through market mechanisms.[24] Government policy quickly recognized this condition and engaged in a massive campaign of encouraging internal financing of enterprise investment. At the same time, it engaged in strong direct public investment as well, particularly through heavy plow-back of profits in a number of government-owned enterprises.[25] The most immediate effect of these policies was an inordinately high percentage of business self-financing in the early years. One estimate for 1950 suggests that about three-fourths of total German investment capital derived from enterprise self-financing.[26] More significant is the fact that German savings and investment rates could be brought to inordinately high levels while the savings patterns and normal capital markets were gradually reviving. For the 1950's as a whole, therefore, Germany maintained a Gross Domestic Savings rate well in excess of 25%, highest of any other major western European economy. On the two counts of investment fostering and direct investment financing, then, the German economic policy role has been a major force in Germany's economic performance.

In its fostering of a revival of the private capital markets, the government's economic policy revived the savings propensities of the population. Various governmental savings promotion and subsidy schemes resulted not only in a rising propensity to save in the population at large, but also in a sizeable shifting of sources of investment capital. Towards the mid-1940's, the private capital markets were able to increase their contribution to capital investment significantly, thereby reducing the disproportionately large role of internal investment. As this development took hold, the strong policies encouraging internal financing were reduced. The results of these policies on the capital markets are astonishing. The Council of Economic Experts estimates that the percentage of net business investment financed internally dropped from about 50% in 1950 to less than 20% in 1965.[27]

b. Impact on economic growth and resource allocation

A second area of the impact of German economic policies to be examined here is the topic of growth and resource allocation. It is apparent that German postwar policies were fundamentally involved in the process of fostering and directing productive resources, as well as in the process of business regulation. That these processes are closely related to the growth and efficiency of the economy is beyond dispute, though to specify those causal relationships is to risk serious theoretical debate among economists. For that reason, the following suggested implications of German economic policies are proffered somewhat cautiously.

First, German policies, especially in the 1950's, bridged a potentially wide gap between normal savings and desirable levels of investment, as we have seen. As a result of the various savings and investment stimulation policies, the overall rate of growth of the economy was boosted. This argument is especially persuasive if we realize that the German ICOR for the 1950's was significantly lower (about 3.3) than that of any other major western European economy. The existence of high excess capacity brought a large output response for relatively small investment efforts.

Second, the fact that various economic policies were selectively applied in the various sectors and industries, suggests a capability for effecting growth and efficiency, especially through the removal of bottlenecks and the stimulation of heavy industries and other key areas of the economy. What we have said about selective investment incentives applies equally to financial services, such as preferential central bank credit terms.

Third, one could conceivably suggest, as Egon Sohmen has done,[28] that German economic policy was successful in achieving a high degree of competition, and that this condition contributed to the efficient allocation of resources and thus to economic growth. Interestingly enough, one could also suggest that German anti-trust policies were neither designed to be effective nor actually effective in preventing significant concentration of industrial power, and that this condition contributed to the sophistication of industrial technology, economies of scale, high profits, high rates of investment, and ultimately economic growth!

c. Impact on price

Next to general economic stagnation, the most pervasive fear among postwar economic policy formulators was undoubtedly inflation. It is therefore inconceivable that German policies toward business would have been approved for any length of time if they had been dangerously inflationary. Even as recently as the late 1960's, the German Economics Ministry's goal was a maximum rate of price increase of 1% per year.

Except for an adjustment inflation in the early 1950's, the German record of price stability has been excellent. Several of the economic policies related to business appear to have contributed to this record. For example, German wage and employment policy was clearly anti-inflationary. As we have seen, various government programs were responsible for a rapid increase of the labor force. The German growth rate of the active labor force for the 1950's averaged 1.6% per year, while her labor productivity increases averaged 5.7% per year.[29] On both of these counts, the German statistics are the highest among western European economies. While labor supply increased substantially and labor productivity remained high, wage pressures were reasonably low. This was due to a complicated set of conditions ranging from supply and demand conditions for labor to the pervasive fear of inflation that characterized not only governmental attitudes but those of the laboring class as well.

German economic policy measures designed to foster investment and remove bottlenecks could likewise be viewed as mitigating inflationary pressures, since these measures bolstered the productive capacity of the economy. The token antitrust program, too, has price stability implications. One could argue that the program was watchful enough to prevent excessive concentration and abuse of economic power in industry, but moderate enough not to foster an industrial structure suffering from low economies of scale and low magnitude research and technology capabilities. Rapidly opening up the German economy to international trade in the early to mid-50's introduced a substantial degree of competition without risking the disruption and uncertain economic repercussions of extensive trust-busting. The government policy endorsement of the various postwar international trade agreements thus provided a strong external competitive force, while at the same time widening the market for German commodities, so that further economies of scale could occur.

d. Impact on foreign trade

The export industries, as already noted, were beneficiaries of various direct incentive policies. Those investment and preferential credit incentives were augmented not only by the somewhat excessive under-valuation of the Deutsche Mark, but also by the various domestic policies contributing generally to high levels of investment and low price pressures. The result was a foreign trade sector growing at astonishing rates,[30] and a highly favorable balance of trade and balance of payments. With this type of performance in the foreign trade sector, it is not surprising that this sector has frequently been credited with being a major growth source for the German economy.[31] It also appears persuasive to suggest that the early showcase performance of the German export sector acted as an effective magnet for a sizeable flow of American foreign investment.

e. Impact on business structure and concentration

Historically, the degree of business concentration in the German economy had increased markedly in the late nineteenth and early twentieth centuries. The degree of cartelization was so advanced that reforms, such as those attempted in the 1920's under the Weimar Republic, centered on the control of the abuse of cartel power, rather than dissolution. Under the fascistic economy of the Hitler years, cartel membership even became compulsory in most sectors of the economy. Thus the German economy emerged from the war with a highly concentrated industrial structure. Confronting this structure was the basic position of American economic policy: a desire for a drastic reduction of cartels and the imposition of a reasonable facsimile of American antitrust policy. But as we have seen, as a result of German economic policies, both American objectives failed to materialize. In the long run, many concentrated businesses that were broken up under Allied initiative simply redeveloped in the later 1950's.[32] The tough German anticartel laws the Americans hoped for simply never developed.

The net impact of German economic policy in the area of business structure can thus be characterized essentially as recentralization of economic power. The available statistics bear out the recentralization trend. For example, the share of total sales volume of Germany's fifty largest industrial firms rose from 25.4% in 1954, to 33.5% in 1960, and subsequently to 42.2% in 1967. Similarly, the concentration ratios inside most German industries were increasing significantly, both in the period 1954-1960, and in the period 1960-1966.[33] It is apparent that the Law Against Restraints on Competition (GWB) of 1957 did not intend nor effect the stemming of the tide of economic recentralization. Similar to the change in the trends in industrial concentration was the change in the German national banking system. The somewhat decentralized national banking system initiated by the Allies in 1948, was replaced by a more centralized scheme, controlled by the Deutsche Bundesbank, in 1957.[34]

f. Impact on income distribution and society

Brief mention should be made of some of the income distribution implications of the German business policy framework in general. Essentially, the preservation of the old German industrial structure and ownership patterns in the postwar years maintained the pre-existing patterns of income and wealth distribution. The weak antitrust provisions, the various business incentives, as well as the low progressivity in German income tax rates, all resulted in even further upward skewing of the income and wealth distribution. It is apparent that governmental policy did not intend to attack the existing wealth and business concentration because it assumed these conditions to be necessary for economic progress.

It was precisely because of these developments in German wealth and income distribution that various remedial policies were adopted to mitigate the extent of socioeconomic inequality. However, the approach to this problem turned out to be indirect. Instead of initiating an active program of redistribution from rich to poor, the state chose to engage in moderate programs of subsidization and incentives for the lower income groups, while leaving the policies toward the upper income groups basically unchanged. The widening of the comprehensive social insurance program to all the population in 1957, and a large transfer payment program, made Germany the leading European nation in this field of basic social expenditures.[35] On top of this base, a large variety of other programs was built to primarily benefit the lower income groups. Among these were rent controls, various savings incentives (e.g., housing fund subsidies), and life insurance subsidies.

g. Impact on politics

Our last major task is to outline the essential political repercussions of the business policy framework initiated under the social market economy concept, forces that ultimately would trigger changes in basic policy objectives and orientations during the late 1950's and after. The initial social market economy policies fostered a favorable climate for business, contributed to socioeconomic inequalities, and involved a relatively low degree of fiscal policy intervention. Let us briefly examine each of these three areas.

With respect to the favorable business policies, early in the 1950's various business investment incentives were criticized as socially unjust and economically unjustifiable, and this policy group in general was reduced in relative importance by the mid-1950's. Another general line of attack on business privilege and power took the form of a strong labor initiative for "co-determination" (labor sharing in enterprise decision-making). In 1951, for example, labor achieved this goal in the mining and iron and steel industries, and mounted a sporadic campaign to extend this principle to other industries. In the mid-1960's this issue again became an active one in German policy formulation.

Perhaps the most significant favorable policy climate for German business involved the laxity in the antitrust policies. And here, too, almost from the beginning vigorous voices for tighter business regulations were heard. Particularly scrutinized has been the effectiveness of the Law Against Restraints on Competition (GWB). The Advisory Council of the German Economics Ministry issued an influential comprehensive policy statement in 1962 on the topics of competition and reforms in cartel legislation. In its 1962 appraisal, the Council noted that the basic governmental policy obligation in the business area was a maintenance of competition. Competition, particularly price competition, was deemed to be essential for a more even distribution of income in the economy and for an avoidance of sub-optimum investment decision. The Council also expressed concern that low competitive conditions tended to contribute to price pressures, increase cyclical fluctuations of investment decisions, reduce research and development activities, and reduce the sensitivity of producers to market forces. While not advocating trust-busting, the Council recommended that the government reappraise the policies artificially encouraging the formation of market-dominating enterprises, and take steps to specifically disallow market-dominating mergers that come before the Federal Cartel Authority.[36] To some extent, these types of suggestions have come repeatedly before the government throughout the 1960's, but no substantial steps were taken in this direction. Thus the basic antitrust policies established under the social market economy framework remain substantially intact, though many political forces felt this to be an urgent area of policy reform in the 1960's.

We have already touched on some of the policy changes relating to income and wealth distribution patterns resulting largely from the basic thrust of German policy towards business. All major political parties have tended to be in favor of a more equitable income and wealth distribution, and the attempts to achieve that through transfer payments, savings subsidies, and preferential reprivatization schemes have thus been widely supported.[37] This area of concern continues to be a major focal point in German economic policy review and formulation.

Finally, let us examine the trends in broad governmental fiscal policies in the more recent years. As already noted, a minimum of control, guidance, and intervention was the leitmotif of the political leadership especially in the 1950's. Thereafter that philosophy became increasingly suspect, as a result of changes in political leadership and some visible economic problems such as growth deceleration (early 1960's), recession (1966-67), budget deficits, and ultimately growing inflationary forces (especially after 1969). By the early 1960's deliberations suggesting a more active role in the economy became common. Particularly strong were the pressures for government forecasts of aggregate economic performance, and the consideration of federal fiscal policies for counter-cyclical purposes. Chancellor Erhard, the champion of the social market economy, initially resisted the forces desiring more active government involvement and the copying of the French concept of planification. Such changes, however, were clearly in the making.

A federal law of August,1963, established the Council of Economic Experts, whose duty it was to prepare an annual report on the performance of the German economy. It was clear that this type of activity could easily serve the purpose of growing state interventionism in the economy. By 1964-1965, even Erhard had changed his neo-liberal position to the extent of suggesting that society had to come to grips with what he called the "socio-political consequences of the market economy." The task, as he perceived it, consisted of "democratic reform" and the removal of economic inefficiencies and social imbalance.[38]

The most tangible result of the reexamination of broad governmental fiscal policy took the form of the Stabilization Law (Stabilitätsgesetz) of 1967. Like the American Employment Act of 1946, it pledged the federal government to the four basic goals of optimal growth, employment, price stability, and foreign accounts performance, and required an annual economic report as well as a five-year government financial planning report. At the same time, fiscal policy tools were granted to the government, some without the necessity of legislative approval, for the task of economic stabilization.[39] This new economic order, juxtaposing a remaining high degree of operational freedom of market forces with more fiscal direction of the macro-economy, is the overriding reality of recent German economic policy. Appropriately enough, it rose under the aegis of a widely hailed new slogan: "Competition so far as possible, planning so far as necessary."[40]

Conclusion

The twentieth-century reality of massive governmental involvement in the economy, consisting particularly of extensive policy formulations designed to stimulate, direct, and regulate business, necessitates a thorough appraisal and monitoring of these policies if our analysis of the economic performance of modern nations is to be meaningful and complete. This paper has made an attempt to bring together the major ideas and data bearing on the reestablishment of a governmental policy framework for business in Germany after World War II. It is an understatement to suggest that these policies have been fundamentally important in the postwar economic performance of West Germany.

Footnotes

[1]Among these, some major examples are the heavy machinery, tractor, shipbuilding, and aircraft industries. Heinrich Bechtel, Deutsche Wirtschaftsgeschichte (München: Callwey Verlag, 1968), p. 469.

[2]In February, 1947, the Hoover Commission investigated German economic conditions and decided the time had come to revive German industry and foreign trade, especially in order to reduce Germany's future dependence on the American taxpayers. Gustav Stolper, et al., The German Economy: 1870 to the Present (New York: Harcourt, Brace and World, Inc., 1967), p. 199.

[3]Friedrich Lütge, Deutsche Sozial- und Wirtschaftsgeschichte (3rd ed.), (Berlin: Springer Verlag, 1966), p. 591.

[4]Leo Schuster, Zentralbankpolitik and Bankenaufsicht in den EWG-Staaten (Köln and Opladen: Westdeutscher Verlag, 1967), p. 64.

[5]Jörg Huffschmid, Die Politik des Kapitals: Konzentration und Wirtschaftspolitik in der Bundesrepublic (Frankfurt am Main: Suhrkamp Verlag, 1969), p. 143. Huffschmid suggests that the policies were a sinister, dual American strategy: Initially, they were designed to reduce the German military threat, and subsequently they would serve to keep German business weak and give the competitive edge to large American firms. This is a rather ambivalent complaint, since Huffschmid is at least equally alarmed at concentration trends in German business after the war. Compare Huffschmid, pp. 143-144, with pp. 44-49.

[6]E. S. Kirschen, et al., International vergleichende Wirtschaftspolitik: Versuch einer empirischen Grundlegung (Berlin: Duncker & Humblot, 1967), p. 412.

[7]Gert Leptin, Die deutsche Wirtschaft nach 1945: Ein Ost-West-Vergleich (Opladen: Leske Verlag, 1970), p. 14. Not only was Germany's first Economics Minister on the economic council of Bizonia, but its second—Karl Schiller—as well.

[8]Hermann Abs, Zeitfragen der Geld- und Wirtschaftspolitik (Frankfurt am Main: Fritz Knapp Verlag, 1959), p. 242.

[9]Leptin, pp. 10-11.

[10]Lütge, p. 569.

[11]Bechtel, p. 471.

[12]Write-off rates on equipment valued up to DM 100,000, were 50%, and 15% on sums thereafter, without ceiling (Huffschmid, p. 140).

[13]See Bechtel, p. 475; Huffschmid, p. 140; and Kirschen, p. 413.

[14]Stolper, p. 257.

[15]See Charles P. Kindleberger, Europe's Postwar Growth: The Role of Labor Supply (Cambridge, Mass.: Harvard University Press, 1967), p. 116; and Stolper, p. 252.

[16]M. M. Postan, An Economic History of Western Europe: 1945-1964 (London: Methuen & Co., Ltd., 1967), p. 42.

[17]The 1952 draft, for example, sought exceptions for cartels formed in business cycle crises, those formed in the hallowed cause of business rationalization, and those in the export industries. Huffschmid, p. 148.

[18]Corwin D. Edwards, Trade Regulations Overseas: The National Laws (Dobbs Ferry, New York: Oceana Publications, 1966), pp. 168-175.

[19]Huffschmid, p. 149.

[20]By 1964, for example, 260 cartel applications had been filed, of which over one-half were approved. Stolper, p. 259.

[21]In its first ten years of operation the Federal Cartel Authority initiated 4,546 proceedings under the 1957 law, with the result being seven assessed penalties, of which five were ultimately carried out. Huffschmid, p. 150.

[22]International Information Centre for Local Credit, Economic Policy in Practice (The Hague: Martinus Nijhoff, 1968), p. 100.

[23]For a discussion of some of these functions, see Kindleberger, p. 185.

[24]The average propensity to save of German households was under 4% in 1950, compared to about 12% in the more normal period of the mid-1960's. Thus it is clear that normal savings mechanisms could not be counted on in these early years.

[25]Some of the most important of these were the following: Volkswagenwerke, A. G. für Berg- und Hüttenbetriebe, Rhein-Main-Donau A. G., and Vereinigte Elektrizitäts und Bergwerks A. G. (Veba).

[26]Of the 1950 investment sources, DM 11.5 billion constituted self-financing, DM 2.5 billion was provided by the capital markets, and DM 2 billion derived from public sources. Lütge, p. 578.

[27]Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung, Jahresgutachten 1967/68 (Stuttgart: Verlag W. Kohlhammer, 1967), pp. 227-229.

[28]Egon Sohmen, "Competition and Growth: The Lesson of West Germany," American Economic Review, XLIX (December 1959), pp. 986-1003.

[29]Kindleberger, p. 25.

[30]The average annual growth rate of German exports between 1948-1962 was 16.2%, nearly twice as high as that of the other major European economies (Postan, p. 91).

[31]For example, see Stolper, p. 247.

[32]Good examples are Germany's three big banks, the Deutsche Bundesbank, the Dresdner Bank, and the Commerzbank, which were decentralized by law in 1952, and simply recentralized in the years 1956-1958. The steel industry followed a similar pattern (Huffschmid, pp. 137-138n).

[33]Huffschmid, pp. 44; 47-49.

[34]The Allies' system was patterned after the American Federal Reserve System. Schuster, p. 64.

[35]Postan, p. 354.

[36]Bundeswirtschaftsministerium: Der Wissenschaftliche Beirat, Gutachten vom April 1961 bis März 1966 (Göttingen: Verlag Otto Schwartz, 1966), pp. 15-45.

[37]Not surprisingly, various of these benefits were passed during crucial national election campaign periods.

[38]Huffschmid, p. 112.

[39]These consist of especially investment stimulation through limited investment tax credit incentives, limited investment writeoff changes, and variability in tax rates.

[40]"Wettbewerb soweit wie möglich, Planung soweit wie nötig."