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75 YEARS OF CURRENCY REFORM IN GERMANY - WHAT CAN WE LEARN FROM IT TODAY?

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In June 1948, the Deutsche Mark was introduced in West Germany and, at the same time, the social market economy was formed. The beginning was bumpy, but in the end, this formed the foundations of the outstanding economic success of the Federal Republic of Germany over the following decades. **Frank Stocker, Author of the book *Die Deutsche Mark – wie aus einer Währung ein Mythos wurde (The German Mark – How a Currency Became a Myth),*** says there is a lot to learn from the events of that time for today.

They rode merry-go-round not once, not twice.... Three girls in Frankfurt paid 25 times for the ride – until they got sick and had to seek medical treatment. But they had achieved their goal: their old money had been used up.

On Saturday June 19, 1948, these girls were among the millions of Germans in the western occupation zones trying to spend their soon to be obsolete Reichsmarks on something more or less meaningful. This was difficult, because the range of goods was modest, and some shops were even closed, allegedly because of lack of inventory. Even on the black market, traders were reluctant to take the money.

The night before, the Western Allies had announced the new currency law. The first paragraph stated: *"With effect from 21 June, the Deutsche Mark currency shall apply."* The currency reform, which had been planned by the Americans in the previous months and worked out in detail by a group of German monetary experts, was now to become a reality. It had been long awaited and longed for. But now fear also gripped many. After all, what would be left of their savings?

On Sunday, June 20, everyone was allowed to exchange 40 Reichsmarks for new Deutsche Marks at a rate of one-to-one, and four weeks later they were allowed to exchange a further 20 Reichsmarks. All remaining balances had to be deposited into bank accounts, for which the exchange rate was to be announced later. This finally happened in September, and for every 100 Reichsmarks, only 6.50 Deutsche Marks remained in the end. For many, this was a shock.

Nevertheless, the introduction of the Deutsche Mark 75 years ago went down in history as a great success. Everyone knows the images of the shops that were suddenly filled again overnight, of goods that reappeared out of nowhere and of people who bought eagerly. And for the Germans, the Deutsche Mark became a national symbol with which they identified.

This success would not have been possible without a daring reform that took place in parallel with the introduction of the Deutsche Mark, and that was largely driven by one politician: Ludwig Erhard. At that time, he was Minister of Economy of the Bi-Zone, the combined British and American occupation zones. Although the Allied authorities had political power here, they had installed an economic council in Frankfurt, which was staffed with representatives of the federal states and could pass its own laws to a certain extent.

On June 18, parallel to the announcement of the currency reform, the latter had passed a momentous resolution, with 52 votes from the CDU, CSU and FDP and 37 votes against from the SPD and KPD: the Law on Guiding Principles for Management and Price Policy after the Monetary Reform. The very first sentence stated: "*Preference shall be given to release from rationing rather than retention."*

Up until this point, the wartime economic system had continued to exist in the western occupation zones: farmers had to hand over their products to the food offices, which issued ration cards to the population and distributed the products. The same was true for almost all other products, and the companies were also subject to a central planning authority that allocated raw materials and intermediate products.

Since this command economy worked poorly more often than it worked well, the black market flourished everywhere, not only among private individuals, but also among companies. However, both were illegal, and raids occurred again and again. On this basis, there could be no recovery of the economy, there could be no investment and expansion of production. The command economy stifled any initiative.

Erhard, therefore, wanted to liberate the economy and lift price controls. The price should again act as a steering instrument of the economy, market forces should prevail. But he was still a lonely voice at that time. In the first post-war years, the zeitgeist clearly leant towards state control of the economy, not only in the Soviet zone of influence, but also in the west. Even the CDU stated in its Ahlen programme of February 1947 that the capitalist economic system had *"not done justice to the state and social interests of the German people"* and that *"a public economic order"* was therefore needed.

But Erhard fought tirelessly for his convictions. And he gradually succeeded in winning over those around him, first the members of the Special Office for Money and Credit, a specialist group of the Economic Council of the Bi-Zone. Finally, he was also able to win a majority in the Economic Council itself for his plan of price liberalisation, so that it passed into law by a majority.

Up until this point, however, he had not convinced the Allies. Moreover, he had taken them by surprise. They were convinced that it was in their power to set prices and that the law, therefore, required their approval. But Erhard didn't wait for approval. Rather, he had his press spokesman, Kuno Ockhardt, announce on the very day of the currency exchange, June 20, 1948, that price controls would largely be lifted and maintained only for the most important foodstuffs and raw materials.

People heard this and acted accordingly. Traders returned to stores on Monday, producers delivered and people bought. It was the decisive coup that sealed the success of the currency reform. And with this success in mind, the Allies could no longer veto the price liberalisation.

But was it a success at all? For many Germans, the initial joy quickly turned to disappointment. Because the prices were now not only free, they also rose rapidly. Within a few weeks, the price of shoes rose by between 50 and 120%, vegetables by 120%, fruit by 200% and eggs by as much as 200 to 500%. At the same time, salaries were not allowed to be increased – the salary freeze imposed by the Nazis continued to apply.

As a result, the mood quickly changed. In the autumn there were protests everywhere, which continued to escalate until the trade unions finally called for a general strike on November 12, 1948 – the first and only one in German post-war history. According to the trade unions, around 80% of the workers participated, and they summed up their demands in ten points. For example, prices were to be fixed again by the state and controlled by price commissioners, the commercial-industrial sector was to be controlled again, and basic industries and banks were to be nationalised. In short, the wheel should be turned back.

Erhard had his back to the wall in those days. Even the CDU Prime Minister of North Rhine-Westphalia, Karl Arnold, called for the creation of a price and wage office before the state council of the Bi-Zone. This body then passed a resolution describing Erhard's policies as *"more or less failed"*, with the approval of the CDU.

But Erhard was undeterred. He repeated, mantra-like, that the price increases were temporary, that competition had to get going again. If this is done, he argued, prices will fall again. And indeed, a few weeks after the general strike, the trend turned. The phase of rapid price increases came to an end and many prices even fell again. In the meantime, Erhard had also lifted the wage freeze, the unions were able to negotiate higher wages with employers and did so successfully. Economic output grew in leaps and bounds and a long period of upswing, the Wirtschaftswunder (economic miracle), began.

Erhard had emerged victorious from the dispute. It had turned out that his recipe was the right one to get the economic engine going again in West Germany. However, the subsequent upswing could have ended by a hair two years later.

In 1950/51, the young Federal Republic of Germany fell into a balance of payments crisis, as it imported far more than it exported. It tore up all the credit lines that the partner countries of the European Payments Union had granted, and the Deutsche Mark was on the verge of coming to an end. It was only saved by the generosity of its European partners, who further increased the credit line – and indeed the Federal Republic of Germany managed to turn things around in mid-1951. Now, nothing stood in the way of the West German economic miracle.

The events surrounding the currency reform are an impressive chapter in post-war history. But they are more than that, they also contain lessons for us in this day and age.

First, they make abundantly clear the superiority of the concept of the market economy over planned economy models. Since mid-1945, West German economic output had stagnated at a level of about 50 percent of its 1936 level. Already in the fourth quarter of 1948 it climbed to 75%, and at the end of 1949 it exceeded this mark. Today, we should remind ourselves more often of this superiority of the market economy and resist the trend towards more and more state regulation.

Secondly, the developments of the following years also made it clear that the market economy can only find sustainable support from broad sections of the population in conjunction with a comprehensive social policy – it was only the so-called Lastenausgleich (equalisation of burdens) and many other social laws that reconciled the trade unions with Erhard's reforms and finally led to the SPD's commitment to the market economy about ten years later in the Godesberg Programme. Social benefits are therefore not *"gifts"*, as they are sometimes denigrated today. They are a fundamental component of a market economy that wants to be successful in the long-term.

Thirdly, the events of that time show that only European solidarity saved the Deutsche Mark, and only through this did the economic miracle ultimately become possible. We should remind ourselves of this more often today when we discuss the economic and financial policies of our EU partners. We are only strong together with our EU partners.

And finally, the currency reform shows that only bold and major reforms can decisively advance a country. A nation that wants to master and actively shape great challenges needs men and women who have an idea of how this can be achieved and who actively and unswervingly defend them. This is clearly lacking today.

In his new book, *Die Deutsche Mark – wie aus einer Währung ein Mythos wurde (The German Mark – How a Currency Became a Myth)*, Frank Stocker tells the story of the German currency from its beginnings to its replacement by the Euro. Visit frankstocker.de/deutschemark to find out more about the book.

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