A German 'Economic Miracle' for Europe and the Entire World

by Kasia Kruczkowski

June 1—Germany's experience in postwar reconstruction provides a case study of how a production-oriented credit system, rather than a monetarist system, allow a nation to rapidly rebuild from total destruction. The principles remain applicable to the Mediterranean countries today.

Prosperity in Germany and its robust economy were built up after the Second World War under very difficult conditions. The reconstruction of the German economy, which came to be known as the "economic miracle," is often belittled today by the upholders of the current system as having been unavoidable, given the total destruction of the country and the acute distress at the time. Such arguments avoid actually coming to grips with the economic principles applied at that time, and have prevented the relevant and urgently needed change of course for decades now—in line with the interests of the global players of the system.

After World War II, the situation in Germany was catastrophic: Most of the infrastructure was destroyed; the supply of electricity and heating fuel for industry and the population had largely collapsed; food rations were low; and millions of refugees from the East streamed into the bombed-out cities, where over one-fourth of the housing stock was uninhabitable. The financial situation was no better.

Germany was not considered creditworthy, and so could not issue government bonds on the international financial markets in order to secure liquidity. Imposing an austerity policy—which is stupidly praised today as a cure-all—was impossible, for obvious reasons.

How was Germany, reduced to such a state, supposed to gain the "confidence of the markets"? And even more importantly, how was it supposed to restore the population's confidence in the economic future of the country and of all of Europe?

Nonetheless, by the end of the 1950s, Germany had become a leading economic power and a sought-after partner in export markets. From mass unemployment in the immediate post-war period, the country had achieved full employment by the 1960s (7 million jobs were created within 7 years!). The foreign debt was even paid back ahead of schedule, while at the same time, both investments and living standards were rising.

It was not only desperate need that drove reconstruction, but the passionate determination of the population, and a targeted, dirigistic reconstruction policy, backed up by the sensible use of the Marshall Plan funds. Between 1948 and 1952, almost \$1.6 billion (nearly DM4 billion) flowed into Germany. This aid was made available to businesses and local communities, mainly in the form of U.S. credit for purchase of goods (food and industrial raw materials).

FDR's Reconstruction Finance Corp.

Germany's reconstruction was influenced by the success of an American model: the Reconstruction Finance Corporation, which had been set up in 1932, and was used by President Franklin D. Roosevelt to get out of the Great Depression; this included forcing "casino" banks to serve the productive economy.

In 1948, the German banker Hermann Josef Abs initiated the creation of an institution modeled on the RFC: the Kreditanstalt für Wiederaufbau (KfW/Reconstruction Credit Corporation).

The equivalent value of the U.S. imports was paid into "counterpart accounts" (in the framework of the European Recovery Program/ERP). The U.S. authorities released funds from these accounts for important projects in application of the Marshall Plan (ECA). The KfW received capital from the ERP counterpart accounts (DM3.7 billion) for pre-financing of reconstruction projects. For that, the KfW would draw up a list of the most urgent investments, with an overview of the products and machines required, and commission the relevant enterprises to produce them. The enterprises had to submit a loan application to the KfW with the corresponding proposals for operational investments.

But the KfW only became the lender, if private credit institutions considered the loan too risky. That was particularly the case in the coal, gas, water, electricity, and transportation sectors. Those public investments sparked a considerable amount of private investments, which were additionally supported by the government.

In contrast with other European countries that received Marshall Plan funds, all the reconstruction credit given to Germany was paid back into these counterpart accounts, so that their capital was increased, and continued to finance major projects long after the Marshall Plan had expired.

Having the investment credit flow back into the original Fund, so that it can be reinvested in the production process, corresponds to the practice of a middle-sized entrepreneur who reinvests his earnings in his company in order to achieve a higher energy-flux density, with attendant improvements in product quality and employee skills.

In England and Norway, for example, the funds were used to pay off the public debt, or, as we commonly say today, to balance the budget—and thereby worsen the situation. Only in Germany were the counterpart funds entirely and repeatedly invested in reconstruction. The foreign debts were then paid out of the additional tax revenue collected, so that this "investment fund" remained available for further loans.

Asking the Right Questions

Today, such investments can and must be carried out through issuing public credit, and the KfW should again assume its historical role.

A highly indebted budget should be no impediment to taking on a reasonable amount of new debts. What counts is to avoid an endless spiral of indebtedness, such as the bank bailouts have become—especially since 2007. What is needed is initial funding from the state, that encourages private investments and eventually pays for itself thanks to the impact of productive growth.

Instead of eternally posing the question of costs, which leads nowhere, we have to ask the right questions: What workers with what skills need meaningful jobs, and what productive capacities can be made available? What infrastructure projects are required, and what investments can be made to create the extra capacities?

We will quickly come to the conclusion that such an investment program requires at the same time a massive training program, because, to carry out such projects, we will need many new engineers, technicians, and skilled workers in the construction sector and in industry.

We must of course bear in mind that we are not dealing with over-indebtedness or the destruction of the real economy in one country, but with the collapse of the entire trans-Atlantic financial system. The bankruptcy of the EU and IMF policy, based as it is on a monetarist approach, is the most glaring in the case of Greece. But beyond Europe, the situation in many other countries is similar to, or even worse than, that of post-1945 Germany. The amount of "aid" from the IMF or various relief organizations is not the decisive factor, as is evidenced in the lack of development in Africa and most of Asia.

The policy approach underlying the "economic miracle," which used to be studied and admired abroad—public investments in infrastructure, a dirigist and regulatory credit policy—are incompatible with the degeneration in the European Union of the past 20 years. They are even in violation of a series of provisions in the Maastricht Treaty, the Stability Pact, etc. That is exactly where the problem lies: The endemic liberal dictate of the markets, with all their axioms and treaties, from Maastricht to the European Stability Mechanism, is a hopelessly bankrupt failure, and all such arrangements should be immediately cancelled!

In fact, the "economic miracle" was no miracle, but rather the result of an understanding of economy steeped in humanism, the main objective of which is development of the creative potential of one's population, and the well-being of future generations.

It is high time to revive this forward-looking tradition of Germany and to become an important link in a strong Europe of sovereign nations.

This article was translated from German.