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Chapter Sixteen

When the Deutsch Mark Was In Short Supply: Reconstruction Finance Between Currency Reform and "Economic Miracle"

Armin Grünbacher

I The *Wirtschaftswunder* Myth

In (West) German public memory the currency reform of 20 June 1948 is seen as the single pivotal moment that ended the economic woes of the immediate post-war years and heralded the beginning of the "Economic Miracle" and West Germany's meteoric economic recovery. However, the economic reality was quite different and in 1948 the outcome of Minister of Economics Ludwig Erhard's neo-liberal experiment was far from certain.[1] While the currency reform was necessary to stabilize the West German currency, not least so that the three western zones of occupation (which were soon to be transformed into the Federal Republic of Germany) could successfully participate in the Marshall Plan, the currency reform had also huge short-term drawbacks. The downsides to the currency reform included negative social effects for large parts of the population and a massive reduction in monetary supply which had detrimental impacts for the reconstruction.

Nazi war finance had completely wrecked sound fiscal policy, government debt had increased almost 40-fold from 11 million Reichsmark in 1932 to 380 million in 1945; only the continued use of wartime economic controls by the allied Military Governors prevented rampant inflation and further economic decline in the immediate post-war years.[2] The American-lead currency reform converted the Reichsmark in circulation into the new Deutsch Mark (DM) on the basis of 10:1, the most severe conversion rate in German history.[3] Overall, money supply was reduced by 93.5 percent, but what people remembered was the issuing of a per capita quota

(*Kopfgeld*) of DM 40 to each person on the day of the reform, which helped to establish the myth of "we all started out with DM 40".

The severe reduction in money supply, together with Erhard's *Leitsätze Gesetz*, which abolished all rationing as well as price controls except for rent, basic foodstuffs and basic commodities (fuel, electricity, steel and coal) had an immediate, not least psychological, effect.[4] Overnight, shop windows were full again with goods that had not been on sale for years. Werner Abelshauser sarcastically noted that after the reform, "even the cows gave more milk" because goods previously withheld for black market trading or hoarded in anticipation of the reform reappeared.[5] Companies and traders were now able to sell with considerable profit the goods they had hoarded prior to the currency reform to a population that had been starved for years of everything from basic consumer goods to foodstuffs; many people were prepared to pay high prices for these newly available goods. The resulting economic flurry led to a profit-inflation in which working class people and refugees struggled to pay the prices charged for all but the basic foodstuffs.[6] With prices rising but wages still fixed, the situation deteriorated so much that the trade unions called for a 24 hour general strike against profiteering which took place on 12 November 1948.[7] Because of the growing social inequality, Erhard faced and only narrowly survived two votes of no-confidence in the Economic Council, the quasi-parliamentary body of the combined Anglo-American occupation zone.[8]

The other most obvious negative effect of the currency reform was a sharp rise in unemployment. In the face of scarce liquidity, companies began to lay off workers whom they had kept on when they had been able to pay them in practically worthless but plentiful old Reichsmark. Unemployment rose from 3.2 percent in the second quarter of 1948 and reached a peak of 12.2 percent, or 2 million people out of work in February 1950, putting considerable pressure on the new West German federal government, which responded half-heartedly by initiating a cobbled together work creation scheme.[9]

Not least because of the rising unemployment and the profit inflation the value of the Deutsch Mark dropped on the international money markets and the Bank deutscher Länder had to tighten borrowing as a countermeasure.[10]

Despite the inflation it was actually the scarcity of the new currency that had a severe detrimental impact on reconstruction, which was exacerbated by BdL monetary policy. Within the first six months after the currency reform money in circulation increased massively, from just over 6 billion DM in June to more than 14.3 billion in December 1948, and bank credits rose from practically zero to DM 5.2 billion. Nonetheless, this volume of money was still only a fraction of the amount of old Reichsmark that had been in circulation.[11] Worse, hardly any of this money was available for long-term loans, which were necessary for a successful reconstruction program. In 1949, free liquid bank reserves in West Germany were a mere DM 300 million.[12] During the first year of the DM, 77 percent of all investments were financed by short-term loans or company self-financing.[13] With such a tight money supply it is not surprising that by the end of 1948 profit inflation gave way to deflation due to a lack of consumer spending and because of the BdL's money tightening.

These structural impediments to West German economic reconstruction resulted, ironically, from the currency reform and Erhard's subsequent *Leitsätze Gesetz*. In order to re-establish sound finances, the Americans thought that a 10:1conversion of Reichsmark to the new Deutsch Mark was necessary but by applying such a harsh ratio, they reduced the amount of investment finance available for economic reconstruction. Both the *Leitsätze Gesetz* and Erhard's general economic policies exacerbated the situation. Erhard believed that the economic recovery should be based on the consumer goods industries and he therefore reversed Anglo-American strategies that the Military Governments had introduced after the winter crisis of 1946-47. Their policy had put all available resources into the basic industries, in particular coal, in an attempt to get the disrupted economy back to normal again by providing sufficient basic materials. With consumer goods industries' prices freed but those of the basic industries still fixed at relatively low levels – not least in order to support the consumer industries with lower input prices – banks preferred to give the little investment money they had as short term credits to the light and consumer industries instead of long term loans to the basic industries in the expectations of faster and higher returns.[14]

The Nazi war economy with its insufficient investment and the accepted running down of equipment and assets, as well as the damage caused by the war, meant that the basic industries had a huge backlog of urgent capital investments which simply could not be satisfied by the German capital market in the years after the currency reform. Months before the reform Erhard had been fully aware that West Germany's investment capital would be inadequate for the huge task ahead. In a speech to trade union representatives in February 1948 he admitted as much but explained that he expected to raise all the capital necessary for reconstruction from foreign sources so that the German GDP could be used exclusively for consumption.[15] It is not clear if Erhard really believed that foreign funds, and he was referring most likely to Marshall Plan counterpart funds, would be sufficient for this task, or if he was simply stoking the unrealistically high expectations the Germans had for the European Recovery Program (ERP), as the Marshall Plan was officially called. In light of other comments Erhard made around this time in his capacity as chairman of the *Sonderstelle Geld und Kredit*, the German body which planned for the currency reform, it is clear that he believed that reconstruction should be based on the consumer industries and not on heavy industry. In order to implement this idea, he explained, that he was prepared to accept a delay of the reconstruction process by five to ten years.[16] Such a dogmatic and ideological approach would very soon come to haunt the Minister of Economics; his intention to finance the long-term investment necessary for the reconstruction with Marshall Plan counterpart funds did not materialize before the autumn of 1949 due to lack of funds. The myth of the Wirtschaftswunder thus developed in three stages: the first one was visible immediately with the currency reform and the full shop windows when previously hoarded goods or those traded on the black market became available again. The second stage was the August 1949 general election result, which, due to Erhard's Düsseldorf Principles and despite significant economic setbacks, resulted in a narrow CDU victory. This not only allow Erhard to stay in office but with the help of his excellent press contacts and sponsoring from industry, to continue a massive propaganda campaign for the social market economy in the mass media.[17] When the economic boom arrived by 1952/3, it was export driven and not really of Erhard's making but it served as German exculpation from the Nazi crimes and the emergence of the 'Wir-sind-wieder-wer' mentality. There was little interest in the collective memory to remember the 'bad times' before 1945 or the devastation 1945-50, as neither fitted the image of 'good Germans' and the heroic legend of German economic recovery from ruins.

II The Kreditanstalt für Wiederaufbau

American Military Governor and Marshal Plan administrators were disappointed and annoyed with the German reliance, even fixation, on Marshall Plan funds. In his frustration General Clay, the US Military Governor in Germany, went so far as to call the existence of the Marshall Plan counterpart funds the "biggest evil" for the German economy because, as he explained, he had not seen a single German reconstruction proposal which was not based on those funds.[18] However, Marshall Plan deliveries to West Germany during 1948 were so slow to materialize that the Marshall Plan Advisor to the bizonal Economic Council had to write two reports at the end of 1948. The "official" report for the public presented sugar-coated figures in order to keep up public morale; a confidential report which contained the real figures was for the administration's internal use only.[19] It was only in December 1949 that the first sizable sum from the Counterpart Funds, just over DM 1 billion, was authorized by the Marshall Plan administration for release to German authorities.[20] The Counterpart Funds arose from German companies having to pay the Deutsch Mark equivalent of the dollar value of the goods they received under the Marshal Plan into special accounts ("ERP Counterpart Accounts") held at the Bank deutscher Länder. With the permission of the ERP Administration, these funds were then lent by the German government as revolving investment funds at 5 ½ percent interest for reconstruction projects.[21]

The most important of the German reconstruction agencies was the Kreditanstalt für Wiederaufbau (KfW), a bank set up through bizonal legislation in November 1948. Initially financed by the German *Länder* and the Economic Council in equal parts to the sum of DM 1 million, the KfW was the brain child of Hermann Josef Abs, a former (and eventually again after 1957) director of Deutsche Bank who also became deputy director of the KfW's supervisory board and was its central figure. Abs had also been the driving force in drafting the KfW bill.[22] The foresight he displayed in the process would become essential for the bank's operation and thus, despite all problems and limitations, for the successful running of reconstruction finance, as will be shown below by way of example of the coal industry.

In the late 1940s, West Germany was confronted with a massive reconstruction project: construct six million housing units for refugees and bombed-out civilians; repair, rehabilitate and in some cases, replace, industrial plants; rebuild destroyed civil infrastructure. In the face of insufficient investment capital, the work of the KfW, which was called "a characteristic German arrangement" by Andrew Shonfield for its cooperation between public authorities and private business, became a crucial tool in the reconstruction period.[23]

A further reason for the delayed release of the counterpart funds to the KfW (other than the slow accumulation of the funds) had been American demands for the provision of German funding as well. Those US expectations proved very quickly to be unrealistic. In March 1949, the Munich based newspaper *Die Neue Zeitung* reported that of the expected DM 100 million *Pfandbrief* issue which was part of an overall attempt to raise DM 1 billon for reconstruction purposes, only 30 million were signed.[24] The KfW also experienced a practically non-existent capital market in West Germany when it tried to issue bonds in September 1949. The assumption that a 3.5 percent tax-exempt bond would raise some DM 300 million, designated solely for housing construction, turned out to be wishful thinking. Bonds worth a mere DM eight million could be placed, despite the fact that the Military Governments had allowed the use of blocked saving accounts for the purchase of these bonds. Similarly, a tax-reduced 5.5 percent bond achieved a placement of DM 50 million overall, but only because Abs had been able to receive a guarantee from banks for this sum. The actual sale on the open market brought a mere DM 22 million, with the banks' guarantee covering the remaining DM 28 million. Even the KfW called this result "measly". The situation proved wrong those banking representatives on the KfW's supervisory board who had opposed the issuing of the bonds with the argument that the KfW would scoop West Germany's capital market, to the detriment of the traditional banks.[25] To put the scale of the problem into perspective, between the currency reform and the end of 1953 the German capital market was able to raise only a total of DM 7 billion.[26] It was therefore not surprising when in their first annual report, published in March 1950, the Kreditanstalt stated in very plain language that the German capital market was non-functional. The relatively small investment funds available from counterpart funds had therefore to be used to counterbalance the existing market distortions (which had arisen in part because of Erhard's economic policy); their release and utilization had to follow for the foreseeable future a "predetermined plan" and could not be left to be decided by market forces.[27]

In view of the gigantic task of rebuilding West Germany's national economy after the most devastating war in history, it was quite clear that Erhard's claim of funding all investment from outside funds, i.e. Marshall Plan counterpart funds, was sheer fantasy. According to calculations by Egon Baumgart, some DM 81.1 billion were spent in West Germany for reconstruction and investment from 1949 to 1952, the amount growing to DM 226 billion by 1956.[28] Until December 1952 only DM 5.35 billion had accumulated in the Marshal Plan counterpart fund accounts.[29] Nevertheless, during the 1949 to 1951 period, the reconstruction finance from counterpart funds contributed a small, but significant share to the overall reconstruction finance (see table 1).

Table 1

Share of ERP Loans in Gross Capital Investments in the

Federal Republic 1949 – 1956[†]

(in percent)

	1949	1950	1951	1952	1953	1954	1955	1956
Total	5.8	7.8	4.1	2.1	1.9	1.3	1.6	1.1
Commercial Enterprises	6.4	8.6	4.5	2.3	2.1	1.4	1.8	1.3
Industry‡	7.1	13.3	4.6	2.3	2.0	1.9	2.1	0.6

† Without Berlin

‡ Without building industry, electricity industry and small businesses

Source: Baumgart, *Investitionen*, p. 50.

The effect of the counterpart funds for basic industry was considerably bigger than the figures suggest and the funds had a significant multiplier effect for the rest of the economy since these sectors, particularly the coal industry, were strategic bottleneck sectors on which the reconstruction process as a whole was dependent. It was estimated in 1948-49 that the coal mining industry would need DM 1.5 billion over the next three years to be able to meet its investment requirements. Because Erhard wanted to subsidize the consumer goods industries with cheap energy prices through a low price of coal, he did not press the Allies, who were ultimately in charge of the coal price, for a further increase (although he had supported a small increase in August 1948). With coal prices remaining well below real market prices, investments in the pits could not come from the sale of coal.[30] Instead, a quarter of all counterpart funds released in 1949 for reconstruction went into coal mining, where they provided a staggering 47 percent of all capital investment, while in 1950, 13.2 percent of counterparts released provided still a considerable 40 percent of all investments in that sector.[31]

The high share of counterparts for investment into the crucial coalmines came about because "normal" banks were not willing to lend significant sums of money to the coalmines while their ownership status and future company structure were still to be decided by the Allies. Until this had happened, the coal mining companies had very little collateral that they could offer as security for their loans. As a matter of fact, of a total of DM 570 million given to the pits from the counterpart funds via the KfW by the end of 1951, less than DM 38 million had any security at all.[32] Some of these loans were actually used to pay for the purchase of equipment that had come into the country under the Marshal Plan because the pits could not get other credit. [33] During 1949 the need for loans to the coal mining industry had become so great and available funds so limited that because of the insufficient funds available the KfW had to resort to a system of financing the coal mines that was not dissimilar, except for its scale, to the *Mefo* system the Nazis had used to finance their rearmament program.[34] The Kreditanstalt accepted bills of exchange issued by the coal mines which were then offered to banks but without any obligation by the banks to prolong them, leaving any default risk with the KfW. Even senior German officials felt very uncomfortable with such arrangements. Indeed, the only "security" the KfW received were Allied assurances that the KfW would be the first to make a mortgage claim against the collieries once those were released from Allied control. When the Economic Cooperation Administration (ECA), as the Marshall Plan administration was officially called, released the first DM 150 million for the coal mining industries, one third of this sum had to be used immediately to redeem those bills of exchange. German authorities, in particular the Bank deutscher Länder, which ultimately had to authorize and sanction the scheme, had gone along with the plan only in anticipation of the large scale release of counterpart funds.[35]

The consequences of Erhard's policy of favoring consumer goods and investment goods industries over basic industries became visible rather quickly, as the growth in output demonstrates (see table 2).

Table 2

Production Output of Industry and Coal Mining, 1946-1951

(1936 = 100)

	1946	1947	1948	1949	1950	1951
All industry	34	44	63	90	130	141
Coal mining	51	65	81	96	109	116

Source: Grünbacher, *Reconstruction*, p. 133.

Because of the Allies' efforts to raise Ruhr coal production, which was also essential for wider European reconstruction, output growth for all industries had considerably trailed those in the coal industry for the period 1946 to 1948. However, the effects of Erhard's policy, insufficient investments in coal production, and the new possibilities after the currency reform for tax depreciation for light and consumer industries (which allowed large scale self-financing), meant that by 1950 positions had reversed and coal output and supply could not keep pace with industrial growth and demand.[36]

III The Korean War and the *Investitionshilfe Gesetz*

Initially, the effect of this development went unnoticed, but when the Korean Conflict broke out on 25 June 1950, the negative impact was demonstrated quickly and with strong impact. Immediately world raw material prices increased on average by 25 percent. This amplified West Germany's balance of payment deficit, which had been barely covered by Marshall Plan imports, to a crisis point because the country's export industries, which were still in the process of recovery, were unable to earn enough foreign currency to pay for the increased cost of raw material imports. By February 1951, West Germany's trade liberalization measures had to be suspended and the European Payment Union (EPU) had to grant the Federal Republic a special line of credit to keep the country trading, while the central bank tightened the availability of credit and reduced foreign trade licenses.[37] Furthermore, the Americans demanded, very much to the anger of Erhard and Chancellor Adenauer, that the German economy had to bear some of the costs of the western war effort – and if they were not willing to do so would suffer suspension of Marshall Aid.[38] The third big impact, the resulting coal shortages, was the most embarrassing for Erhard and caused serious problems for his economic policy. With the outbreak of the war in Korea, western countries switched their industrial production from reconstruction back to armaments, which lead to short supply in all areas of civilian and investment goods. The only country that had spare production capacities and was able to fill the shortfall was West Germany. The resulting expansion in output in the investment and consumer industries was so rapid that the lack of investment into the basic industries became fully exposed, a situation most noticeable in the coal industry because output could not keep up with the increased demand.[39] Despite the KfW's loans to the mining industry, coal was the most pressing topic on the government's cabinet agenda during 1951. Insufficient supplies of coal caused secondary bottlenecks in the steel industry and in electrical power supply, so much so that electricity had to be rationed for a short period during the winter 1950-51.[40]

The previously insufficient funding for the pits made it necessary to import large amounts of expensive American coal, which of course increased West Germany's balance of payment crisis.[41] Both German industrialists and the economics minister were desperate to avoid the re - introduction of economic controls and *Wirtschaftslenkung*, so Erhard was happy to accept a proposal from the *Bundesverband der deutschen Industrie* (BDI, Federation of German Industry), which offered to raise DM 1 billion from German commercial businesses by issuing interest-bearing bonds to fund investments into coal, iron and steel, and electricity. Because many small and medium-sized businesses outside the three sectors felt subject to a policy of enforced participation, they contested the idea and it had to be passed into law and rushed through parliament in early 1952 as the *Investitionshilfe Gesetz*. Because of the KfW's good reputation with industry, it was once again asked to handle the funds.[42] Initially each of the three sectors was supposed to receive DM 300 million, with another DM 100 for the Ruhr industries' water supply. As it turned out, by the end of 1953, coal mining had received the smallest share of money amongst the big three beneficiaries, DM 186 million out of a total of 624 paid out.[43] Eventually coal were to receive DM 228 million with the largest sum going to the steel industry (DM 296.5 million).[44] A considerable larger impact on investment than the DM 1 billion raised came from the law's articles 36 and 37. Under article 36, basic industries were allowed tax depreciation on investments of up to 50 percent annually. In this way the basic industries could write off DM 3.2 billion, three times as much as had been raised by the loan. Finally, article 37 empowered Erhard to raise basic industry's fixed prices without needing authorization from parliament but he rarely used this power because he continued to support a policy of low coal prices.[45] All in all, the coal industry was able to finance 14 percent of their investment up to 1955 from *Investitionshilfe* fund loans, compared to 59 percent from "own funds", which meant mainly depreciations under article 36 of the law.[46]

After the "Korea Crisis" turned into the "Korea boom" from mid-1951 onward, West Germany's balance of trade had turned positive and it continued to grow with the ongoing expansion of international trade during the 1950s.[47] This does not mean that the capital shortage within the Federal Republic had ended by this time, or even, as Tooze suggests, that "…1952 marks the true end point reconstructions".[48] For example, of the estimated shortfall of six million dwellings in 1948 less than 1.3 million, or about 20 percent, had been built by the end of 1952.[49] Long-term investment capital, especially for reconstruction in the politically crucial housing sector or the rationalization and modernization of industry remained scarce because the German capital market continued to be unable to raise the required funds. The reconstruction process would be slow as along as investment capital from abroad was unavailable on a large scale. As Tooze rightly suggests, 1952 was a year in which important decisions had been made and developments put in place that would accelerate German reconstruction. The most important of these decisions led to West Germany signing the London Debt Agreement in 1953, which settled the pre-World War Two debt of the German Reich as well as West Germany's post war debt stemming from Allied aid. Christoph Buchheim has shown that foreign capital investment in West Germany in 1954 increase more than ten-fold compared to the previous post-war peak in 1952, with a tripling of foreign direct investment.[50] The increase is even more astounding in light of the fact that both the *Bundesverband der Deutschen Industrie* (BDI) and the *Bank deutscher Länder* (BdL) were either very cautious of, or outright hostile to, to the idea of new foreign debt.[51] Despite this strong opposition, which most likely came from the fear of repeating past mistakes and indebtedness abroad, foreign investment in the Federal Republic continued to grow and accelerate the reconstruction process.

Summary

"The heroic legend of the German reconstruction as a spontaneous upsurge of aggressive private enterprise" in the wake of the currency reform, as Shonfield argues, is a myth.[52] Contrary to this myth, in1948-9 the "success of the Deutschmark … was not preordained".[53] One can easily argue that in the climate of the Cold War the Americans would have prevented a total failure of the experiment, most likely by interfering with and ending Erhard's economic strategy, because of the negative political fallout it would have caused. However, despite all his rhetoric, Erhard himself was not really true to the pure creed of neo-liberalism. The biggest challenge the Bizone and then the young Federal Republic faced in economic terms during the early reconstruction period from 1948 onward was the totally insufficient capital market; without appropriate funds the rebuilding of the country could proceed only to a small degree and with huge frictions: the system of self-financing of companies after the currency reform meant that valuable assets for the reconstruction were misdirected into branches of industry that were non-essential.

The Marshall Plan counterpart funds were an important tool to counterbalance the misdirection of funds and help those sectors of the economy that were vital but which suffered from a lack of investment. Although counterpart funds were at best moderate in size, the way they were used (providing partial funding for crucial bottleneck projects) and the psychological impact they had (enticing banks to provide further funding for the companies) made the difference. The best example for the latter is the optical company Zeiss: relocated from the Soviet to the American occupation zone, all the company had left in the West was its reputation and technical knowhow. Abs, who used to be on the Zeiss supervisory board organized a KfW loan which then encouraged banks to give additional loans to the company despite its lack of collateral.[54]

The revolving utilization of the funds provided an additional benefit, because the repaid loans and the interest they had yielded could be reinvested in key industries (in 1954, for instance, the KfW had scheduled DM 320 million for investment which derived from repayments and interest).[55] The existence of the counterpart funds had the additional psychological advantage that the German authorities could claim that reconstruction was financed with the offshoots of the Marshall Plan, which, in the grand scheme of the reconstruction, was only true to a very small part.

The "Korean crisis" of 1950-51 demonstrated that Erhard's economic policy had considerable weaknesses – or that the West German economy generally and the capital market in particular was simply not able to cope with additional strain caused by increased orders. The 1952 *Investitionshilfe Gesetz*, born out of desperation (but crucial for the rehabilitation of German big business) was regarded by many at the time as the belated financial compensation for the basic industries;[56] but in the end it was only the signing of the London Debt Agreement in 1953 which brought foreign investment capital to West Germany – against the wishes of the BDL and the BDI – and eventually helped to end the drought in the German capital market.

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[1] From March 1948 to September 1949, when he became officially Minister for Economics, Erhard's position and title had been Director for Economics at the *Verwaltungsrat für Wirtschaft des Vereinigeten Wirtschaftsgebietes*.

[2] Abelshauser, *Wirtschaftsgeschichte der Bundesrepublik Deutschland 1945-1980*, (Frankfurt 1983), p. 46.

[3] Werner Abelshauser, *Wirtschaftsgeschichte*, p. 50.

[4] Abelshauser, *Wirtschaftsgeschichte*, p. 50 f.

[5] Abelshauser, *Wirtschaftsgeschichte*, p. 51.

[6] Armin Grünbacher, *The Making of German Democracy. West Germany During the Adenauer Era, 1945-1965*, (Manchester 2010), p. 83 f.

[7] Abelshauser, *Wirtschaftsgeschichte*, p. 53.

[8] Armin Grünbacher, *Reconstruction and Cold War in Germany.The Kreditanstalt für Wiederaufbau 1948-1961*, (Aldershot 2004), p. 13 f.; Institut für Zeitgeschichte und Deutscher Bundestag (eds.), *Wörtliche Berichte und Drucksachen des Wirtschaftsrates des Vereinigten Wirtschaftsgebietes 1947-1949*, (München, Wien 1977).

[9] Abelshauser, *Wirtschaftsgeschichte*, p. 64; Grünbacher, *Reconstruction*, p. 84 f.

[10] Monika Dickhaus, *Die Bundesbank im westeuropäischen Wiederaufbau*, (München 1996), p. 65 f.

[11] Abelshauser, *Wirtschaftsgeschichte*, p. 53.

[12] Carl-Ludwig Holtfrerich, ”Monetary Policy under Fixed Exchange Rates”, in Deutsche Bundesbank (ed.) *Fifty Years of the Deutsche Mark. Central Bank and Currency in Germany since 1948*, (Oxford 1999), p. 307 – 401, p.312; Grünbacher, *Reconstruction*, p. 14.

[13] Heiner R. Adamsen, *Investitionshilfe für die Ruhr. Wiederaufbau, Verbände und soziale Marktwirtschaft, 1948-1952*, (Wuppertal 1981), p. 257

[14] Grünbacher, *Reconstruction*, p. 14.

[15] Bundesarchiv Koblenz BA Z 32/10, cited in Abelshauser, *Wirtschaftsgeschichte*, p. 54

[16] Adamsen, *Investitionshilfe* p. 41

[17] Christian L. Glossner, *The Making of the German Post-War Economy. Political Communication and Public Reception of the Social Market Economy after World War Two*, (London 2010), pp. 55 f.

[18] Kreditanstalt für Wiederaufbau, Historisches Archiv (henceforth KfW HA), VS 65, memo on a meeting with the Military Governors, 13 April 1949.

[19] Gerd Hardach, *Der Marshall Plan. Auslandshilfe und Wiederaufbau in Westdeutschland 1948-1952*, (München 1994), p. 255 ff for the American side; p. 262 f. for he German action.

[20] Grünbacher, *Reconstruction*, p. 67.

[21] See Armin Grünbacher, "Cold War Economics. The Use of Marshall Plan Counterpart Funds in Germany 1948 – 1960", in *Central European History*, vol. 45 no. 4 (Dec 2012), p. 716 – 697.

[22] Grünbacher, *Reconstruction*, p. 15-50; for Abs's biography see Lothar Gall, *Der Bankier Herman Josef Abs*, (München 2004). For the continuing significance of the KfW for the German economy, see Eric Owen Smith, *The German Economy*, (London 1994), passim

[23] Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power*, (London 1965), p. 277.

[24] *Die Neue Zeitung*, München, 10 March 1949.

[25] Grünbacher, *Reconstruction*, p.90.

[26] Shonfiled, *Modern Capitalism*, p. 277.

[27] Kreditanstalf für Wiederaufbau, *1. Jahresbericht 1949*, translated in: Grünbacher, *German democracy*, p. 94.

[28] Egon Baumgart, *Investitionen und ERP Finanzierung*, (Berlin 1961), p. 47.

[29] Federal Minister for the Marshall Plan (ed.), *Twelfth, Final report of the German Federal Government on the Progress of the Marshall Plan*, (Bonn 1953), p. 25.

[30] Grünbacher, *Reconstruction*, p. 127; p. 129.

[31] Baumgart, *Investitionen*, p. 122 f.

[32] Kreditanstalt für Wiederaufbau, *Jahresbericht 1951*, p. 53.

[33] KfW HA Prot 10-1, Protokoll der 5. sitzung TOP 5, Grünbacher, *Reconstruction*, p. 128.

[34] The *Metallurgische Forschungsgesellschaft* (Mefo) was a dummy company set up by the Reichsbank and the Reichswehr ministry. The company issues bills of exchange which, with the endorsement of the Reischsbank, were accepted by commercial banks who paid out cash for those bills. Ultimately 12 billion Reich Mark were created in this way out of nothing and injected into the real economy to finance rearmament.

[35] Grünbacher, *Reconstruction*, p. 129.

[36] For an example of the impact of the *DM Eröffnungsbilanz Gesetz* and the tax depreciation it offered see Grünbacher, *German democracy*, p. 85.

[37] Adam Tooze, "Reassessing the Moral Economy of Post-war Reconstruction: The Terms of the West German Settlement in 1952", in *Past and Present*, vol. 210 no 6 (January 2011), p. 47-70, p. 66 f.

[38] Werner Abelshauser, "Ansätze 'korporativer Marktwirtschaft' in der Koreakrise der 50er Jahre. Ein briefwechsel zwischen dem Hohen Kommissar John McCloy und Bundeskanzler Adenauer“, in: *Vierteljahrshefte für Zeitgeschichte*, vol. 30 (1982), p. 715-756.

[39] Adamsen, *Investitionshilfe*, p. 84; Grünbacher, *Reconstruction*, p. 164.

[40] Hans Booms (ed.) *Die Kabinettsprotokolle der Bundesregierung*, vol. 4, 1951, (Boppard am Rhein 1988), passim; Knut Borchard, Christoph Buchheim, "Die Wirkung der Marshall Plan Hilfe in Schlüsselbereichen der deutschen Wirtschaft“, in *Vierteljahrshefte für Zeitgeschichte*, vol. 35 no. 3 (July 1987), p. 317-347, p. 331.

[41] Kreditanstalt für Wiederaufbau, *Jahresbericht 1951*, p. 19.

[42] Grünbacher, *Reconstruction*, p. 99 – 102.

[43] Adamsen, *Investitionshilfe*, p. 140; Kreditanstalt für Wiederaufbau, *Jahresbericht 1953*, p. 49.

[44] Adamsen, *Investitionshilfe*, p. 264.

[45] Grünbacher, *Reconstruction*, p. 102.

[46] Adamsen, *Investitionshilfe*, p. 270.

[47] Tooze, "Reassessing", p. 66. Herbert Giersch, Karl-Heinz Paque, Holger Schmieding, *The Fading Miracle. Four Decades of Market Economy in Germany*, (Cambridge 1994), p. 89

[48] Tooze, "Reassessing", p. 68.

[49] Grünbacher, *Reconstruction*, p. 187.

[50] Christoph Buchheim, "Das Londoner Schuldenabkommen", in: Ludolf Herbst, *Westdeutschland 1945-1955. Unterwerfung, Kontrolle, Integration*, (München 1986), p. 219 – 229, esp. p. 227; Hans-Peter Schwarz (ed.), *Die Wiederherstelllung des deutschen Kredits. Das Londoner Schuldenabkommen*, (Stuttgart 1982).

[51] Bundesverband der Deutschen Industrie, Historisches Archiv, HGF Pro 785/3 'Kundgebung und 4. Mitgliederversammlung des Bundesverbandes der Deutschen Industrie in Wiesbaden vom 17. bis 19. Mai 1953'; Buchheim, "Londoner Schuldenbakommen", p. 228.

[52] Shonfield, *Modern Capitalism*, p. 276.

[53] Tooze, "Reassessing", p. 47.

[54] Deutsche Bundesbank, Historisches Archiv B330/3338, Protokoll zur 6. Sitzung des KfW Kreditbewilligungs-Ausschusses, TOP 1.

[55] Kreditanstalt für Wiederaufbau, *Jahresbericht 1953*, p. 44

[56] Shonfield, *Modern Capitalism*, p. 275.