Federal Minister Erhard on Market Economy and Planned Economy (June 26, 1950)

Abstract

Ludwig Erhard is widely considered the father of the West German "economic miracle." This is of course an exaggeration, as many economic and financial experts were involved in creating the structural and institutional preconditions for the rapid expansion of the economy. It is important to remember that what Erhard and others unleashed after the 1948 currency reform was not a *laissez-faire* liberal capitalism. What he advocated was a *Social* Market Economy, a term that had been coined by economics professor Alfred Müller-Armack, who later served as a secretary of state in Erhard's economic ministry. The basic principles of this type of capitalism were also to be found in the Düsseldorf Guidelines of 1949, also featured in this chapter.

In a speech on June 26, 1950, Erhard elaborated on this concept of capitalism and contrasts it with the notion of a planned economy, practiced in the states with socialist governments in East and West. The "social" is meant to indicate a commitment to welfare state policies. Erhard witnessed that there were millions of war widows and orphans, refuges and expellees, bombed-out families who had lost everything in the Allied air raids as well as veterans suffering from physical injuries or psychological trauma of what later became known as Post-Traumatic Stress Disorder (PTSD). These millions could not simply be left to their own devices in a system of competitive capitalism. The state had to provide health care and social security payments. Still, Erhard hoped and expected that economic growth would create "prosperity for all," as he titled one of his books.

Source

The enemies of the market economy are trying with an almost insistent pushiness to make the people believe that the economic and social successes of the past two years are due exclusively to the currency reform and other fortunate circumstances, but in no way to the change of course in economic policy that I have implemented. Although it was certainly important to seize the moment at the time of the currency reform, it is obvious to all well-meaning and insightful people that only currency reform plus a market economy policy can result in a decisive turnaround. The market economy can not only claim the success of having brought human strength and personal values out of complete chaos, but it has also helped a highly problematic currency reform, with all its coincidences in terms of its construction and quantitative measurements, to succeed and, by means of the adjustment process to an economic equilibrium that it has triggered, has created a healthy currency that is stable from within. Not because I want to take credit for this, but in order to avert impending dangers again today, it is necessary to convey this realization to the German people and especially to the German economy. Experience and history alike teach that healthy and stable currencies can only exist in a market economy and that, consequently, any planned economic order leads to the destruction of the currency. Even if the currency itself is certainly not an end in itself, we know well enough from bitter experience that prosperous economic development can only take place on the basis of a healthy currency. I need not refer to the development of the German mark on the world's free exchanges and draw parallels with the fate of the British pound to make it clear that it is only thanks to our consistent economic policy that the young and fragile little plant of the German mark, without gold backing and without a manipulation fund, has so gratifyingly strengthened itself in the world's esteem, while the currencies of the countries organized on the basis of a planned economy have repeatedly collapsed despite all their manipulation tricks. It is therefore no coincidence that the nations with a market economy are ready to strengthen and promote the European idea on the basis of interstate competition for performance, while the planned economies, in their rejectionist attitude, are well aware that their completely ossified, artificially falsified, reactionless pseudo order must collapse like a house of cards if the European peoples come together to work together according to the only meaningful and just standard of competition for performance.

The socialist states of Europe instinctively know or sense that their policy of full employment could only be bought at the price of reduced performance and that they must remain in isolation in order to save a dogma and system whose unsuitability and social dubiousness can no longer be concealed in a free market economy. While we in Germany have successfully endeavored in the past two years to raise the performance of our economy to the level of international standards in order to secure the possibility for the German people of living in the future, the socialists are endeavoring to entangle us in credit-economic adventures in the spirit of the full-employment policy in order in this way to sabotage the market economy and to make the dogma of the planned economy a compelling necessity. In doing so, they invoke completely misunderstood Keynesian doctrines, which, under conditions completely different from those prevailing in Germany, provide for additional credit creation to remedy social disturbances. I would like to believe that Keynes would turn in his grave if he knew that his epigones wanted to make a magician out of him who, by a trick of credit policy, was able to heal the disaster of 15 tragic years overnight. Without wanting to deny in principle the economic policy possibilities of additional credit creation, it must be emphasized with emphasis, however, in a correct analysis of the German economic situation, that an action on the scale desired by my socialist opponents would have to push our people immediately back into the misery and tribulations of inflation. Additional credit creation on this scale would mean that the economy would be placed under the permanent pressure of excess purchasing power, which would destroy all the success achieved so far in increasing and improving performance and would have the consequence that the German economy would no longer be able to hold its own in international competition. No one can seriously deny that such a policy would reduce the efficiency of social work and worsen the quality of the economy, so that this recommendation leads to the grotesque thesis: Let us work less, let us work worse and less productively, so that we may fare better. […]

Source of original German text: *Industriekurier* June 26, 1950. Reprinted in Karl Hohmann, ed., *Ludwig Erhard: Gedanken aus fünf Jahrzehnten. Reden und Schriften*. Düsseldorf: Econ, 1988, pp. 232–235.

Translation: GHI staff

Recommended Citation: Federal Minister Erhard on Market Economy and Planned Economy (June 26, 1950), published in: German History in Documents and Images, <https://germanhistorydocs.org/en/occupation-and-the-emergence-of-two-states-1945-1961/ghdi:document-5218> [July 11, 2025].