

Ludwig Erhard on the Social Market Economy (August 22, 1948)

Abstract

Although the notion of a “Social Market Economy” was coined by Alfred Müller-Armack in 1947, who later became a secretary of state in Ludwig Erhard’s Economics Ministry, the latter had come out of the war determined that the postwar West German economy had to be radically restructured. He had long been critical of the German industrial system that was organized in cartels and syndicates that, in essence, were legally binding agreements between independent firms to fix prices and production quotas among themselves and thus to circumvent the principle of capitalist competition in the marketplace. Syndicates were sales organizations that coordinated the marketing of the products of a particular cartel. Having been appointed to the economic administration that the Western Allies had established in their zones of occupation, Erhard knew that the Americans were totally opposed to this tradition and issued strict bans on the postwar formation of cartels. His belief in the principle of competition was also conceptually buttressed by the theories of a group of economists at Freiburg University, particularly Professor Walter Eucken who even insisted on the introduction of what he called “perfect competition.” It banned the formation of monopolies and insisted on supervising the operations of large corporations to prevent them from resorting to unfair competition threatening the survival of small and medium-sized businesses. But if Erhard saw competition as the key to “prosperity for all”, as he entitled one of his books, his notion of a modern market economy also contained an explicit “social” element. When he became economics minister of the Federal Republic in 1949, there were hundreds of thousands of war widows, orphans, refugees and expellees and people who had been bombed out. They could not simply be exposed to the harsh winds of capitalist competition; they had to be provided with a safety net of social security benefits and state pensions to keep them from falling into abject poverty and, in the age of universal suffrage, from becoming victims of radical parties on the left and right, as had happened during the desperate years of the early 1930s. So, while there were strong reasons for building a competitive economy, the “social” was also an integral part of Erhard’s *Soziale Marktwirtschaft*.

Source

[...]

It isn’t as if we had had any choice. What we had to do in this situation was to loosen the shackles. We had to be prepared to restore basic moral principles and to start with a purge of the economy of our society.

We have done more, by turning from a State-controlled economy to a market economy, than merely introduce economic measures. We have laid new foundations for our social and economic life. We had to abjure all intolerance which, from a spiritual lack of freedom, leads to tyranny and totalitarianism. We had to strive for an order which by voluntary regrouping and a sense of responsibility would lead to a sensible organic whole.

[...]

Source of original German text: Ludwig Erhard, *Wohlstand für alle*. Düsseldorf: Econ-Verlag, 1957, p.

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