# Economic Miracle in West Germany

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## Germany and World War II

After losing World War II, which lasted from 1939 to 1945, Germany suffered great losses. The Yalta Conference resulted in Germany dividing into zones. West Germany was under the control of the United States, Britain and France. The former Soviet Union had control over East Germany. Various policies were carried out in the four zones. The policies carried out in West Germany proved to be the most successful. Today, Germany is able to maintain their status of having the fourth highest gross domestic product per capita in the world. Those who analyze West Germany's history after World War II say that it is a miracle the country recovered. However, economists know that it was actually the effective application of economic concepts, models, and theories that led to West Germany's economic recovery.

## Microeconomics

### *Firms and Markets*

Germany's firms and markets played a crucial role in its economic success. As the country began to reconstruct its economy, big businesses formed corporate alliances with American companies to extend their business activities. American companies used horizontal integration as a means of establishing control of German companies. German companies were unable to operate on their own because of the devastating effects of the war, resulting in corporate concentration. Most of Germany's labour and money was invested in manufacturing firms, such as those in the automotive industry and war machine industry, making them essential to the country's post-war recovery. The start-up of small businesses was also encouraged and essential to maintain competition in the German market. Germany's economic conditions were weak by the end of World War II due to trade-offs that led to poor political leadership and the failure for the government to reconstruct their economy. After the war, drastic changes were made to the role of the government in attempt to improve the economy. Producers, who were stakeholders during the war, were forced to make production decisions. These decisions ultimately determined the fate of the German economy, as Germany began focusing on industrial production and exporting goods. After the war, due to a scarcity of resources, consumers were forced to make choices regarding their spending habits. Germany's involvement in World War II resulted in non-monetary costs relating to their reputation, time, and population.

### *Government and Global Interdependence*

The Marshall Plan effectively created demand for, infrastructure, education and rebuilding the German economy. Competition was not needed to be regulated because all bodies we determined to rebuild the economy. Therefore, the large force of unemployed individuals was willing to take on any job. Ten years after World War II, Germany joined The North Atlantic Treaty (NATO) alliance, which helped structured West Germany. The common goal among the members in the NATO alliance was to provide security against the Soviet Union.

## RESOURCES

http://www.econlib.org/library/Enc/GermanEconomicMiracle.html

https://www.investopedia.com/articles/economics/09/german-economic-miracle.asp#ixzz50OcHlKZ3

https://www.britannica.com/place/Germany/The-era-of-partition

http://coldwarsites.net/country/germany

## TOPICS TO COVER

- Currency reform (What led to it and what came from it)
- Ludwig Erhard & Decontrol of prices
- Impact of Hitler's price controls and its removal
- Marshall Plan & Foreign aid
- Which business/industries profited the most
- Spilt between East and West Germany
- Unification of Germany & Disarmament
- GATT trade agreement
- International security

The alliance created a consensus between the United States, Canada, and many Western European Nations. After World War II, West Germany was forced to agree with the alliance in order to keep its military expansion for the purposes of security and defense. The NATO alliance is one of West Germany's last signatories after World War II. Overall, military spending benefited people living in Germany prior to the war, as unemployment decreased, production rates doubled and the military expanded.

International trade relations can be used to describe the economic recovery that Germany established the decade after World War II. Before World War II, international trade remained unregulated. The involvement of twenty-three nations resulted in The General Agreement on Tariffs and Trade (GATT) that was established on January 1, 1948. The treaty was created to regulate world trade in attempt to recover economically. The main objective was to remove barriers blocking international trade by reducing the tariffs, quotas and subsidies placed on gross domestic products. The GATT was designed for multiple purposes: to guide nations to participate in international business, to reduce tariffs and barriers to expand multilateral trade, to protect the benefits of developing countries in the process of international trade, and to take position as "court for international trade" by providing a platform to resolve international disputes. It established guidelines that were to be followed by multinational companies that were engaged in importing and exporting. Each nation involved in the treaty was to open its markets to every other member nation, without any bias. Within five years, the major Western European countries were integrated to further reduce the tariffs. The GATT permitted economies to take advantage of specialization and take on competitive advantage, which had caused Germany to expand rapidly and efficiently.

## Macroeconomics

*Unemployment Levels*

Between 1950 and 1962, a total of 3.6 million refugees from East Germany entered West Germany. On average, this labour pool was well trained and highly mobile. The agriculture industry benefited the most from this labour pool, as this sector did not put an increasing pressure on wages. West Germany devoted a smaller proportion of GDP to training and education. The average annual unemployment rate in West Germany declined almost continuously over the fifties, from a peak above 10 percent in 1950 down to almost 1 percent in 1960.

*West Germany's GDP*

After 1945, West Germany became an occupation zone. There was a sharp increase in GDP. During the time frame of the late 1970s to the early 1990s, the GDP per capita remained 40 percent higher than the pre-1914 trends.

In West Germany, trade expansion drove growth, and this led to expanded social insurance programs and real wage levels. These factors allowed inflation to stay low, even as output expanded rapidly. All these factors provided an extra 1.5 to 2.0 percent of annual productivity growth to West Germany's economy.

*Consumer Price Index (CPI)*

Between 1932 and 1938, the compounded CPI increased annually by 0.7 percent, a small increase in comparison to the rising levels of GDP. The reason that the CPI was not relatively as high was because of the price controls placed on goods and services, so that there would not be a general rise in prices and inflation. This remained the case until July 1948, when price controls were removed in West Germany. Starting from 1950, the CPI increased rapidly.

### Questions to Think About:

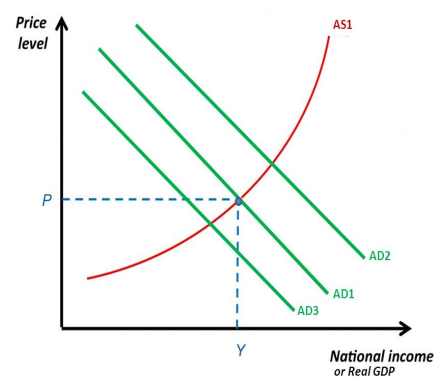
- Would West Germany's recovery have been possible without foreign aid?
- Why was East Germany unable to recovery at the same speed as West Germany?
- How did firms, the government, and other countries (U.S., Britain, Russia, and France) influence West Germany's progress?
- Do you think Germany would have the same economic status they have today if Germany was not split and in the control of other nations after World War II?
- What were some effective strategies used to help West Germany recover? Could any of these strategies be implemented into the Canadian economy?

*Germany's Business Cycle*

Although the country experienced many periods of recession and expansion, there was a steady upward growth trend, following the trend line. This long-term growth trend ultimately led to the peak period of economic growth in West Germany. After World War I, annual payments of reparations from the Allied Reparations Committee and the reorganization of the German State Bank helped stabilize the currency and economy. This recovery was interrupted with the start of the Great Depression and World War II, which caused massive destruction to the economy and brought Germany back into a recession. After World War II, high levels of GDP and low levels of unemployment led to rapid economic growth in West Germany in the 1950s.

*Aggregate Supply & Demand Models*

In 1923, there was inflation, causing AD 1 to shift to AD2. After 1924, as inflation was brought under control, AD2 shifted closer to AD1. In 1929, the Great Depression shifted aggregate demand to AD3. This is because in the late 1930s, price controls food rationing was introduced. This led to a decrease in consumption. Also, Germany's exports were very low. In 1950, unemployment levels started to decrease. However, West Germany was able to recover from this after the war. From 1961 to 1973, unemployment was very low, so foreign workers were recruited. This shifted AD3 to AD1, where full employment was almost reached.




## CASE CONFERENCE

Conditions of Germany during and after World War II make it clear that it seemed impossible for the country to recover economically. However, it is evident that West Germany was able to do so in an effective time period. How can the economic concepts learned throughout the course explain this recovery?

*Works Cited:*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3. "GDP Per Capital 1870-1994." Digital image. Accessed November 7, 2017. http://www.j-bradford-delong.net/Graphics/image66.gif.
4. T. (n.d.). Germany Consumer Price Index (CPI) 1950-2017 | Data | Chart | Calendar. Retrieved December 5, 2017, from https://tradingeconomics.com/germany/consumer-price-index-cpi