

The German Economic Miracle, Then and Now

di Barry Eichengreen

Why did Germany, defeated in both World War I and WWII, recover so strongly after the latter, but not after the former? Two new books suggest that conventional accounts of the Wirtschaftswunder – West Germany’s miraculous economic ascent after WWII – get it wrong.

BERKELEY – Postwar Germany has appeared to the world as a model democracy and economy for fully seven decades. From the first postwar chancellor, Konrad Adenauer, through Willy Brandt, Helmut Schmidt, Helmut Kohl, and the 16 years of [Angela Merkel](#)’s leadership, Germany’s postwar political and economic stability appeared rock-solid, so much so that the Federal Republic could readily absorb the decrepit communist economy of East Germany within a year of the fall of the Berlin Wall.

No doubt, there were bumps along the way in the decades following World War II, from the Red Army Faction/Baader-Meinhof terrorism of the 1970s to the inflation and stagflation that followed the oil price shocks of that same decade. For the most part, however, Germany’s economy grew steadily and inclusively, led by world-beating manufacturing exports.

But now Germany is firmly in the grip of malaise. The country’s export-led economic model has been unable to cope with its loss of competitiveness to China, and resentment of immigration has reached its highest level in the postwar years following Merkel’s decision in 2015 to open the country’s borders to over a million migrants. Germany, like much of the West, is experiencing a rising far-right populist tide, with Alternative für Deutschland questioning the fundamental assumptions and norms of political behavior that have governed Germany since the Federal Republic’s founding in 1949.¹

The Miracle Workers

To understand how we got here, it helps to go back to the beginning. Conventional accounts of the *Wirtschaftswunder* – West Germany’s miraculous economic ascent after WWII – locate its origins in the Ludwig Erhard-engineered currency reform and the George Marshall-inspired European Recovery Program, both introduced in 1948. The Marshall Plan, as the ERP was informally known, was signed into law on April 3, 1948, by US President Harry Truman. Disbursements began immediately, with initial aid shipments reaching Germany in early July.

In exchange for receiving Marshall Plan aid, the German authorities were required to balance the budget, contain inflation, dismantle rationing, remove wage and price controls, encourage private enterprise, and liberalize trade. In effect, they were asked to implement what came to be known a half-century later as the “Washington Consensus.”

A key element was Erhard’s currency reform, inaugurated midway between Truman’s signing of the ERP and the arrival of the first aid shipments. On June 20, 1948, the Deutsche Mark replaced the Reichsmark as legal tender in the Bizone, the western zone of occupation administered jointly by US and British forces. The monetary overhang that fueled inflation on the black market and created shortages in the controlled economy was removed by converting Reichsmarks into Deutsche Marks at a rate of [roughly ten to one](#).

Erhard, as the highest German economic official working under the occupation authorities, administered the introduction of the Deutsche Mark. One day later, acting on his own authority, he unilaterally abolished most price controls and rationing.

Eliminating the monetary overhang, together with fiscal retrenchment and the removal of price controls, led to the miraculous reappearance of goods on previously barren store shelves. Farmers now had real money with which to buy equipment and fertilizer, much of which was provided by the United States through the Marshall Plan. The prospect of real revenues encouraged them to bring produce to market, alleviating food shortages. Exchange-rate stabilization enabled firms to export while also selling at home, leading them to hire, invest, and ramp up production.

The rest is history, or so say triumphal accounts of the *Wirtschaftswunder*. Over the subsequent quarter-century, West Germany grew by an unprecedented 6% per year. By 1973 the Federal Republic of Germany had become the world's third-largest economy. Two new books by Carl-Ludwig Holtfrerich, a former professor of economics at the Free University of Berlin, and Tobias Straumann, a professor of economics at the University of Zurich, push back against this conventional account. Holtfrerich insists that Erhard actually played no role in designing the currency reform, despite having claimed credit for it for the remainder of his political career. (The author might have argued similarly that George Marshall had little to do with the design of the Marshall Plan. When asked why it was not called the Truman Plan, the president replied, "Anything going up [to Capitol Hill] bearing my name will quiver a couple of times, turn belly up, and die. I've decided to give the whole thing to General Marshall.") Straumann, for his part, argues that German economic recovery was far from secure following the reforms of 1948. West Germany's economic miracle would not have endured without the 1953 London Debt Agreement, which eliminated all possibility that the country would be saddled with massive reparation obligations to its wartime enemies, as happened after World War I.

The London Debt Agreement was the culmination of several years of negotiations between a German delegation headed by Hermann Josef Abs, a senior Deutsche Bank official, and 20 creditor countries, of which the US, the United Kingdom, and France carried the most weight. In explaining the outcome and why it was so different from debt and reparations negotiations after WWI, Straumann posits a straightforward "lessons of history" hypothesis. Negotiators on all sides drew a straight line from the economically crushing and politically humiliating reparations burden imposed on Germany in 1921 to the downfall of the Weimar Republic and the rise of Adolf Hitler and the Nazi Party. After WWII, they understandably sought, at all costs, to avoid a similar sequence of events.

Memories of Reparations

Historical lessons were drawn, to be sure, but the full story is more complex, as Straumann eventually acknowledges. The influence of the Cold War was critically important in the 1950s and created an imperative for economic recovery that was

absent among the victors in the aftermath of WWI. With the Soviet Union threatening Western Europe, it was urgent to get the West German economy, Europe's most important source of capital goods, running on all cylinders. This meant not overburdening Germany with reparations, but it also presupposed normalizing the Federal Republic's financial relations with the rest of the world, so that German firms could borrow abroad and export without fear that their goods would be garnished.

Under the London Debt Agreement, the new West German government committed to service and repay Reich and Weimar-era foreign borrowings and post-WWII loans from Western governments, but not Nazi-era war debts and occupation costs. All reparations obligations were put off until that far-distant day when the two Germanys might be reunified.

Another important difference from the aftermath of WWI, not unrelated to the first, was European integration. Proceeding in parallel with debt negotiations, the French government, with leadership from Foreign Minister Robert Schuman, launched a scheme for joint control of French and German heavy industry, what became the European Coal and Steel Community. The Soviet threat highlighted the need to return the operation of Western Europe's heavy industry, and specifically German heavy industry, to full capacity. But this required assurance that Germany's industrial might would not again be used to threaten France and other neighbors.

The Coal and Steel Community served this purpose. It is hard to imagine that the Community could have been successfully launched absent progress on the debt front. In an aside, Straumann describes how the French plan was sprung on UK Foreign Minister Ernest Bevin and other British officials, whose startled reaction was strongly negative, presaging an enduring ambivalence about what became of the European Community and then the European Union.

Finally, the London Debt Agreement enabled the new German government to begin normalizing relations with Israel, despite the horrors of the Holocaust. Without it, the Federal Republic would not have had the resources and political will to send DM3 billion worth of German goods to the Jewish State, or to pay for Israel's desperately needed imports from Britain's oil companies.

The Deutsche Mark's Real Father

Whereas Straumann's book is a political narrative, Holtfrerich's is a biography, the subject of which, Edward Tenenbaum, was the real author of the currency reform. Holtfrerich's account starts with the immigration of Tenenbaum's Jewish parents from Polish Galicia, his childhood in New York, and his education at the International School of Geneva and Yale. An interesting parallel, not drawn by the author, is with Harry Dexter White, architect of the Bretton Woods system, another component of the monetary system that supported the *Wirtschaftswunder*, extending to the emigration of White's Jewish parents from Lithuania, his childhood in Boston, and his higher education at Stanford and Harvard.

Tenenbaum served as an intelligence officer in the Twelfth Army Group during World War II, and in the Office of Military Government, United States (OMGUS), which administered the American occupation zone. After being discharged in 1946, he continued to work as a civilian adviser to OMGUS, and it was in this capacity that he designed the currency reform.

In Army intelligence and then at OMGUS, Tenenbaum worked closely with a more senior economic expert, Charles Kindleberger, subsequently an accomplished professor of international economics and economic history at MIT. Kindleberger's appearance in the book is more than incidental. Holtfrerich describes how, during an academic sabbatical in Cambridge, Massachusetts, in 1975-76 – that is, fully a half-century ago – he learned from Kindleberger of Tenenbaum's role in the currency reform, thereby planting the seeds for the present book. He reveals how Kindleberger withheld, presumably out of kindness, the fact that he had for a time been in charge of selecting targets for America's wartime strategic bombing campaign, as a result of which Holtfrerich's father lost his life in 1944.

As for why Erhard rather than Tenenbaum received – and continues to receive – popular credit for the currency reform, Holtfrerich offers three explanations. First, Tenenbaum was remarkably self-effacing, for reasons that elude even his biographer. When confronted with the fact that Erhard was stealing his thunder, Tenenbaum is said to have casually replied, "Who cares who gets the credit?"

Second, Erhard, in contrast to Tenenbaum, was unrelenting in his self-promotion. Such is the difference between economists and politicians, it is tempting (if self-serving) to say. Erhard was also chameleon-like, able to successfully bend his policy posture to the prevailing winds. Before and during the war, he had been an advocate of strong state direction of the economy. With the advent of the Marshall Plan, he became a champion of sound money, private enterprise, and competition.

Third, postwar West Germany was desperately in need of a positive self-image, given the Third Reich's horrific actions and the guilt bequeathed by acknowledgment of that history. It was desperately in need of leaders, even heroes. The idea of a home-grown currency reform led by a German fit the bill.

Today's Germany reflects the legacy of the postwar *Wirtschaftswunder*: rich, democratic, and firmly anchored in Europe. But nothing is guaranteed forever. To preserve the gains made over the postwar decades, Germany once again needs an economic overhaul and political leaders who are equal to the task.

- *Carl-Ludwig Holtfrerich*, [Edward A. Tenenbaum and the Deutschmark: How an American Jew Became the Father of Germany's Postwar Economic Revival](#), *Cambridge University Press*, 2024.
Tobias Straumann, [Out of Hitler's Shadow: Debt, Guilt, and the German Economic Miracle](#), *Oxford University Press*, 2025.