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70 Years "Social Market Economy":

The Irony of History

Ludwig Erhard's program can certainly be described as neoliberal. After a general strike, he did everything he could to sell it as social.

The "social market economy" is the central founding myth of the Federal Republic of Germany - and to this day the guiding principle of German economic policy. In political speeches, in teaching materials and newspaper articles, in TV documentaries and in an ever-growing pile of books, commemorative publications and specialist essays, this economic constitution is invoked and painted.

In the coming months, there will again be many opportunities to hone the myth of the "social market economy," because several anniversaries are coming up: 70 years ago, the Grundgesetz was created, the Bundesrepublik Deutschland was founded and the first Bundestag election was held. The following story is always varied: "Ludwig Erhard introduced the 'social market economy' and thus made prosperity possible for everyone."

This heroic story can be told so brilliantly and without contradiction because today, almost without exception, all parties and unions profess their support for the "social market economy" and do not question Ludwig Erhard's merits.

The "social market economy" enjoys general popularity, partly because it is often believed to mean social policy. However, this is a fundamental misunderstanding: Ludwig Erhard's program can certainly be described as neoliberal. With him, the market was always right. The idea was that competition would lead to low prices, from which the customer would then benefit. Or as Ludwig Erhard put it, "I mean that the market is social in itself, not that it has to be made social." Social policy has no place in this understanding.

Myth about the creation of the "economic miracle"

Moreover, the narrative that Ludwig Erhard gave "us" the "social market economy" is also false. This legend always begins with the currency reform in June 1948, when the DM (Deutsche Mark) was introduced. At that time, Erhard would have established the West German "economic miracle" through an "economic reform."

The currency reform itself was not a West German invention but was conceived and implemented by the Allies. To eliminate the money surplus from World War II, financial assets were devalued by 93.5 percent. Thus, for 10 Reichsmarks there was only 0.65 D-Mark. Suddenly, savers were largely expropriated, while owners of assets such as real estate or companies hardly suffered any losses.

Ludwig Erhard was the economic director of the Bizone at the time and explicitly pursued a policy of "free market economy." He exacerbated the situation with his "economic reform" by exempting almost

all major commodities from management and freeing up prices. Only rents, energy, transportation and basic foodstuffs continued to be regulated by the state.

There were still enormous shortages in West Germany at the time, so there was – unsurprisingly – a sharp rise in prices. Although goods were now openly displayed in shop windows, they were mostly unaffordable for the "normal consumer". This was because the wage freeze from the Third Reich continued to apply and was not lifted until November.

General strike in 1948: The market did not regulate things on its own

Erhard responded with the neoliberal mantra that prices would "level off" over time. They did not. In the first twenty days after the currency reform, the prices of shoes and basic foodstuffs rose by 50 to 200 percent, and the situation did not improve until the turn of the year.

Resentment quickly arose. Market stalls were looted, and housewives "socialized" eggs, which were in particularly high demand. Large "buying strikes" were carried out to persuade traders to reduce prices, and protest demonstrations took place in almost every city.

A watershed was October 28, 1948, when 80,000 people took to the streets in Stuttgart – and subsequently a few thousand demonstrators destroyed luxury stores and physically assaulted police officers. German and American police battalions used tear gas, bayonets and armored vehicles to bring the angry crowd under control.

Finally, on November 12, 1948, the last general strike in Germany to date took place: More than 9 million people stopped work – a turnout of almost 80 percent – although only 4 million belonged to a union and there was no strike pay. 9 million gave up their meager incomes so that economic director Erhard would finally understand that his "free market" policy had failed.

"Social market economy" as a term against Erhard

It was this political turmoil that caused those responsible to say goodbye to the "free market economy" in terms of economic policy and discourse: Erhard and other CDU officials pulled the emergency brake in a panic. Price controls were reintroduced through various back doors. The "Everyman Program" was particularly successful, bringing shoes and clothes of standardized quality to customers at predetermined low prices. At the beginning of 1949, more than half of the goods again crossed the counter at fixed prices; Erhard's "free market economy" had thus been abandoned for the time being.

It was at this moment that the term "social market economy" first appeared in public. Part of the irony of history is that the demand for a "social market economy" in the fall of 1948 was directed against Erhard and his agenda. For with this slogan, the SPD, the trade unions and the social committees of the CDU demanded a clear change of course and a socially oriented economic policy.

For the CDU, Hermann Pünder finally saved the term. Pünder, completely unknown today, was the highest German official in the Western zones at the time and thus Erhard's superior. Pressured by the general strike, he claimed in Parliament on November 10, 1948, that the government would "not create and operate a free market economy, but only a social market economy" - and had allegedly always done so. Pünder then presented a corresponding brochure, programmatically called "Our Social Market Economy," and promoted this new political watchword within the CDU.

Brazen appropriation of the term

Forced to do so by the balance of power on the street and in the CDU, Erhard finally also reluctantly switched to the "social market economy." In February 1949, the CDU discussed its position for the first election campaign in the coming Federal Republic in Königswinter. Ludwig Erhard also gave a speech in which he first reflected on the concept of a "social market economy." But he did not change his actual conviction on this occasion. Again, he asserted, "Only the market economy is social."

Then Johannes Albers, a representative of the CDU's workers' wing, quickly intervened crying "Social!" It was thanks to this intervention that, after Erhard's speech, Chairman Konrad Adenauer proclaimed "social market economy" as the guideline rather than the adjectiveless "market economy." As a result, it was officially decided to focus the election campaign on the striking formula "social market economy or bureaucratic planned economy."

The result was the "Düsseldorf Guidelines," published on July 15, 1949, which served the CDU as preparation for the federal election in August 1949. The fact that the CDU made the "social market economy" its program cannot be understood, however, without the social uprisings, the numerous strikes and Albers' heckling.

Ludwig Erhard, meanwhile, proved to be highly flexible. As early as June 2, 1949, he stated – contrary to the facts but with full conviction – that he alone had "coined the term 'social market economy'". In the years that followed, opponents and supporters alike adopted his brazen interpretation of events. In 1957, Erhard's view was once again considerably popularized by the bestseller "Prosperity for All" and finally became the founding myth of the Federal Republic.

The economic policy superstar

As a guiding principle, the "social market economy" is now even enshrined in the Lisbon Treaty and thus in Europe. However, the struggles that played such a decisive role in the emergence of the "social market economy" have been forgotten.

All that remains is the myth of Erhard as an economic policy superstar and the legend that his market-liberal price liberalization triggered the "economic miracle". As long as these false narratives are believed, the neoliberals in Germany and Europe will probably have an easy time of it.