

Ludwig Erhard: A Biography. *By Alfred C. Mierzejewski*. Chapel Hill: University of North Carolina Press, 2004. xv + 278 pp. Index, notes, bibliography, illustrations, photographs. Cloth, \$49.95. ISBN: 0-807-82863-7.

Reviewed by James C. Van Hook

Alfred C. Mierzejewski, author of well received books on the Nazi war economy and the German Reichsbahn, has written a helpful, and much needed, biography of West Germany's famous postwar economics minister and second chancellor, Ludwig Erhard. Based on a vast array of primary and secondary sources, Mierzejewski provides a sound introduction to postwar West German political economy and history that will be of great use to business historians and the wider public. In the process, he offers a resounding endorsement of Erhard.

In 1948, Erhard introduced what became known as the social market economy. The social market economy replaced the Nazi-era command economy with a competitive free-market system. Whereas the word "social" did to some extent connote a liberal market bounded by a social safety net, the term "social market economy" actually involved an attempt to redefine "social" in order to emphasize the inherent social benefits of a truly competitive market economy after decades of a highly organized, cartelized, and fundamentally anticompetitive industrial culture. To Mierzejewski, the social market economy represented a "third way" between traditional capitalism and collectivism, because Erhard understood the need for the state to foster a free market system through policies that encouraged competition.

In contrast to much of the prevailing literature on Erhard, Mierzejewski takes the ideas that informed the social-market economy seriously and locates Erhard's encounter with them in three sources. First, Erhard had a quintessentially *klein-buergerlich* outlook. His family's small-business background in Fuerth, Bavaria, far away from the great industries of the Ruhr industrial basin, made Erhard naturally averse to the growing organization of the German economy during the initial decades of the twentieth century. His unconventional education as a research economist following World War I, both at the Nuremberg Business School under Wilhelm Rieger and at the University of Frankfurt

under the renowned Franz Oppenheimer, nurtured in Erhard a strong, though pragmatic, allegiance to a market economy organized around an individualist ethic. Finally, his position as a prominent researcher at the Institute for Economic Observation of the German Finished Goods Industry during the 1930s and early 1940s made him a prominent expert on the German consumer-goods industry. Erhard would later deliberately favor consumer goods over industrial goods. In other words, though Erhard was not himself a member of the so-called neoliberal school of economists, such as Walter Eucken, Wihlem Roepke, Franz Boehm, or Alfred Mueller-Armack, economists who are usually credited with developing the ideas of the social market economy, Mierzejewski argues that Erhard had imbibed many of the same ideas through his own personal and scholarly experiences.

To Mierzejewski, Erhard's greatest achievement was the liberalization of prices to coincide with the currency reform in June 1948. At war's end, the Allies decided to maintain Nazi economic controls in order to allocate scarce goods as equitably and efficiently as possible. Gradually, the massive deficit financing of the Nazis resulted in a monetary overhang that spawned a considerable black market and inhibited economic recovery. The German social democrats (SPD), dominant in the western zones until about 1947, advocated a reform, though not an abandonment, of controls through the creation of an "economic democracy." Only Erhard and his small band of supporters, first through an advisory board attached to the occupation finance ministry and then in the economics ministry itself, argued that a currency reform could only work if the free market were to allow prices to fall. Sound economic policy triumphed.

Erhard's long decline began almost immediately after this great success in 1948. Mierzejewski argues that, particularly under the influence of chancellor Konrad Adenauer, political considerations took precedence over sound economics. "Adenauer was more interested in gaining and retaining political power than in the theoretical purity of economic policy" (p. 83). Erhard failed to persuade Adenauer and important parts of the Christian Democratic Union to support a strong anticartel law that would have represented a dramatic break from Germany's highly organized industrial past. Instead, Adenauer permitted the leading business associations to insert so many exemptions into the law passed in 1957 as to render it less than effective. Adenauer's political priorities

were evident that same year, 1957, when he pushed through Germany's present pay-as-you-go pension system over Erhard's objections. Finally, and most critically for Erhard and Adenauer's relationship, the two men clashed over Adenauer's emphasis on European integration. Though supportive of international economic integration in principle, Erhard opposed the form European integration took, culminating in the creation of the European Economic Community in 1957, because he considered it a vehicle for France to protect, and even export, its statist economic planning system. He preferred strengthening links to the British and Americans. Adenauer, who prized Franco-German rapprochement above all else, would have none of it. It was this fundamental inability to agree on European policy that drove Adenauer to oppose Erhard's candidacy for the chancellorship in 1963, and, having failed at that, to undermine Erhard as chancellor until the latter's downfall in 1966.

Erhard's unhappy experience as chancellor was marred by both diplomatic and economic problems. He was unable to continue Adenauer's extremely close relations with President De Gaulle and the French. He preferred to reinforce ties to the United States but found that President Johnson did not take him seriously. At home, according to Mierzejewski, Adenauer's steady expansion of social services and the government's role in the economy produced a recession, which Erhard was unable to overcome. Though he himself considered the economic problems rather mild, he feared the ability of special interests to undermine the free-market economic system he had created. He responded by proposing a "formed society," designed to empower citizens against special interests. In the face of declining political support, Erhard resigned in 1966.

Mierzejewski's book will be essential reading for anyone interested in postwar West German economic and business history. Some may argue with his suggestion that Erhard's declining success after 1948 was a function of his opponent's inability to understand sound economic theory, and they may find fault particularly with his treatment of Adenauer's focus on European integration. Such an approach can obscure the extraordinarily rich and complex debates over the appropriate political and economic policy responses to the legacy of Nazism that animated postwar Germans during Erhard's ascendancy. Having said that, Mierzejewski's account represents an important corrective to a literature that is often overly critical of Erhard and the social market economy.

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