

Water in the desert? The influence of Wilhelm Röpke on Ludwig Erhard and the social market economy

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Abstract It is commonly believed that Wilhelm Röpke heavily influenced Ludwig Erhard and, through him, West Germany's social market economy. This article demonstrates that Röpke's influence on Erhard was limited. Although the two men shared many common ideals, they also differed on many fundamental issues. Moreover, Erhard developed his ideas before he read Röpke's wartime trilogy.

Keywords Social market economy · Ludwig Erhard · Wilhelm Röpke · West Germany.

JEL classification B25, B31, B53.

1. Introduction

In a talk given on 10 October 1959, Ludwig Erhard recounted how he had illegally obtained the books of Wilhelm Röpke during World War II. He described how, "I soaked them up like the desert absorbs life giving water" (Erhard, 1959: 12). Although Erhard was given to exaggeration and florid expression, he was sincere in this testament to Röpke's importance to him. Erhard repeated his sentiments both publicly and privately, referring to Röpke as his "spiritual brother" and stressing his "complete agreement" with Röpke's ideas.¹ From these striking assertions, it is an easy step to claim that the conservative Röpke exerted a decisive influence on Erhard's economic policies. Röpke's most recent biographer, John Zmirak, goes so far as to claim that

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¹Erhard to Röpke, Bonn, 22 May 1950, Ludwig-Erhard-Stiftung, Nachlaß Erhard (hereafter cited as LES NE with appropriate file number) I 4)59, Erhard to Röpke, Bonn, 7 October 1959, LES NE I 4)59; Erhard to Röpke, Bonn, 23 Feb 1963, LES NE I 4)59.

“In the darkest hours of Hitler’s war, Erhard. . . schooled himself in market economics by reading Röpke’s works” (2001: 5–6).²

Given Erhard’s clear and repeated expressions of admiration for Röpke and his ideas, it would seem difficult to question Röpke’s influence on him. However, some very prominent, well-informed scholars have done just that. Anthony J. Nicholls, author of an excellent study of the origins of the social market economy and an examination of the sources of Erhard’s ideas contends that Erhard was not a member of any school of thought (1990, 1994). Volker Berghahn, who has also written about the origins of Erhard’s ideas and the post-war West German economy concluded that it is unlikely that Erhard considered himself the executor of Röpke’s ideas. Berghahn argues that Röpke’s wartime publications confirmed Erhard in ideas that he had already developed on his own (1984: 184, 188–9; 1986: 158). Horst-Friedrich Wünsche, who wrote an extensive study of Erhard’s thought, also doubts that Erhard derived his views from Röpke (1986: 21). Finally, Alfred Müller-Armack, an economist who worked closely with Erhard for many years in the federal ministry of economics and who maintained his friendship with Erhard after he left office, also thought that Erhard had developed his ideas on his own (1972: 475).

The purpose of this paper is to evaluate the claims of the two sides of the controversy. It will examine Röpke’s ideas and determine whether Erhard actually held the same views, and look briefly at Erhard’s economic education. It will suggest that Erhard agreed with Röpke on many economic issues, though not on all, and that Erhard disagreed with him on most moral and philosophical matters. It will also show that Erhard did not seek Röpke’s advice before making decisions and that Röpke occupied a distinctly subordinate position in the friendly but distant relationship that developed between the two men. It suggests, that, indeed, Erhard developed his own ideas.

2. Wilhelm Röpke’s ideas

Wilhelm Röpke was born the son of a doctor in Schwarmstedt near Hanover in 1899. He served in the First World War on the western front and was appalled by what he saw. He emerged from the experience as a socialist, hoping to change German society in a fundamental way. But, after reading Ludwig von Mises (1919) *Nation, State and Economy* while pursuing a degree in economics at the Philipps-Universität in Marburg, he became an advocate of free markets. After serving in a number of junior academic posts, he became a professor of economics at Marburg. In 1933, because he opposed the Nazi regime, he left Germany, taking up a position at the University of Istanbul in Turkey. In 1937, he moved to the Institute for International Studies in Geneva, where he remained until he died in 1966.³ During World War II, Röpke wrote a trilogy consisting of the *Social Crisis of Our Time* (1942), the *Moral Foundations of Civil Society* (1944) and *Internationale Ordnung* (1945) in which he moved beyond

² Ritenour (1999: 207) makes a similar claim.

³ For basic biographical information on Röpke see the Zmirak (2001), Boarman (2000: 31-67) and Ritenour (1999: 205-7).

economics and assumed the position of moral philosopher and cultural critic.⁴ These were the three books that Erhard read during the war (1986: 111)⁵

In his trilogy, and in a widely available text on economics first published in 1931, Röpke started with the assertion that economic activity was not an end in itself. He wrote that "... we produce in order to consume, and do not consume in order to produce" (1992: 126). For Röpke, economic activity was only a means necessary to serve higher moral and cultural goals.⁶ Röpke also stressed that the central point of society was the individual, a concept that he summarized by using the term "personality" (1992: 21–23, 1996: 99, 117, 140). This concept, very much in the classical liberal tradition, and very much in opposition to the dominant Prussian idea that the group was more important than the individual, placed a high premium on personal freedom. However, Röpke hastened to point out that unlimited freedom would lead to disaster just as surely as government tyranny. Therefore, he advocated a "third way," what Nicholls calls "freedom with responsibility" (1996: 48). He hoped to achieve a balance between freedom and constraint, leading him to oppose both laissez-faire and collectivism. In doing so, he offered no criteria for differentiating between acceptable and unacceptable behavior by the individual.

Röpke advocated a competitive economy since experience taught that it was by far the best way to allocate resources. He was also convinced that there is a "natural tendency toward competition" among human beings that makes a competitive market economy an appropriate form of social organization (1992, 104–5, 1994: 166, 172). For this competitive market economy to operate, the price mechanism had to be allowed to perform its function as a transmitter of information. Consequently, government should not attempt to manipulate prices. Röpke reserved an especially important place for consumers in his economic universe. They were the ones who really controlled the allocation of resources through their purchasing decisions. Moreover, a strong consumer economy was among the best guarantees of political democracy (1994: 36–7).

Yet, Röpke was no supporter of unlimited market competition and the dismantling of government in the spirit of Ludwig von Mises and Friedrich von Hayek. On the contrary, he was convinced that the market was not applicable to all spheres of life and that even where it was appropriate it should be limited. Röpke had concluded that what he understood as the "Manchester" model had led to serious abuses and injustices. As he wrote, "It (competition) is a means of establishing order and exercising control in the narrow sphere of a market economy based on the division of labor, but not a principle on which a whole society can be built" (1992: 181). Consequently, competition should be harnessed to achieve specific social objectives. Similarly, if freedom were taken too far, if no limits were placed upon it, social existence would become impossible (1992: 31, 48–49, 118–119, 121, 181). Strong, aggressive individuals and interest groups

⁴ Die Gesellschaftskrisis der Gegenwart. 1. ed. (1942), 6. ed. (1979), English language edition *The Social Crisis of Our Time* (1992); *Civitas Humana* 1. ed. (1944), 4. edition. (1979), English translation *The Moral Foundations of Civil Society* (1996); *Internationale Ordnung - heute*. 1st ed. (1945), 3. ed. (1979). There is no English translation of the last title.

⁵ Erhard most likely had also read Röpke's *Die Lehre von der Wirtschaft* (1937) before the war. The English translation of this work is *Economics of a Free Society* (1994).

⁶ Röpke to Benedetto Croce, Geneva, 7 April 1943 in *Gegen die Brandung*, 69.

would prey upon the weak. As Röpke expressed it, “A social and economic system relying solely on freedom for its orderly existence, will succumb to disintegration and eventually to despotism” (1992: 42). He saw interest groups as a particularly dangerous threat to freedom. Röpke was critical of the increase in the number of interest groups and the expansion of their influence over the government. He stressed that interest groups ignored the common good in the pursuit of their own narrow ends (1996: 93). Consequently, limits had to be imposed on both the market and competition. A strong government should supervise the market and some social spheres should be excluded from it. Röpke was especially concerned that the agricultural sector and the housing market be spared the need to face the gale of market forces. Farmers lead a form of life that was worth preserving for cultural and moral reasons. Therefore, the government should intervene to protect them (1996: 205). The housing market, because it provided a basic necessity, should also be excluded from competition. Röpke reassured his readers that sparing the vast housing industry would not jeopardize the overall competitive economy. However, he thought that it should be protected only during the transition period immediately after the defeat of Nazi Germany. Once the economic system began to function normally again, it too should be freed (Röpke, 1950: 23, 61, 63–4). In other areas, Röpke was prepared to implement distinctly interventionist measures. He advocated progressive taxation both to enable the state to perform tasks that the market could not and to redistribute income. This would enable the state to assure equal opportunity, among other social goods (1950: 28). This proposal underscores Röpke’s conviction that social policy, i.e. government action to shape social outcomes, was fully compatible with a free competitive market. Röpke was convinced of the existence of market failure before that term was coined and that the state should compensate for it (1950: 28).

Röpke strongly condemned the abuse of market freedom by cartels and monopolies. He argued that cartels abridged consumer rights, exploited consumers, weakened competitive incentives in the economy, endangering the price mechanism, and reduced the quality and quantity of goods produced. They caused the misallocation of resources and created barriers to entry that prevented new, innovative companies from appearing. Cartels and monopolies made markets rigid, blocked or diverted capital flows and raised the cost of living. They also threatened individual freedom and the democratic system. Röpke advocated banning them using the American Sherman Act as a model (1950: 228–35; 1994: 168–173; 1996: 113–14). Beyond prohibiting cartels and monopolies, and breaking-up large, dominant firms, Röpke advocated government support for small and medium businesses, the traditional German “Mittelstand,” and for peasants (1996: 159, 169). On no firm economic grounds, Röpke proposed exceptions to the ban on cartels to allow business organizations to coordinate rationalization and specialization, research and the exchange of technical information (1994: 172). He also recognized the existence of natural monopolies and proposed that they be controlled by the government which would make them behave as if they faced competition. Moreover, he considered state enterprises as fully compatible with a free economy since they could be used to provide services that the competitive market would not. In the same vein, he supported continuation of the traditional German policy of regional planning or zoning (*Raumordnung*) under which the state determined what types of structures and activities could be located in particular places (1996: 30).

As indicated above, Röpke's system needed a strong state in order to function. In most cases, that state would not engage in economic activity itself, but would act as umpire in the free market. It would set rules and see that they were followed. This proposal was based on the argument that markets do not arise spontaneously and that they do not function automatically. They are "artificial creations" (1992: 52, 95–96, 181, 186; 1996: 28). The state should be strong enough to resist the demands of special interests and to enforce market rules. For moral reasons, it would also intervene in the market, primarily to protect the weak. Röpke proposed what he termed "conformable" intervention, which would not interfere with the market and especially the price mechanism, as opposed to non-conformable intervention, which would. Conformable, or as he sometimes called it "compatible" intervention included the regulation of the money supply and interest rates, controlling government expenditures through balancing the budget, pump priming, credit expansion and helping people adjust to the decline of old industries and the rise of new ones. Going beyond this, again for moral reasons, Röpke advocated "structural policy" in which the government would redistribute income to help disadvantaged groups, in effect revising market outcomes (1950: 22–25; 1996: 29–30, 220–21; 1992: 160; 1996: 29–30, 220–21).

While Röpke stressed the need for a strong government, he also understood the dangers of vesting too much power in it. He quoted approvingly the nineteenth century French economist and critic Frederic Bastiat that, "The state is the great fiction by which everybody wants to enrich himself at the expense of everybody else" (1992: 164). The abuse of state power, even for purportedly good ends, would eventually lead to collectivism, a situation that Röpke considered even worse than distortion of the market by monopolies and cartels. Röpke was convinced as early as 1950 that West Germany was approaching the point where its government could lapse into a collectivist tyranny (1950: 29; 1992: 24, 160; 1996: 2, 20, 93).

The solution that Röpke proposed for the problem of excessive state power was the transformation of Germany into a confederation. Röpke condemned the unified, centralized, Reich created by Bismarck in 1871 as the source of many of Germany's problems. Replacing this Reich with a decentralized confederation would go a long way, in his opinion, toward solving the problems of monopoly and excessively large companies. Critical to the success of this policy would be breaking the power of Prussia (Röpke, 1945: 201, 226). Röpke, perhaps drawing on his Hanoverian heritage, saw Prussia as the kernel of the German problem and the source of the disaster that overtook Germany in 1945. He considered the Nazi regime as only the logical outcome of the Prussian order that had been installed throughout Germany in 1871. The Prussian economic system, as he called it, featured interventionism, subventionism, the politicization of economic affairs, hierarchical organization and centralism, all developments that Röpke condemned. The solution was to eliminate East Elbian feudalism, break-up the big Ruhr coal and steel concerns, to end protectionism and, finally, to abolish the unified Reich. Röpke typified the concerns and cartels as steps on the throne and altar of Prussianism. In their place he would favor villages and small farms. Flowing logically from this analysis, Röpke concluded that German socialism, another of his bogies, had itself been shaped by the Prussian trust in the omnipotent government (Hahn: 210).

For similar reasons, Röpke was skeptical about the need for European political integration. He argued that economic integration based on free trade and the free

convertibility of currencies would make political union superfluous. This, in turn, would prevent the rise of a large centralized European bureaucracy, which would inevitably be anti-democratic and would exacerbate the problems of monopoly and protectionism. To prevent either national governments or a European bureaucracy from manipulating currencies, Röpke advocated a return to the gold standard (1979c: 30–31, 289–91, 293, 297, 306–315, 332, 334, 336; 1996: 229). Paralleling these measures, he also counseled governments to balance their budgets. Röpke considered other international institutions harmful as well. He condemned the International Monetary Fund as either dangerous or useless (1979c: 306). The Marshall Plan administration, in Röpke's estimation, followed thinly disguised socialist policies that fooled the Americans and harmed the Europeans. Similarly, he considered the Schuman Plan and the European Payments Union as socialist measures that would only hinder economic recovery (1950: 87–88, 91). Röpke was not impressed by the performance of West German politicians on this issue, including Erhard. In 1961, he characterized Charles de Gaulle, the president of France, as the real leader, the locomotive engineer, of European integration. Konrad Adenauer, the West German chancellor, was the fireman who occasionally criticized the process. Erhard, who was West German economics minister at the time, was the brakeman in the caboose who was trying to keep the sparks of free trade burning, but who had been on vacation when the critical switch had been thrown sending the European train toward the Common Market.⁷

Röpke also offered a wide-ranging cultural critique. His economic and cultural analyses were shaped by his admiration for the eighteenth century and for his adopted Swiss homeland. From these models, he drew the conclusion that smallness, decentralization, hierarchy and deference were essential to tolerable social existence (1979c: 83–84; 1992: 41, 116, 179). Röpke supported the Catholic concept of subsidiarity under which decisions should be made at the lowest possible level of a governmental or social organization. He favored the decentralization into small units of both government and industry. This would help to preserve the traditional culture of small peasant villages as bulwarks against big cities and big businesses. The peasants, close to the church, their families, and their occupations, were the backbone of a stable society (1992: 10–11, 90, 202–3; 1996: 90, 196; Hunold, 1959: 37). This village setting would promote traditional hierarchies based on competence and service which the people would revere and to which they would defer. Röpke considered this “perhaps the most fundamental element of every civilization” (1992: 10–1). In these villages, and in the small states that Röpke visualized, property ownership would be widely diffused. What Röpke had in mind in this regard was not stock ownership, for he disliked large joint stock companies, but title to small homes with gardens that would make their owners at least partially independent of both the government and the market. The villagers would engage in many forms of activity, exercise moderation in all that they did, and lead a tranquil, “natural and full existence near the sources of life” (1992: 202–3). Ironically, Röpke advocated state intervention to bring this situation about if necessary (1992: 227; 1996: 161–62).

Röpke condemned many of the most prominent features of modern industrial society. He damned big cities as a “pathological phenomenon” and a “monstrous

⁷ Röpke to Vogel, Geneva, 26 February 1961 in Eva Röpke (1976: 171).

abnormality” and detested gigantic factories, the appearance of a proletariat and the alienation of people from their work and families (1992: 146, 153, 155, 178; 1996: 161–62). Röpke rejected many of the characteristics of daily life in modern society such as its “speed and instability” and its materialism. Interestingly, foreshadowing a current line of criticism, he also condemned “world-wide interdependence” and the subjugation of the whole globe to a mechanical positivist civilization (1992: 13–15; 1996: 154). He also questioned whether continuous technological change was a good thing. He advocated applying the brakes to technological innovation and considering whether its price was too high to pay (1992: 13–15, 47). Indeed, he considered the division of labor itself, when taken too far, as a problem (1992: 47).

In line with his negative appraisal of modern materialist civilization, Röpke was particularly severe in his criticism of the United States. He recognized that Europe depended militarily on the United States for its survival, but he loathed the American economy and culture. He termed the United States a “country without craftsmen” (1979c: 82; 1992: 215, 222, 226). He contended that the United States had collectivized consumption, causing the disappearance of traditional ways. He thought that advertising distorted consumers’ judgment and therefore the society as a whole. For Röpke, the position of small business in particular was troubling, crushed as it was by large, mass production enterprises. Farmers had not been spared the nefarious effects of the American way, since they specialized to serve market demand. The overall result of these phenomena was an especially sick society (1992: 215, 222, 226). Logically, Röpke sympathized with Charles De Gaulle, who pursued a policy of Europe for the Europeans, excluding US influence.⁸

The internal contradictions, the twists and turns, the constant exceptions to basic principles in Röpke’s theoretical system are the result of his mode of thought. Röpke was an impressionistic, intuitive rather than strictly logical, rational thinker (Hentschel: 1996: 67). He relied on neither deductive nor inductive reasoning. Rather, he developed his ideas from his feelings, from his intuitive grasp of and love for a society that was fast slipping away. He had evolved a set of norms that he intuitively held were essential for a healthy society. His appeal to his readers, remarkably for an economist, was at the emotional, subconscious level. Indeed, one may typify it as anachronistic. It was the outgrowth of German Romanticism and *Lebensphilosophie* (life philosophy). The kernel Röpke’s and other German romantic liberals’ critique of modern society was their rejection of its excessive reliance on rationality (Hahn, 1993: 178, 180–81, 224; Hunold, 1959: 37). Röpke also drew on the deeply held adherence to the mean, a Medieval concept holding that excess in either direction would lead to disaster. Consequently, Röpke saw no contradiction in simultaneously advocating free markets and calling for exceptions to them, for their regulation and even for government enterprise. Similarly, this approach fit with the German, by no means exclusively Prussian, tradition of reliance on the state.

Since it was the product of a long tradition in German intellectual life, Röpke did not evolve his social analysis in reaction to the Nazi disaster that overtook Germany. Rather, he pieced it together as a result of his experiences at the front in World War I, the hyperinflation of the early 1920s, the Depression, and his education. Röpke stated

⁸ Röpke to Erhard, Cologny-Geneva, 1 April 1963, LES NE I 4)59.

clearly that the Nazi catastrophe could have been anticipated since one had only to see and hear the Nazis to perceive the danger that they posed to civilization. Remarkably, Röpke also blamed other European countries for not recognizing the Nazi threat soon enough, implying that they should have taken action to stop it. He went even further and claimed that the Germans were the first victims of Nazism. This assertion flowed logically from his contention that the Germans had contracted racism from the French. He rejected collective guilt and equating Nazis with Germans (1945: 18, 21, 30, 43, 66). Consequently, for Röpke, Nazism was merely the final result of a disease that had afflicted Germany and Europe since 1789. The cure that he proposed consisted of returning to values that antedated the rise of the Nazi movement and the French Revolution itself.

3. Erhard's ideas in relation to Röpke's

Erhard agreed with the basics of Röpke's economic prescription. He shared Röpke's emphasis on the individual, going so far as to use Röpke's expression "personality."⁹ Erhard also thought that economic activity served larger social and moral purposes (1988: 68). He accepted the need for free competitive markets, and shared Röpke's endorsement of the free price mechanism.¹⁰ Interestingly, Erhard also agreed that agriculture and housing, the latter only temporarily, should be spared from competition.¹¹ Furthermore, he accepted the argument that stable prices, a stable currency and a balanced budget were essential ingredients of a prosperous economy.¹² Erhard employed Röpke's concept of "conformable intervention," including the term itself (Schröder et al., 1972: 156). Like Röpke, he opposed collectivism and state planning (1988, 62–5; 74–5). However, like Röpke and other Ordoliberalists, Erhard advocated having a strong state that would act as an umpire in the economic process (1962: 23–27; 1977: 250–252, 264; 1988: 73–77).¹³ At the same time, he recognized that the state could be a threat to individual freedom and, therefore, called for limitations on its power.

⁹ Erhard speech to Wirtschaftsrat, 21 April 1948, p. 29, Bundesarchiv Koblenz (cited hereafter as BAK with appropriate file number) Z32/19, f. 69; also available in Ludwig-Erhard-Stiftung (1981: 41).

¹⁰ For Erhard's ideas on competitive markets see Erhard (1977: ix) also see "Kriegsfinanzierung und Schuldenkonsolidierung," March 1944, in Erhard (1988: 50). See also Erhard (1980: 57), "Wirtschaftliche Ordnung nicht durch Polizeigewalt," radio speech, 8 December 1945, in Ludwig-Erhard-Stiftung (1981: 854); Erhard speech to Wirtschaftsrat, 21 April 1948 in Ludwig-Erhard-Stiftung (1981: 40), and Erhard (1957: 7). For Erhard's views on the price mechanism see Erhard in Sonderstelle Geld und Kredit, "Protokoll über die 34. Sitzung vom 14.1.1948," pp. 1–15, BAK Z32/4, ff. 15–16, also in Volkhard Laitenberger, "Auf dem Weg zur Währungs- und Wirtschaftsreform. Ludwig Erhards Wirtschaftspolitik im Frühjahr 1948," *Aus Politik und Zeitgeschichte*, B32(June 1988): 32; Erhard, "'Zehn Thesen zur Verteidigung der Kartellgesetzgebung,' Offener Brief an den Präsidenten des Bundesverbandes der Deutschen Industrie Fritz Berg, 10 Juli 1952," in Erhard (1988: 348) and Ludwig-Erhard-Stiftung (1981: 36) and Erhard (1957: 174).

¹¹ Erhard, "Soziale Ordnung schafft Wohlstand und Sicherheit," speech to CDU Bundesparteitag, Cologne, 26 April 1961, reprinted in Erhard (1962: 580).

¹² Erhard, "Kühle Köpfe - starke Herzen," speech to CDU Bundesparteitag, Goslar, 22 October 1950 in Erhard (1962: 146–48) and (1988: 252–257); "Europäische Einigung durch funktionale Integration," speech at the club *The Echos*, Paris, 7 December 1954, in Erhard (1988: 418); Wünsche (1997: 108–110); Erhard (1957: 15–16, 90).

¹³ See also, Ludwig-Erhard-Stiftung (1981: 1); Erhard (1959: 17; 1988: 365); Laitenberger (1988: 43,48), Berghahn (1993: 156); Lukowski (1965: 67).

Erhard shared Röpke's love of free trade and skepticism toward European integration.¹⁴ Most significantly, Erhard agreed with Röpke that cartels and monopolies were harmful and that they should be banned. He even used many of Röpke's arguments and specific expressions when fighting to pass his anti-cartel law during the 1950's (see Erhard, 1988: 347–355 and Ludwig-Erhard-Stiftung, 1981: 36). Erhard shared Röpke's rejection of the notion of German collective guilt for Nazis crimes (Osterheld, 1992: 139). Like Röpke, he had developed his basic economic ideas before the Nazi seizure of power.

At this juncture, it might seem appropriate to conclude that Erhard was indeed a follower of Wilhelm Röpke. However, doing so would ignore some important contrary factors. Erhard disagreed with virtually all of Röpke's cultural critique. Indeed, there is no trace of Röpke's rejection of modernism, big cities, and technology or his love of the eighteenth century and the Swiss model in Erhard's writings and speeches. Erhard, quite to the contrary, was a strong and persistent advocate of German unity and never criticized Prussia. He was interested in modern art, had a modernist country home built for himself in Bavaria and a controversial modernist chancellor bungalow built in Bonn to replace the more traditional quarters used by his predecessor, Konrad Adenauer. Erhard supported technological innovation as a boon to consumers, advocated the spread of household appliances and automobiles, and promoted the replacement of coal by oil as a major source of energy (see Hüllbüsch, 1988: 253–4; Hollmann, 2000: 374–5; Erhard, 1962: 421). He arranged for tax credits for the purchase of home appliances to allow women to leave their traditional roles and to enter the workforce. He brokered a settlement that accelerated the move away from reliance on Ruhr coal and toward its replacement with imported oil for home heating as well as for the ever-growing number of cars traveling on West Germany's roads. Erhard himself was an avid motorist (Hentschel, 1996: 13–14). Like Röpke, Erhard favored widespread ownership of property. However, while agreeing with Röpke that homeownership was desirable, and supporting government loans and tax incentives to encourage single family home construction, Erhard also promoted stock ownership. He arranged the privatization of Volkswagen and other government enterprises to enable common people, not just the wealthy, to buy shares in these firms. He hoped to give the broad mass of the West German population a stake in the growth of the capitalist system and to encourage them to use their rights to shape corporate policy (Weimer, 1998: 141–42; Schwarz, 1983: 158–9; Görtemaker, 1999: 178; Abelshauser, 1987: 54–5). As the privatizations implied, Erhard was also much less willing than Röpke to tolerate the existence of state enterprises (Erhard, 1988: 365). Closely related to this, and in direct contrast to Röpke, Erhard saw strong economic growth as the solution to Germany's social and political problems (Erhard, 1977: 94; 1988: 63, 682; Nicholls, 1994: 394). Erhard saw no need for the limitations on growth that Röpke advocated since he considered the market as such as social. The very fact of consumer sovereignty would

¹⁴ Erhard's support for free trade is expressed clearly in his, *Deutschlands Rückkehr zum Weltmarkt*, Herbert Gross, ed. (Düsseldorf, 1953). For his views concerning European integration see Erhard (1988: 66, 68, 338). Erhard, "Bericht über die wirtschaftlichen Probleme und Aufgaben in der Bundesrepublik," Bonn, 31 October 1953, 22, 24, BAK B136/1358. Erhard to Röpke, Bonn, 10 December 1957 and Erhard to Röpke, Bonn, 23 February 1963 both in LES NE I 4)59.

ensure the fairness and equity of economic outcomes (see Erhard, 1957: 10, 137, 162, 185, 216; 1988: 359; Hentschel, 1996: 83).¹⁵

Erhard was less tolerant of state intervention than Röpke. As he put it in 1953, “We suffer not from too little government, rather we suffer from too much government” (Erhard (1988: 365). Following Mises, Erhard thought that every government intervention increased the risk of creating a collectivist system (Wünsche, 1986: 107). Erhard was convinced that the government should do as little as possible. Significantly, while an opponent of cartels, unlike Röpke, Erhard saw no danger in large firms, so long as they had built their positions by satisfying consumer wants. He most certainly did not see large companies as expressions of Prussianism or as part of the cause of Germany’s woes in the twentieth century.¹⁶ While sharing Röpke’s support for free trade, Erhard rejected the gold standard, one of the key features of Röpke’s international prescription. Erhard exhibited none of Röpke’s irrational fear of global markets. Indeed, one of the main thrusts of his policy was to return Germany to world markets as soon as possible after World War II and to restore it to its former position as an exporter of high value-added manufactured goods (Erhard, 1953, 1962: 155; 1988: 63). Maybe most strikingly, Erhard was enamored of the American economic model, which Röpke condemned (Erhard, 1957: 8,131; 1988: 473–4, 682; Wünsche, 1986: 117; Nicholls, 1994: 394; Caro, 1965: 45–6, 54). Indeed, Erhard was, if anything, overenthusiastic in his embrace of American methods. For Erhard, the United States embodied the ideal of free trade moderated by concepts of fair play that he wished to implant in West Germany.¹⁷

Just as importantly, Erhard had developed his free market, anti-cartel and free trade views before he read Röpke’s wartime trilogy. His basic economic ideas were formed by his father, who ran a small business in Nuremberg and who was a follower of the liberal politician Eugen Richter. The lower middle class commercial environment in which Erhard grew up was very different from the patrician, elitist milieu in which Röpke was raised. The views that Erhard inherited from his father were then reinforced and refined by his exposure to Wilhelm Rieger in college and Franz Oppenheimer in graduate school. Rieger in particular gave him a firm foundation in the works of Adam Smith and David Ricardo. Oppenheimer strengthened his rejection of cartels, though Erhard did not adopt Oppenheimer’s idiosyncratic theory of land monopoly as the source of all social evils. The similarity in views of Erhard and Röpke on the cartel issue can at least partly be explained by the fact that both were influenced by Oppenheimer (Hahn, 1993: 136). Erhard then gained practical experience in the functioning of markets and especially in the importance of consumers while working

¹⁵ Concerning Erhard, Hayek recounted that, “we were alone for a moment, and he turned to me and said, ‘I hope you don’t misunderstand me when I speak of a social market economy (Sozialen Marktwirtschaft). I mean by that that the market economy as such is social not that it needs to be made social,’” quoted in Ebenstein (2001: 242).

¹⁶ Erhard, “Gesetz über ‘Verhinderung wirtschaftlicher Machtzusammenballungen,’” 4 December 1946, p. 1, BAK BAK Z1/650, f. 27.

¹⁷ “Dolmetscherprotokoll über die Besprechung zwischen Herrn Minister Erhard, Mr. Ringer (FOA) und Mr. McLelland (Präsident der NAM) am 10.6.1954,” 1, 5, BAK B102/17090, also in BAK B102/17085, Heft 1

for fourteen years at the market research institute lead by Wilhelm Vershofen.¹⁸ During this period, Erhard also read widely in the economic literature, becoming familiar with the works of Joseph Schumpeter and Walter Eucken, among others. Indeed, there was a marked similarity between the ideas of Eucken and Erhard, especially concerning market freedom and cartels. Significantly, Erhard had considerable direct personal contact with Eucken in 1947 and 1948 when he prepared his crucial economic reforms (see Laitenberger, 1986: 58–60; Günther, 1951: 27–8). Moreover, during the early 1930s, Erhard had publicly opposed Röpke's prescription for overcoming the Depression (see Laitenberger, 1986: 24; Caro, 1965: 45–46, 54). Erhard was much more strongly committed to free, competitive markets than Röpke, and much less willing to tolerate exceptions to a ban on cartels. While Röpke advocated using the courts to police cartels, Erhard preferred administrative means. His 1944 concept for repairing the damage that the Nazis had done to the German economy shows no signs of Röpke's influence (Erhard, 1977).

4. The personal relationship between the two men

In contrast to Eucken, Röpke had very little personal contact with Erhard through which he could exert direct influence. Apparently, Erhard met Röpke for the first time in Geneva in the Spring of 1948, after Erhard had decided to liberalize the Bizonal economy. There was relatively little correspondence and few meetings between them until the mid-1950s. On these occasions, Röpke offered little more than moral support to Erhard, suggesting few specific policy initiatives. Röpke's letters to Erhard are respectful, bordering on the obsequious. Erhard's letters to Röpke occasionally discuss his political problems, especially concerning European integration, but do not ask Röpke for advice or even approval.¹⁹ On the only occasion when Erhard asked Röpke to advise the government on a policy matter, the privatization of the German Federal Railway (*Deutsche Bundesbahn*), the professor refused, pleading lack of time.²⁰ Both were members of the *Mont Pèlerin Society*. However, Erhard only attended three of the society's meetings while he held office, at Seelisberg in Switzerland in 1953, Berlin-Grunewald in 1956, and Kassel in 1960.

Röpke clearly helped Erhard on only two occasions, one of which was unintentional. During the late 1940s, Röpke corresponded with Konrad Adenauer, who had been impressed by Röpke's articles. Röpke's advocacy of his usual views inclined Adenauer to support Erhard's controversial positions in the Economic Council (*Wirtschaftsrat*) and later the first federal cabinet (Metz, 1998: 102–3). In 1950, at Adenauer's request, Röpke wrote an assessment of Erhard's economic policies at a time when

¹⁸ Concerning Erhard's education see Laitenberger (1986 12–18); Hohmann (1997: 5); Metz (1998: 30–1); Hentschel (1996: 11–17); Lukomski (1965: 28–38); Caro (1965: 19–28). On Eugen Richter see Ralph Raico (1999: 87–151).

¹⁹ Erhard, "Wilhelm Röpke zum Gedächtnis," speech at the Philipps-Universität Marburg, 17 June 1967 in Erhard (1988: 1026–1028) Röpke to Erhard, Geneva, 21 March 1953, in Röpke (1976: 131–32); Röpke to Erhard, Geneva, 28 June 1955 in LES NE I 4)59. Röpke to Erhard, Geneva, 12 December 1957 in LES NE I 4)59, also see Röpke (1976: 156, 158) Röpke to Erhard, Geneva, 31 October 1960, in LES NE I 4)59; Hentschel (1996: 64).

²⁰ Erhard to Röpke, Bonn, 1 June 1960; Röpke to Erhard, Geneva, 1 July 1960, both in in LES NE I 4)59.

the economics minister was under intense criticism and Adenauer was wavering in his support for him. The report was a glowing endorsement of Erhard (Röpke, 1950: 16–19, 67–69).

5. Conclusion

The foregoing analysis leads to the conclusion that Röpke exerted only limited influence on Erhard. As Erhard put it himself, he agreed with Röpke on the basics, but not on all details of economic policy (Erhard, 1988: 1028). Erhard's ideas were shaped by a broad range of thinkers stretching from Smith to Oppenheimer to Eucken. Röpke certainly did not determine Erhard's critical decision, the most important of his career, to liberalize the Bizonal economy in June 1948. He also did not shape in any decisive way Erhard's policies during the 1950s. Erhard moved closer to Röpke in the latter part of that decade as he became increasingly isolated during the West German debate on European integration. Throughout, Erhard ignored Röpke's cultural critique, allowing him to support growth much more strongly than Röpke ever did. Erhard most likely saw Röpke as a welcome ally in the effort to influence Adenauer in his struggles against the Social Democrats on the one hand and the cartel leaders on the other. Echoing Volker Berghahn, we can conclude that Röpke sustained Erhard in a line that Erhard had already adopted. He did not actually initiate policy or change the direction of existing policies. Consequently, Wilhelm Röpke's influence on Ludwig Erhard, and therefore on the social market economy, was limited. He was one among many who created the atmosphere in which Erhard made his decisions.

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