

## **RESEARCH PROSPECTUS: “Sentinel of the Monetary Order: Ordoliberalism and The Making of The German Bundesbank” by *Sander Tordoir***

**SUMMARY:** This project hopes to unravel the intellectual history of the German Ordoliberalism through the lens of the Bundesbank and the emergence of a new postwar German central banking tradition. A simplistic explanation - one that the Bundesbank itself does not dispel - holds that the Bundesbank has been shaped by the twin episodes of hyperinflation in Weimar in 1923-1924 and the collapse of Nazi War economy in 1945. Yet, this essentialist account of German monetary history provides no idea of *how* German central bankers made sense of this history in reconstructing their central bank after the Second World War. This is a task for the economic historian. The hypothesis driving this research is that the missing link is Ordoliberalism. While a theoretical literature on Ordoliberalism exists, as well as a body of scholarship on German monetary history, the connection between them remains unexplored.

Ordoliberalism is deeply interwoven with the tumultuous 20<sup>th</sup> century economic history of Germany. In the 1930s, Ordoliberal thinkers such as Walter Eucken, Franz Böhm and Wilhelm Röpke were distraught by the failure of the laissez-faire economy of the Weimar Republic and wary of the oppression entailed by communist economic planning. In response, they maintained that a free market could not function independently but that the state must create a basic institutional and legal order that fosters fair market competition. Price stability was key to his endeavor. Furthermore, Ordoliberalism is seen as the intellectual forbearer of the economic policies of the ‘Social Market Economy’ to which this astonishing revival of the West-German economy after the devastation of World War II is often attributed. The narratives surrounding Ordoliberalism and moments of German economic turbulence - Hyperinflation, Wirtschaftswunder and Re-unification - have attained an almost mythical character. Rather than dispel these myths, this project considers the engine propelling the intellectual and institutional history of German central banking as the dialectic between the creation of these economic myths and the evolution of economic thought. Three steps can be outlined. First, how the economic and political crisis of the Weimar Republic represented a crisis of economic thought and give birth to a new intellectual tradition - Ordoliberalism; second, how the perceived success of this intellectual tradition in fostering the economic miracle presented a moment of economic myth which became institutionalized in the Bundesbank; and third, how the memory of Ordoliberalism became embedded and shaped the Bundesbank response to the advent of Keynesianism, Monetarism and German-reunification.

The project’s structure will follow this three-pronged thesis by mirroring the genesis, institutionalization and the long-shadow of Ordoliberalism with the three consecutive forms of the central bank: Reichsbank (1870-1945), Bank Deutscher Länder (1948-1957) and Bundesbank (1957-). This history will be told through the lives and reign of five German central bank presidents: Hjalmar Schacht, Karl Bernard, Wilhelm Vocke, Karl Blessing, Karl Klasen and Karl Otto Pöhl. The narrative starts with early influence of Ordoliberalist thought on the Reichsbank culminating in their 1939 anti-inflationary *Memorandum für Hitler* and ends with the conflict about monetary unification between Helmut Kohl and the Bundesbank.

Apart from a variety of published sources, the research will draw on the Bundesbank archives in Frankfurt, the Reichsbank archives in Berlin, archives of the Walter Eucken Institut in Freiburg, archives of the scientific journal “Ordo” and the archives of the American economists involved with founding the Bundesbank located at the Harry Truman library.

Understanding the relationship between Ordoliberalism and German central banking will shed light on the evolution of European liberalism, its institutional life and its role in the postwar economic reconstruction. The project also sketches out a motor of history built on the mutual construction of economic myth and the emergence of economic doctrine. At large, it aims to open a new chapter in the scholarly conversation on the history of economic thought, the history of finance and different modalities of European capitalism.

## **Sentinel of the Monetary Order:** *Ordoliberalism and The Making of The German Bundesbank*

*“It is worth recalling that the monetary constitution of the ECB is firmly grounded in the principles of ‘Ordoliberalism’, particularly two of its central tenets: First, a clear separation of power and objectives between authorities; And second, adherence to the principles of an open market economy with free competition, favouring an efficient allocation of resources. (...) Our policy is concerned only with macroeconomic stabilisation through the pursuit of price stability. We do not and should not play an active role in the functions of allocation and distribution.”* – Mario Draghi, president of the ECB, at the farewell conference of honouring governor Stanley Fischer, Jerusalem, 18<sup>th</sup> of June 2013<sup>1</sup>.

*“All efforts to achieve a competitive system are in vain unless a certain monetary stability is assured. Thus, there is a primacy of monetary policy in competition order.”* – Walter Eucken, Principles of Economic Policy, 1952<sup>2</sup>.

### **I. Introduction.**

In its incessant focus on inflation control, suppressing wage growth and fiscal austerity, the German medicine to the recent Eurocrisis has been the subject of much criticism and debate. The staunch and solitary opposition of the German central bank the Bundesbank to the quantitative easing of the European Central Bank (ECB) is one of the most visible and extraordinary exemplifications of this doctrine. This opposition is remarkable given that the European Central Bank was modeled after the Bundesbank and the German central bank provides almost 27% of the ECB’s capital<sup>3</sup>. The Bundesbank has already lost two presidents in this crusade against its own ‘mirror-image’: Jürgen Stark in 2011 and Axel Weber in 2012. Both stepped down because their criticism of the ECB had made their positions untenable<sup>4</sup>. Nevertheless, the Bundesbank soldiers on and its new president, Jens Weidmann, continues to deliver scathing criticisms of the ECB’s Outright-Monetary-Transactions program (OMT)<sup>5</sup>. The

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<sup>1</sup> ECB (2013). Retrieved 30 November 2013 from <http://www.ecb.europa.eu/press/key/date/2013/html/sp130618.en.html>>

<sup>2</sup> Eucken. (1939). “Principles of Economic Policy”.

<sup>3</sup> Bundesbank. (2013). “Bundesbank participating interest in the European Central Bank”. Retrieved 30 November 2013 from:

[http://www.bundesbank.de/Navigation/EN/Bundesbank/Tasks\\_and\\_organisation/The\\_Bundesbank\\_key\\_figures/the\\_bundesbank\\_key\\_figures.html](http://www.bundesbank.de/Navigation/EN/Bundesbank/Tasks_and_organisation/The_Bundesbank_key_figures/the_bundesbank_key_figures.html)>

<sup>4</sup> See <http://www.social-europe.eu/2012/03/jurgen-stark-reminds-us-just-how-important-his-resignation-was/> & <http://www.theguardian.com/business/2011/feb/11/axel-weber-quits-bundesbank>

<sup>5</sup> This is the ECB program aimed at shoring up government debt from the southern European countries.

Bundesbank is subject to of a unique mystique: the bank is considered unparalleled in the level of autonomy it has garnered; it elicits fear from politicians and awe from economists for its anti-inflation policies. The startling scene whereby an Italian president of the ECB argues the monetary constitution of Europe is rooted in Ordoliberalism underscores the importance of unraveling the influence of Ordoliberalism in the making of German central banking.

However, a truly comprehensive and historically sensitive account of the origins of the unique Bundesbank tradition has remained unwritten. A simplistic explanation - one that the bank itself does not dispel - holds that the Bundesbank has been shaped by the twin episodes of hyperinflation in Weimar in 1923-1924 and during the collapse of Nazi German war economy in 1945. Yet, this essentialist account of German monetary history provides no idea of *how* German central bankers made sense of this history in reconstructing their central bank after WWII. This is a task for the economic historian. The hypothesis driving my research is that the missing link is the Germanic school of political economy known as Ordoliberalism<sup>6</sup>.

Intuitively, the central idea of Ordoliberalism – to embed the price mechanism in a strong legal and institutional framework – resonates with the Bundesbank philosophy. Yet, while a theoretical literature on Ordoliberalism exists, as well as a body of literature on German monetary history at large, there have been few thorough explorations of the historical connection between the two. At the heart of this dissertation is the notion that economic memory and economic thought are locked in an inter-temporal conversation. The repeated references to Ordoliberalism and its perceived role in stabilizing the German economy after World War Two reveal a complicated dialectic between collective historical memories, the creation of historical economic narratives and their constitutive influence on economic doctrine.

Ordoliberalism constituted an intellectual tradition of political economy that enabled central bankers to distill axioms from a history of political tumult and monetary upheaval. Critical of the failings of the Weimar market economy and the planned economy proposed by the

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<sup>6</sup> I purposefully use the phrase “Germanic” here because although the intellectual epicenter of Ordoliberalism was in Freiburg, several Swiss and Austrian authors also counted themselves as part of the Ordoliberalist school of thought.

extreme left, Ordoliberalism presented itself as a system of economic thought different from both laissez-faire capitalism and communism. In this respect, my project would constitute an intellectual history told through the lens of a powerful and important institution, in which Ordoliberalism and German central banking are considered in an intertwining and dynamic relationship.

Ordoliberalism is deeply interwoven with the tumultuous economic history of Germany in the 20<sup>th</sup> century. It developed in the 1920s and 1930s in response to the economic crises of the Weimar Republic. Its foundational thinkers were Walter Eucken, Wilhelm Röpke, Franz Böhm and Alfred-Müller Armack<sup>7</sup>. Its original intellectual epicenter was Freiburg, where legal (e.g. Böhm) and economic (Eucken) scholars worked together to develop what became known as the “Freiburg School of Law and Economics”, also known as Ordoliberalism. Distraught by the failure of the laissez-faire economy of the Weimar Republic and fearful of the oppressive elements of communism, the Ordoliberalists maintained that the free market could not function independently but that the state must actively create an institutional and legal framework that fosters market competition. In this view, economic order is a precondition for freedom, particularly the freedom of the individual<sup>8</sup>. Ordoliberalists are particularly concerned with the necessity of state power to foster competition by breaking up and preventing monopolies and oligopolies<sup>9</sup>. For monetary policy, Ordoliberalism translates into an emphasis on a powerful central bank that is deeply committed to price stability. Given their inherent distrust of market power, Ordoliberalists are also concerned with insulating central banks from the pressures of interest groups and politics<sup>10</sup>. These two elements - the concern with inflation and the particular type of central bank independence advocated for - will be two central substantive elements in my

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<sup>7</sup> Dullien, Sebastian & Guerot, Ulrike (2012). “The Long Shadow of Ordoliberalism: Germany’s Approach to the Eurocrisis”. *European Council on Foreign Relations/49*: 1-15: p. 2

<sup>8</sup> Rieter, H & Schmolz M. (1993). “The ideas of German Ordoliberalism 1938-45: pointing the way to a new economic order”, *European Journal of the History of Economic Thought* 1 (1993), 87-114.

<sup>9</sup> Bonefeld, Werner. (2013). “Human Economy and social policy: On Ordoliberalism and political authority”. *History of Human Sciences* 26 (2): 16-125: 107

<sup>10</sup> Sally. ‘Ordoliberalism and the social market: Classical political economy from Germany’, *New Political Economy* 1 issue 2 (1996)

investigation. Another important element is the Ordoliberalist rejection of classical equilibrium analysis of the economy. For them, the economy represented a social and legal, not a strictly rational, realm of exchange. From the Ordoliberalist perspective, a well-ordered monetary system fosters just exchanges, prevents surging inequality due to inflation and underpins social stability. In this emphasis on economic order rather than the balance between the market and the state, Ordoliberalism was sometimes viewed as a “third way” by contemporary and modern scholars<sup>11</sup>. This label Eucken, Röpke and the other thinkers consistently refused.

Ordoliberalism plays a particularly central role in the memory of the postwar German economic miracle or “*Wirtschaftswunder*”, an episode of German history which holds a powerful sway over Germany’s economic identity. Ordoliberalism is seen as the intellectual forbearer of the economic policies of the ‘social market economy’ to which this astonishing revival of the German economy after the devastation of World War II is often attributed<sup>12</sup>. In this respect, one of the most illustrative anecdotes centers on a particularly bold move by Ludwig Erhard, the economics minister in the postwar administration of Chancellor Adenauer, and without a doubt the protagonist in this version of history. If the social market economy is the school of thought that revitalized the German economy, Ludwig Erhard is the political patron who brought it into practice.

On the morning of June 21, 1948, British and American occupation officials summoned Ludwig Erhard into the IG Farben headquarters in Frankfurt.<sup>13</sup> On the night before, without consulting the Allied Forces, Erhard made a surprise announcement on the radio that the Allied price control on nearly all goods would be lifted. United States Military Governor, Lucius D. Clay confronted Erhard and asked him: “What have you done? You’ve changed the Allied price controls!” to which Erhard wryly replied “General, I haven’t changed them, I’ve abolished

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<sup>11</sup> *ibid*

<sup>12</sup> *Ibid*

<sup>13</sup> Bell, Nicholas. (2012). “Currency Reform, Price Controls, and the German Economic Miracle”. This is an unpublished paper by an undergraduate student at the College of William and Mary. It has an excellent description of this anecdote, and some wonderful summaries of the larger debate on Ordoliberalism and the *Wirtschaftswunder* at large.

them!”<sup>14</sup> Almost overnight - so the story goes - the scarcity and dominance of the black market that had crippled the economy dissipated. Empty stores-shelves across the occupied zones filled up and people started returning to work as the price mechanism was restored. This heralded the beginning of a decade in which the German economy grew at an average of 8% a year – more than any other European country<sup>15</sup>. An economic miracle was born. Just before his radio address, few would have imagined that (West)-Germany stood on the eve of an economic miracle. The German economy lay in ruins. Industrial production and agricultural production were only 55% and 72% of what they had been a decade before<sup>16</sup>.

Two decades before his radio announcement, Erhard had received his doctorate under the tutelage of the sociologist Franz Oppenheimer. Erhard’s fellow PhD student, who he called his “intellectual brother”, was the prominent ordoliberalist Wilhelm Röpke. Oppenheimer had explored liberal socialism or the notion that socialist ideals could be realized through the free price mechanism. Erhard’s push for the free formation of prices in 1948 could be considered, in and of itself, not entirely ordoliberal but liberal in general. However, the liberation of prices was one step on a larger Ordoliberal continuum, coupled with other measures to implement a truly competitive and socially stable market, such as antitrust legislation and social security.

The same year, 1948, also witnessed the birth of postwar German central banking with the establishment of the Bank Deutscher Länder (BdL), the precursor to the Bundesbank. The Bank Deutscher Länder was designed as a highly decentralized conglomeration comprising the central banks of the different German states, the so-called Landeszentralbanken. The main goal of the BdL was to centrally coordinate the issuance of the new currency, the Deutsche Mark, so as to avoid conflicts between the Landeszentralbanken. The gravity of power clearly lay with the decentralized central banks. The BdL remained under the tutelage of the allied forces until 1951,

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<sup>14</sup>Alfred Mierzejewski. (2004). “Ludwig Erhard: A Biography”. *Chapel Hill, NC: University of North Carolina Press*: pp. 70.

<sup>15</sup> Braun, Hans-Joachim, *The German Economy in the Twentieth Century: The German Reich and the Federal Republic*, Routledge, 1990.

<sup>16</sup> Eric Owen Smith. (1983). *The West German Economy*. New York: St.Martin’s Press: 6-7

after which it became independent. In 1957, the new West-German Republic re-equipped the central banking system with the establishment of the Bundesbank, echoing the design of the Federal Reserve. The roles were now reversed, as the Landeszentralbanken became mere subsidiaries of the federal German central bank.

Yet, despite parallels in the birth and chronology of the Wirtschaftswunder, the rise of Ordoliberalism and the creation of a new central bank, few attempts have been made to understand the connections between them. German central bankers had been deeply discredited in the Weimar and Nazi era, so their influence on the Wirtschaftswunder has been presumed to be quite limited. In studying the Wirtschaftswunder as an outcome, historians have thus seen little reason to delve deeper into the Bundesbank as a contributing factor to the economic miracle. However, what is overlooked is how the influence of Ordoliberalist thought ran the other way: the economic miracle might have been critical in reshaping central banking. I am interested in how the perceptions about Ordoliberalism and the economic outcomes it seemed to generate have shaped the incipient postwar German central banking tradition that was to become the sentinel of the monetary order.

To this effect, I want to look at the connection between Ordoliberalism and the emergent monetary thought, practices and attitudes of the early Bundesbank and its bankers. The focal point of my argument would accordingly center on the era of the Wirtschaftswunder and the birth of Bundesbank in 1957 and its predecessor the Bank Deutscher Länder in 1948. What sort of measurements of the economy was the Bundesbank using in these early decades? Which, if any, quantitative indicators were they targeting? What kind of stories did the early Bundesbank leaders tell about the economic successes of the previous decade? How did they view the connection between money and the people, between money and a just society? And what subsequently informed their normative outlook on what the economy “should be” like? These are some of the crucial questions I want to explore. However, I see the Wirtschaftswunder debate as an entry point for a much broader and deeper exploration of the relationship between

Ordoliberalism and German central banking throughout the 20<sup>th</sup> century at large. In my view, a history of the interplay between Ordoliberalism and the Bundesbank is unintelligible without expanding into the pre-war era. It is less relevant without tracing its impact up to the German re-unification and beyond. My dissertation would therefore span from central banking in the Weimar Republic to the monetary challenges presented by German re-unification.

**Proposed organization:**

1. *Chapter 1:* From Weimar to Freiburg: Hyperinflation, Economic Disorder, and the Genesis of the Freiburg School of Law and Economics
2. *Chapter 2:* Early traces of Ordoliberalism: Hjalmar Schacht and the 1939 Revolt of The Reichsbank.
3. *Chapter 3:* From Reichsmark to Deutsche Mark: The Design of a New Monetary Order.
4. *Chapter 4:* Ordoliberalism, The Bundesbank tradition and an Economic Miracle.
5. *Chapter 5:* Ordoliberalism & Keynesianism.
6. *Chapter 6:* Ordoliberalism & Monetarism.
7. *Chapter 7:* The international tentacles of Ordoliberalism: Swedish and Dutch central banking.
8. *Chapter 8:* The long shadow of Ordoliberal central banking: re-unification and euro crisis<sup>17</sup>.

The larger monetary history of German is shrouded in narratives revolving around moments of economic turmoil whose histories have attained an almost mythical character. In this light, I want to highlight four important moments: the period of hyperinflation in 1923-1924, the economic miracle of the 1950s and 1960s, the era of stagflation in the 1970s and German-reunification in the 1990s. Rather than dispel these myths or explore their merits, I want to recast them as phenomena worth scrutinizing in their own right. I view them as narratives of German economic history that had a deep influence on economic doctrine and the making of German monetary policy. As such, the different elements of German monetary history can be seen as being interlocked in a reflexive process over time in which a moment of crisis gave rise to Ordoliberalism, which then became part of the historical myth surrounding the Wirtschaftswunder and subsequently deeply influenced the Bundesbank response to the advent of Keynesianism, monetarism and stagflation in the 1970s. In other words, I consider the engine

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<sup>17</sup> The “long shadow” I borrowed from Dullien & Guerot (2012). See citation 7.



propelling the intellectual and institutional history of German central banking as the dialectic between the creation of economic myth and the evolution of economic thought. Taking this long perspective, it becomes possible to intimately link these moments of crisis with the respective genesis, emergence and hegemony of Ordoliberalism.

I imagine a chronological structure that is broken down into sections mirroring these stages of development of Ordoliberalism: inception (chapter 1-2), institutionalization (chapter 3-4), challengers (5-6) and long-term impact (7-8). The first two sections combine a moment of crisis and an accompanying step in the development of Ordoliberalism. The first moment of crisis consists out of the dramatic surge of hyperinflation in the early 1920s Weimar Republic (chapter 1) and was followed by the genesis of Ordoliberalism as a school of political economy as well as its early influence on the Reichsbank, the first German central bank (chapter 2). The second phase consists out of the immediate postwar economic crisis (chapter 3) and the subsequent rise to hegemony of Ordoliberalism amidst the postwar economic miracle (chapter 4). The third part centers on challenges posed to Ordoliberalism's hegemony by the subsequent rise of Keynesian monetary thought in the 1960s (chapter 5) and monetarism in the 1970s era of stagflation (chapter 6). Chapters 2-6 will each have the central bank president of its era in a lead role (see more on this in the chapter outline). In the final section, I intend to reflect on the international dimension of Ordoliberalism, particularly its influence on Swedish and Dutch central banking as well as its long-term impact on two more contemporary monetary challenges posed to the Bundesbank: German re-unification and the Eurocrisis (chapter 8).

By organizing my project in this way I want to delineate the three important steps in the dialectic between economic myth and economic doctrine: first, how the economic and political crisis of the Weimar Republic represented a crisis of economic thought and give birth to a new intellectual tradition - Ordoliberalism; second, how the perceived success of this intellectual tradition in fostering the economic miracle presented a moment of economic myth which became institutionalized in the Bundesbank; and third, how the economic memory of

Ordoliberalism became embedded and influenced the behavior of the Bundesbank far beyond the crisis for which it was originally conceived. My view and general structure were inspired by the general line of reasoning as set out by economic historians such as Angus Burgin in his *Great Persuasion*<sup>18</sup> or Perry Mehrling in his *The New Lombard Street*<sup>19</sup>. In these works, they trace how intellectual transformations, through the connection between academics and policy-makers, engender lasting institutional change. My reading of the German economic miracle also draws inspiration from the insights of Carl Wennerlind in his *Casualties of Credit*, in which Wennerlind shows that the Glorious Revolution must, at least in part, be understood as the product of intellectual developments that preceded it<sup>20</sup>. Wennerlind shows advances in alchemy, probabilistic reasoning and science at large convinced Hartlib and a circle of political economists surrounding him that credit based on trust and calculation could be engineered<sup>21</sup>.

I have several larger aims with this project. First and foremost, I want to provide a deeper understanding and new contextualization of German economic history, moving beyond the essentialist narrative that draws a straight line from the history of hyperinflation to the Bundesbank. In doing so, I also want to propose and sketch out an alternative motor of economic history, one in which economic myths and economic doctrine interact. Not much is known about the mutual construction of economic history as a field and the emergence of economic doctrine. Understanding the relationship between Ordoliberalism and German central banking will add to our understanding of the lasting influence of moments of crisis on both the development of European economic theory, its institutional life and the economic outcomes that this has generated.

## II. Chapter Outline.

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<sup>18</sup> Burgin, Angus. (2012). *The Great Persuasion*. Harvard University Press.

<sup>19</sup> Mehrling, Perry. (2010). *The New Lombard Street: How The Federal Reserve Became the Dealer of Last Resort*. Princeton University Press.

<sup>20</sup> Carl Wennerlind. (2012). *Casualties of Credit: The English Financial Revolution, 1620-1720*. Cambridge, MA and London: Harvard University Press.

<sup>21</sup> Ibid, 92

The first chapter starts with the whereabouts of prominent Ordoliberalist thinkers during the era of great inflation, 1920-1924. Eucken, Röpke Rüstow and the later chancellor Erhard were all writing their Phds or had just finished their studies during this period. I will then move the story to Freiburg in 1936, with the first publication of the manifesto of the Ordoliberalists. Freiburg was without a doubt the intellectual epicenter of Ordoliberalism but Ordoliberalism enveloped much of the Germanic world, including Switzerland and Austria.<sup>22</sup> The networks of Ordoliberal economists, most notably Walter Eucken, were initially responding to the episodes of hyperinflation in the Weimar republic. I am particularly interested in their whereabouts and works during the 1930s. Their concern with inflation was a response to the destabilizing effect of inflation on market functioning, the market power of large Weimar corporations and the distributional impact of inflation. In this first section, I also want to explore early relations between Ordoliberal thinkers and the bankers of the Weimar Reichsbank. Many of the Ordoliberalists were forced out of Germany in the 1930s due to their critiques of the Nazi economy, some going to Switzerland (Röpke) while many others ended up in Istanbul (Rüstow for example). Tracing their lives there, and their connections to central banking policy in Germany in the meantime might be a worthwhile avenue too.

In chapter 2, I want to shift focus to the Reichsbank in the late 1920s and up to eve of WWII. The most renowned German central banker of this era, and arguably the entire Weimar Republic, was Hjalmar Schacht. Often heralded as the “economic genius” who enabled the Nazi recovery of the German economy in the early 1930s, Schacht and his central bankers revolted in 1939 with an explosive document critiquing the inflationary effects of the Nazi war Economy<sup>23</sup>.

This remarkable incident possibly contains valuable clues on the early influence of

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<sup>22</sup> It is often referred to as the “Freiburg School of Economics and Law”, because of the intricate connection between legal and economic philosophy inherent in the school of thought.

<sup>23</sup> Reichsbank Directorium Memorandum for Hitler. 7<sup>th</sup> of January 1939. BA R 34 II 234. In Bundesbank. *Währung und Wirtschaft in Deutschland: 1876-1975*. Frankfurt am Main: Deutsche Bundesbank. P. 380-383. The original document is in the archives of the Nuremberg Trials, in Nuremberg. A scanned version can also be accessed on [http://www.goldseitenblog.com/peter\\_boehringer/index.php/2012/07/16/schachts-brief-von-1939-und-die-parallele](http://www.goldseitenblog.com/peter_boehringer/index.php/2012/07/16/schachts-brief-von-1939-und-die-parallele)>

Ordoliberalism on German central banking. Unraveling the thought patterns Nazi central Bankers of the 1930s is important for another reason: many of them were to return to the Bundesbank. By 1957 more than 50% of the Bundesbank comprised of former “Nazi Bankers”<sup>24</sup>. The 1939 Reichsbank memorandum is also signed by what was to be the president of the Board of Managers of the Bank Deutscher Länder Wilhelm Vocke and the first president of the Bundesbank in 1957, Karl Blessing – protagonists in later chapters.

The second section (chapters 3 & 4) would span from WWII to 1957 and explore the birth of the *Bank Deutscher Länder* in 1948 to the foundation of the Bundesbank in 1957. In chapter 3, I want to explore the way in which the Bundesbank was created and the discussions surrounding it. The central bank was anchored in the German constitution, drafted in 1948 by the allies, its design echoing the federalist structure of the Federal Reserve. I want to analyze how this institutional design came about and what influence Ordoliberalist thinkers may have already had at that time. In this light, two intriguing figures are the American bureaucrat and economist Tenenbaum, who led the committee transitioning Germany’s financial system, and the first president of the Bank Deutscher Länder (BdL), Karl Bernard. Bernard was the president of the BdL from its founding in 1948 until 1957. Bernard did not only take place in Tenenbaum’s committee, but had been fired by the Nazis from the economic ministry twenty years prior because of his anti-inflationary stance. I imagine this chapter, at least in part, revolves around him and the development of his thought. This chapter ends in 1951, when the BdL was granted full responsibility over Germany’s money supply by the Allies.

After this initial phase, spurred on by the success of the Social Market Economy, Ordoliberalism became the dominant school of political economy in Germany. It thereby strongly influenced the way that institution morphed into the Bundesbank by 1957. In chapter 4, I want to extensively study the procedural culture that developed in the Bundesbank during this period to distillate traces of Ordoliberalism. I imagine Wilhelm Vocke will play a crucial role in

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<sup>24</sup> David Marsh. (1992) *Inside the Bundesbank. The Bank that Rules Europe*. London: William Heineman Ltd.

this chapter. Wilhelm Vocke was the head of the executive director of the Bank Deutscher Länder (whereas Bernard was the chairman of the conglomeration of the state central banks supervising the BdL). Vocke was, along with Bernard and Schacht, one of the signatories of the famous 1939 memorandum. In the years from 1951 to 1957, the bank also gradually started adding academics to its ranks that had been trained in the Ordoliberalist tradition. Identifying these crucial figures within the bank and exploring their education may also contain vital clues on the relationship between thinkers of the Freiburg school and the Bundesbank. I conjecture these early central bankers, coming from widely different backgrounds, from the Nazi Reichsbank to recent university graduates, found a common purpose and language in the conservative banking tradition inspired by Ordoliberalism. This chapter ends with the reign of Bernard and Vocke in 1958.

Because of the hegemony of Ordoliberalism in the Bundesbank, its internalization of the subsequent revolutions of Keynesian and monetarist thought in central banking was presumably different from any other central bank (chapters 5-6). The main roles in chapters 5 and 6 will be played by the subsequent successors to Bernard: Karl Blessing and Karl Klasen. Blessing was president from 1958 until 1969 (chapter 5) and Klasen from 1969-1977 (chapter 6). Karl Blessing, was not a new spirit in the institution. In fact, Blessing had been Schacht's assistant in the 1930s and had been part of an anti-Nazi coup in 1944. Klasen had spent most of his life in the private banking sector. In the ten years before his central bank presidency he was part of the board of Directors of the Deutsche Bank, Germany's largest private financial institution.

In these two chapters, my working hypothesis is that it is misleading to think that Ordoliberalist ideas disappeared amidst the rise of either Keynesianism or Monetarism. I want to, at least in part, show how these were interpreted by studying Blessing and Klasen very carefully. However, as I delineated briefly in the historiography, Ordoliberalism differs starkly from both schools of thought. Ordoliberalist central bankers rejected the Keynesian tinkering with inflation to nudge the markets towards toward full employment. Primarily because this represents a

destabilizing government-led alteration of the free market price mechanism rather than a defense of the economic order enveloping the market. Monetarism, conversely, puts too little emphasis on the role of the state in creating the fundamental rules of the game in the economy. Both central banking traditions are different from Ordoliberalism in their focus on equilibrium analysis, from the Keynesian school focusing on price rigidities to the monetarist's emphasis on the role of expectations. Ordoliberalism, in contrast, includes no equilibrium analysis and steers away from claims about the natural rate of equilibrium that are at the heart of the disagreement between Keynesians and monetarists<sup>25</sup>. Some may argue Ordoliberalism and its emphasis on price control constituted a form of proto-monetarism. However, this is difficult to reconcile with the Ordoliberalists focus on methodological individualism. How did monetarism then impact the banking tradition of the Bundesbank?

Ordoliberalism has presumably had a long-lasting impact on the Bundesbank and European central banking at large. This will be the subject of chapters 7 and 8, which I have not worked out in great detail as of yet. There are some indications that Ordoliberalist banking philosophy made its way to the Netherlands and Sweden, perhaps not coincidentally also the countries with the lowest inflation (apart from Germany) in Europe from 1950 until 1990. Dutch central banking president Jelle Zijlstra (head of De Nederlandsche Bank from 1967 until 1981) was greatly inspired by Eucken, Röpke and the other Ordoliberalists<sup>26</sup>. Ordoliberalist publications were also highly cited in these two countries<sup>27</sup>. The second 'long shadow' I want to explore (in chapter 8) is how Ordoliberalism influenced Bundesbank thinking, if at all, during the period of German re-unification. This was, needless to say, an era of large financial turmoil. There was also a great debate between the German government, under the leadership of Kohl, and the

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<sup>25</sup> Mehrling: 117

<sup>26</sup> I know this from Jan Middendorp, a Phd student at the University of Amsterdam, who is working on an intellectual biography of Jelle Zijlstra.

<sup>27</sup> Frank Bönker; Agnès Labrousse; Jean-Daniel Weisz (2001). The evolution of Ordoliberalism in the light of the ordo yearbook: a bibliometric analysis. In: Institutional economics in France and Germany : German Ordoliberalism versus the French regulation school. *Springer*: 159-182. I could not access full book yet, but could distill this much.

Bundesbank about the exchange rate of the West German mark and the East-German mark. I might also include some afterthoughts on the role of Ordoliberalism in the recent Eurocrisis. In this way, I hope this dissertation will aid our understanding of the background of the ensuing role of the Bundesbank as the sentinel of the German monetary order.

### III. Historiographical background:

I hope to put my work in a larger international conversation with three strands families of historiography on which my dissertation draws. In writing an intellectual history of the Bundesbank, I first and foremost aim to make a contribution to the international literature on the history of finance, the history of central banking and theories of European capitalism. Given the focus on the cultural afterlife of Ordoliberalism, the dissertation also adds to the history of economic thought, in particular in light of the debates on the influence of early 20<sup>th</sup> century German *Methodenstreit* and the later Keynesian-monetarism struggle. Finally, my work hopes to make a contribution to our understanding of the *Wirtschaftswunder* and German economic history at large.

#### 3.1 History of capitalism, finance and central banking

In recent years, historians of finance - Ahamed, Mehrling and James to name a few - have produced a rich range of international and national 20<sup>th</sup> century central banking histories. A particular inspiration to my dissertation is Perry Mehrling's *New Lombard Street*, in which he traces the 20<sup>th</sup> century intellectual history of the Federal Reserve to the financial crisis of 2008. Mehrling uses his historical perspective to make a larger theoretical point about the flaws of modern monetary theory and argue for a return to liquidity as the cornerstone of central banking<sup>28</sup>. Liaquat Ahamed's *Lords of Finance* traces the roots of the Great Depression to the Inter-bellum international financial system constructed by a small group of influential central

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<sup>28</sup> Mehrling, 21, 41.

bankers<sup>29</sup>. Ahamed elegantly exposes how the incessant preoccupation of four key central bankers with a return to the gold standard produced a dangerous economic ‘straightjacket’ that brought the world to financial collapse. The work that in some ways is closest to my own is *Making the Modern European Monetary Union* by Harold James<sup>30</sup>. In this account of the formation of the European Central Bank (ECB), demonstrates how a group of technocratic central bankers in the European board of Central Bank Governors came to hatch a dangerous monetary experiment that was to become the centerpiece of the pursuit of the dream of European integration. As such, James explores not only the geopolitical problems the ECB was supposed to solve, but also its twin flaws, most notably the lack of a corresponding European banking authority or a European-wide fiscal policy.

These works provide models for how to explain the development financial institutions and national financial systems in a way that integrates multiple scales of historical analysis: geopolitical dynamics, economic ideas, and individual action. Perhaps most importantly, they establish the salience of studying central bankers in advancing our understanding of financial history. My contribution to this literature resides in combining and synthesizing these historical approaches in a different geographical context. By adding a history of German central banking, I hope to add a new layer to the exploration of 20<sup>th</sup> century central banking. Hjalmar Schacht, who would also be an important character in my dissertation, is one of these protagonists in Ahameds’ account of financial calamity<sup>31</sup>. Ahamed’s focus, however, is on Schacht’s role as an international economic diplomatic, not as the head of the Reichsbank perse. In addition, his interest is on the Gold Standard, not on the development of monetary thought within Germany. James’ work as a history of European monetary integration also touches extensively on the role of Germany, yet again limited to its role in a larger international context. My dissertation’s outline resembles the structure of Mehrling’s argument in the *New Lombard Street* closely. However, in his stylized

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<sup>29</sup> Ahamed, Liaquat. (2009) *Lords Of Finance: The Bankers who Broke the World*. Penguin Press.

<sup>30</sup> James, Harold. (2012). *Making the European Monetary Union*. Belknap Press.

<sup>31</sup> Liaquat: p. 482-484



account of the evolution of monetary thought in the Fed, Mehrling misses opportunities to adequately explain how and why certain intellectual traditions become dominant amongst central bankers at the expense of others<sup>32</sup>. In my work, I intend to illuminate precisely that connection more clearly whilst making less of a normative claim on the merits of Ordoliberalism as an approach to monetary policy.

There does exist a body of literature specific to the history of German central banking, but it is limited both chronologically and substantively. There is a large number of scholarly works that explore the role of the Reichsbank in the economy of the Weimar Republic. Examples include Simone Reinhardt's *Die Reichsbank in der Weimarer Republik* or Steven Webb's *Hyperinflation and Stabilization in Weimar Germany*<sup>33,34</sup>. These meticulous accounts draw on an astonishing number of documents from the Reichsbank archives but end their stories before the war. There are also countless books on the currency reforms immediately following the Second World War. Yet, these works are confined to the late 1940s and tend to center on scrutinizing the larger geopolitical context<sup>35</sup>. Two of the most comprehensive works that cover the postwar decades of the Bundesbank are David Marsh's *Inside the Bundesbank*<sup>36</sup> and the Bundesbank's own publication *Währung und Wirtschaft in Deutschland 1873-1975*<sup>37</sup>. These contain a wealth of macro-economic data, biographical anecdotes and primary documents and thus constitute rich secondary sources for my dissertation. However, none of the aforementioned works explore the connection between the Bundesbank and developments in economic thought, let alone a particular treatise on the relationship between Ordoliberalism and German central banking.

To the best of my knowledge, the only historian of finance who has directly touched upon the relationship between Ordoliberalism and the Bundesbank is Jörg Bibow. He focuses in

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<sup>32</sup> Mehrling, 117

<sup>33</sup> Reinhardt, Simone. (1999). *Die Reichsbank in der Weimarer Republik*. Frankfurt am Main: Peter Lang GmbH.

<sup>34</sup> Webb, Steven B. (1989). *Hyperinflation and Stabilization in Weimar Germany*. New York: Oxford University Press.

<sup>35</sup> See: Ermer, Matthias (2000) *Von der Reichsmark zur Deutschen Mark*. Stuttgart: Franz-Steiner Verlag & Wolff, Michael M.W. (1991). *Die Währungsreform in Berlin 1948/1949*. Berlin: Walter de Gruyter.

<sup>36</sup> Marsh, David. (1992). *Inside the Bundesbank. The Bank that Rules Europe*. London: William Heineman Ltd.

<sup>37</sup> Bundesbank. *Währung und Wirtschaft in Deutschland: 1876-1975*. Frankfurt am Main: Deutsche Bundesbank.

particular on the origins of the Bundesbanks' staunch defense of independent central banking<sup>38</sup>. Beginning with "Ordoliberalism" as the presumed theoretical foundation for what he calls "Bundesbank mythology", Bibow argues that contrary to claims by prominent Bundesbankers themselves, Ordoliberalist thought is irreconcilable with an independent central bank<sup>39</sup>. Drawing primarily on Eucken, Bibow claims Ordoliberalists were deeply distrustful of central bankers' discretion in setting monetary policy. According to Bibow, a central bank opposing government policy also defied the "unity of economic policy" at the heart of Eucken's body of thought.

There is a historical tension in Bibow's argument about Ordoliberalism; while he may be correct that central bank independence is not included or even opposed to Ordoliberalist thought, the more important question is how Bundesbank bankers internalized and interpreted Ordoliberalist ideas. Bibow attempts to refute the interpretation of Eucken by prominent Bundesbankers such as Otmar Issing rather than accepting this interpretation as a historical phenomenon itself<sup>40</sup>. I maintain the Bundesbank mythology and its interconnections with Ordoliberalism, whether entirely justified or not, as interesting historical facts in their own right. Bibow also insists that the German focus on the twin periods of hyperinflation is the product of a concerted Bundesbank effort to rewrite what is in fact a symmetric German monetary history with periods of deflation and inflation into a one-sided memory of inflationary peril<sup>41</sup>. The more interesting question that this raises is *why* the Bundesbank rewrote history. What was the Bundesbank's motivation in doing so? In other words, I believe that instead of dispelling the Bundesbank's narratives, delving deeper into the nexus of Bundesbank and Ordoliberalist mythology could contain some of the most important clues on the self-perception and constitution of postwar German central banking.

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<sup>38</sup> Bibow, J. (2009). On the origin and rise of central bank independence in West Germany, *European Journal of the History of Economic Thought*, vol. 16, no. 1, 155–90

<sup>39</sup> Bibow, Jörg. (2012). "At the crossroads: The Euro and its central bank guardian (and savior?)". *Cambridge Journal of Economics* 2013, **37**, 609–626: see p. 613

<sup>40</sup> Walter Issing was Bundesbank chief economist (1990-1998) and ECB chief economist (1998-2006).

<sup>41</sup> Bibow, Jörg (2012): 614

This exploration might also contain valuable clues for the larger scholarly discourse about the history of German finance. There is an important larger debate on if, and how, the development of German finance was unique<sup>42</sup>. Authors such as Kindlberger, Gerschenkron and James, have argued German finance was different from its Anglosaxon counterparts in that it was less market-driven, less equity based, and much more centered on the role of large banks<sup>43</sup>. In the discussion about German industrialization in the 19<sup>th</sup> century, the role of these so-called *Großbanken* is a heated topic. These banks were closely tied to large industrial enterprises. **Bank managers took place in the supervisory boards (*Aufsichtsraten*) of the multitude of joint-stock companies that lined the emerging German industrial landscape. This enabled universal bankers to exercise an unprecedented level of control over industry.**

However, in this literature, the central bank plays a limited role. Getting a more clear perspective on how the central bank developed through time thus also sheds light on how it interacted and shaped the larger German financial system. Here, too, the question of the very large banks is an interesting one. To some extent, one might expect that the Ordoliberalist philosophy conflicts with such concentrations of market power in the financial sector. This underscores the way in which this dissertation might help us to understand how the Bundesbank became the backbone of the German financial system after the Second World War.

### **3.2 Ordoliberalism and the history of economic thought**

In tracing the institutional afterlife of Ordoliberalism, this dissertation builds on a second and more well developed body of literature on the evolution of German economic thought and Ordoliberalism's role in it<sup>44</sup>. Within this broad field, two discussions bear upon my dissertation topic. First, there seems to be a broad consensus that Ordoliberalism constitutes a truly unique

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<sup>42</sup> Edwardss & Ogilvie, *Universal Banks* 441

<sup>43</sup> Chandler & Hikino, *The British Industrial Revolution*, 389-399; Gerschenkron *Backwardness*, 14-15; Kindlberger, *Financial history*, 128-129.

<sup>44</sup> Barry, Norman. (2003). Germany: from the Market to Socialism and Back?. *Ideas on Liberty*, April 2003: 45-48.

school of political economy, set apart from both its competitors in the early 20<sup>th</sup> century German *Methodenstreit* and the later Keynesian and monetarist schools. As such, Ordoliberalism played a pivotal role in the development of German economic thought<sup>45</sup>. The second insight that I take from this literature is the centrality of money in Ordoliberalist philosophy. My addition to this literature is to substantiate and evaluate these claims of economic theory by adding a parallel historical account of the institutional life of Ordoliberalism. However, I will first paint the thrust of these arguments in broad strokes before reflecting on how my dissertation would fit in.

Ordoliberalism differs in important ways from both the German Historical School and the Austrian School. As Wohlgemuth argues, Ordoliberalists rejected the German historical school on a fundamental level and even saw it as their “mission” to surmount them<sup>46</sup>. In an “early programmatic” text which the Ordoliberalists wrote in 1936 “historicism, relativism and fatalism were identified as scientifically poor, morally irresponsible and politically defeatist”<sup>47</sup>. Defining the rules of the economic game was the fundamental goal with which Ordoliberalists saw themselves engaged. Instead of accepting Manchesterian laissez-faire economics, or Austrian methodological individualism, Eucken and the other Ordoliberalists saw it as their task to develop a new toolkit to study economics that was both “general theoretical” and “individual-historical”<sup>48 49</sup>. Their methodology they developed can be characterized as distilling from of history a set of philosophical, legal and economic principles that was to constitute a just economic order. Their perspective stood in sharp contrast to the German Historical School. Contrary to the Historical School’s emphasis on relativism and culturally specificity, the Ordoliberalists were trying to discern a more deep and universal economic-legal doctrine through history.

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<sup>45</sup> Ebner, Alexander. (2006). “The intellectual foundations of the social market economy”. *Journal of Economic Studies* Vol 33: 3: 206-223: 207-209

<sup>46</sup> Wohlgemuth. (2012) “The Freiburg School and the Hayekian Challenge”. *Review of Austrian Economics* 26: 149-170

<sup>47</sup> Wohlgemuth: 151

<sup>48</sup> Goldschmidt, Nils (2012): Walter Eucken’s Place in the History of Ideas. *Review of Austrian Economics*

<sup>49</sup> Wohlgemuth 161

For the Ordoliberalists, monetary stability is one of the cornerstones in that endeavor. They were both against high inflation and price controls to stem inflation. In particular, the episode of hyperinflation from 1923 to 1924 led the Ordoliberalists to believe that inflation can deeply upset the economic order of society<sup>50</sup>. Interestingly, they were not only concerned with the way in which unpredictable money can undermine the effectiveness of the price mechanism, but also how it leads to an unjust redistribution of the means of production, thereby undermining the social order. As Eucken himself said: “[prices] no longer expressed the relationship between needs and supplies...calculations based on these prices for products and for the means of production could not command the factors of production to meet the needs of the plan; profit and loss calculations and budgets gave no information as to whether the factors of production were being combined optimally for the production of goods (...)”<sup>51</sup>. Responding to the postwar situation in Germany, Wilhelm Röpke coined the term “repressed inflation” to delineate a situation in which prices are prevented from rising due to government intervention: “Open inflation is bad enough because it is the cause of crying injustices and because it leads to unbalanced production. Repressed inflation is, if anything, somewhat worse because it adds stagnation to unbalanced production and unjust distribution.”<sup>52</sup>

However, it is a mistake to conceptualize Ordoliberalism as a purely liberal school of thought. Ordoliberalists were deeply skeptical about laissez-fair economics<sup>53</sup> and took the problem of the “proletariat” very seriously, seeing it as threat to the “vitality” of the entrepreneurial spirit that was at the heart of a functioning society<sup>54</sup>. Ordoliberalists rejected a focus on supply and demand because the economic order for them was about creating conditions in which individuals can flourish. As Groskettler illustrates (1989) the word “Ordoliberalism”

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<sup>50</sup> Ebner: 209

<sup>51</sup> Eucken, Walter; (1948) “What Kind of Economic and Social System?” in A. Peacock and H. Willgerodt (eds); (1989a) *Germany’s Social Market Economy: Origins and Evolution*, Macmillian Press Ltd., London, pp. 27-45: p. 91. Drawn from Rittershausen (see below)

<sup>52</sup> Röpke, 1947: 247. In Ritterhausen (see below).

<sup>53</sup> Rittershausen, Johannes B. (2007). The postwar West German economic transition: From Ordoliberalism to Keynesianism. *IWP Discussin Paper* no.2007/1: p. 9

<sup>54</sup> Bonefeld 107.

stems Latin word *Ordo* or inner order<sup>55</sup> Contrary to Friedrich Hayek and his focus on the role of private information, the Ordoliberalists became preoccupied with the role of private power in a free society. Historically Hayek's relationship with the Freiburg school of economics can be described as one of "mutual neglect". The economy should in Ordoliberal eyes not become rationalized, quantified nor burdened by bureaucracy<sup>56</sup>. The free economy becomes a "political practice". Not one that needs constant policing, rather one in which the free-market's effective operation depending upon a foundational social and legal structure.

Ordoliberalists deviate not only from classic liberalism in their focus on the problem of private market power, but also in their emphasis on social distribution. Although there is considerably variation amongst the Ordoliberalists in their interpretation of a "just social intervention", all of them agree that all citizens must be able to share in the prosperity generated by the market mechanism. Otherwise, long-term stability cannot be guaranteed. For Eucken, for example, the government must counterbalance severe economic anomalies such as prolonged unemployment as well as, phrased in modern economic terms, the internalization of externalities that arise from the "tension between short-term gains and long-term collective costs"<sup>57</sup>. Hayek and other traditional "neoliberals" distrusted Ordoliberalism's preoccupation with the distribution of wealth or social justice. <sup>58</sup>For Rüstow, government can actively pursue policies that quicken the establishment of a new socially optimal equilibrium<sup>59</sup>. As Bonefeld sums up: "Ordo-liberal social policy entails a constant reassertion of the political decision for free economy, facilitating the social preconditions of competition and embedding the moral sentiments of enterprise"<sup>60</sup>

While Ordoliberalists share the Keynesian concern with saving capitalism from its own vagaries, there are fundamental methodological and even substantive differences between the two

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<sup>55</sup> Grosseckter, G., Heinz; (1989) "On Designing an Economic Order. The Contributions of the Freiburg School" in D. Walker (ed); *Perspectives on the History of Economic Thought*, v. II, Grower Publishing Co: p.43

<sup>56</sup> Ibid

<sup>57</sup> Eucken, Walter; (1952, ed. 1959, 1968) *Grundsätze der Wirtschaftspolitik*, J.C.B. Mohr, Tübingen

<sup>58</sup> Rittershausen: 12

<sup>59</sup> Rüstow, Alexander; (1932) "Liberal Intervention" in H. Wünsche and others (eds); (1982) *Standard Texts on the Social Market Economy: Two Centuries of Discussion*, Ludwig-Erhard-Stiftung, Gustav Fischer Verlag, Stuttgart, pp. 183-87

<sup>60</sup> Bonefeld: 119

economic schools. The re-distribution of wealth, for Ordoliberalists, has to be limited in scope to alleviate solely the most fundamental threats to the social fabric and can never disrupt the primacy of prices or anti-monopoly controls. Furthermore, Ordoliberalists, contrary to Keynesians, are entirely focused on analyzing the micro-level of society rather than the macro-level. For them, the freedom of micro-actors can never be sacrificed for the benefit of the macro-control of the economy. Ordoliberalists were wary of the Keynesian call for a strong government to govern business cycles, fearing the scepter of socialism inherent in it. They also rely on a historical understanding in search for the optimal socio-economic makeup of society instead of the econometric methodology of the Keynesians. In fact, they strongly rejected the econometric modeling employed by the Keynesians as overly rational and threatening to the ‘vitality’ of the economy. Such bureaucratic control, for Ordoliberalists, entail the danger of depriving individual workers from the control over their own means of production and poses a threat to the individual entrepreneurial spirit. This entrepreneurial spirit and the forces of competition-based pricing, are constructed through social interaction not rationality. The uniqueness of the intellectual tradition underscores the need for an institutional history of the school of thought.

In tracing Ordoliberalism, I also want to make a contribution to the vigorous debate on the evolution of economic schools in Germany. To start with a disclaimer: much of this literature is rife with normative claims. I want to steer away from arguing about the merits and demerits of Ordoliberalism as an approach to political economy and rather try to decipher how the school developed. There is considerable disagreement on whether or not Keynesianism and monetarism set foot in the German economic realm, and if they did, in what way. While most scholars agree that Ordoliberalism was without a doubt the hegemonic school of thought during the late 40s and the 1950s, there is much to gain from a larger understanding of the 1960s and 1970s. How did Ordoliberalism interact with Keynesian and monetarist ideas? Was it subsumed by it? Did it give rise to a new synthesis? As Rittershausen argues, by 1963, Keynesianism had taken hold of the mind of German policy makers. One of the key moments he outlines is the foundation of the

Sachverständigenrat in 1963 which was economic council aimed at actively managing the economy<sup>61</sup>. One of the most important reasons for the decline of Ordoliberalism, so Rittershausen argues, was the death of many of its founders including Eucken.

I contend that Ordoliberalism did not in fact die with its founders. Many of its thinkers had trained and inspired a host of students. What happened to them? Where did they end up working? My hypothesis is that although Keynesianism became the dominant school within the German Federal government, Ordoliberalism went into hiding within the confines of the Bundesbank. Indeed, Rittershausen remarks the last ‘victory’ of Ordoliberalism was the establishment of the Bundesbank in 1957. Furthermore, the markedly low inflation of German in the 1960s as opposed to all the other European countries seems to indicate their monetary policy differed from other countries<sup>62</sup>.

Furthermore, I want to place the creation of a Germany economic myth and the evolution of German economic thought in a larger international context. Many of the texts written about Ordoliberalism take little note of the developments in other countries, let alone on the institutional life of economic theories. In particular, I see my dissertation as being locked into an intellectual conversation with works such as Angus Burgin’s *The Great Persuasion*<sup>63</sup>. In this excellent work of scholarship, Burgin addresses how intellectuals such as Friedman and Hayek revived, reinvented and re-legitimized free-market economics after the Great Depression had deeply discredited laissez-faire economics. As such, he provides deep insight into the intellectual roots of modern conservatism.

Two of the most important characters in the book are Friedrich Hayek and Milton Friedman, but Burgin touches upon a wide range of liberal and conservative intellectuals including the Ordoliberalist Röpke. The Mont-Pelerin society plays a central role in his account.

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<sup>61</sup> Rittershausen: 41.

<sup>62</sup> See for example Alesina, Alberto & Summers, Lary. (1993). Central Bank Independence and Macro-Economic Performance: Some Comparative Evidence. *Journal of Money, Credit and Banking*, Vol. 25, No. 2. (May, 1993), pp. 151-162: p. 159

<sup>63</sup> Burgin, Angus. (2012). *The Great Persuasion*. Cambridge, MA: Harvard University Press.



Particularly pertinent to my dissertation is his discussion of “New Conservatism” in which he demonstrates the growing chasm between the more economic American thinkers such as Friedman on the one hand and the more sociological and historical European counterparts like Hayek and Röpke on the other hand. An account of how Ordoliberalists in Germany and Europe propagated their ideas could shed more light on the global evolution of liberal economic thought in the 20<sup>th</sup> century that Burgin has started unraveling. Apart from the direct connection between my dissertation and his work, Burgin’s methods also provide a powerful template for my own work. Particularly, the way in which he shows how liberal economic thought can be channeled into economic institutions and policy-making could be illustrious in grappling with the connections between Ordoliberalism and German central banking.

### 3.3 History of the German economic miracle

Accordingly, I hope my dissertation can make contribute to a larger understanding of German economic miracle. There is a vivid discourse on the dynamics behind the German economic miracle in which Ordoliberalism is one of the causes often mentioned. Another contender is the European Recovery Program (ERP), more popularly known as the Marshall plan. There is a significant debate on the relative merits of each causal factor. A view attributed to Abelshauser is that the chronology lends significant credence to the notion that the Erhard’s Ordoliberalist policies were the original spark for the recovery. Industrial production in Germany had risen up to 91% of 1936 levels by March of 1949, months before the first Marshall plan payment arrived in Germany<sup>64</sup>. Other authors have argued that the recovery was part of a natural pattern of economic “convergence” as the immediate effects of the wartime destruction wore off<sup>65</sup>. Eichengreen and DeLong have synthesized these arguments, coming to the conclusion that the

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<sup>64</sup> Werner Abelshauser, (1991). “American Aid and the West German Recovery,” in *The Marshall Plan and Germany* (eds. Charles Maier and Gunter Bischof). New York: Berg Publishers Ltd

<sup>65</sup> Moses Abramovitz, “Catching Up, Forging Ahead, and Falling Behind,” *Journal of Economic History* 46 (1986), 385-406.

capital of the Marshall plan helped to stabilize the effects of the liberalization policies of Erhard<sup>66</sup>. Despite the perceived centrality of Ordoliberalism in propelling the economic miracle, its impact on postwar German central banking has been omitted from the historiography of the Bundesbank<sup>67</sup>. As I argued before, this is a vital omission for two reasons. First, because the Bundesbank's predecessor, the *Bank Deutscher Länder*, was founded in the year in first green shoots of the miracle became visible: 1948. Second, because price stability and liberalization is a recurring theme in Ordoliberalist thought and in the *Wirtschaftswunder*. I hope to rectify this omission.

More broadly, I hope my work will make a contribution to the debate in the history of finance on the origins of 'financial revolutions' owing to the seminal publication by Douglas North and Barry Weingast<sup>68</sup>. Viewing the postwar German reconstruction as a financial revolution contains many risks but is also potentially very rewarding. Many of developments considered financial revolutions were much earlier historically and took place in countries with an underdeveloped financial infrastructure. Some of the prime examples include the emergence of the stock market in Amsterdam, Britain's Glorious Revolution and the emergence of the financial revolution in the United States following the civil war. However, it could be valuable to think of the reparation of a financial system recovering from economic dislocation, depression and war, in terms of a financial revolution. In many ways, the German economic miracle of the 1950s can be viewed as similar to financial revolutions from entirely different eras, even the Glorious Revolution of 1688. The German episode, too, featured a remarkable restoration of public and private credit and a surge in economic following the establishment of new institutions such as the

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<sup>66</sup> J. Bradford De Long and Barry Eichengreen. (1993). "The Marshall Plan: History's Most Successful Structural Adjustment Program," in *Post-World War II Economic Reconstruction and its Lessons for Eastern Europe Today*, (eds. Rudiger Dornbusch, et al). Cambridge: MIT Press.

<sup>67</sup> Several books were written about the history of the Bundesbank, most of them in the aftermath of the German reunification. While these works of scholarship contain many interesting clues for this dissertation, none of them address the question of Ordoliberalism directly.

<sup>68</sup> Douglass C. North and Barry R. Weingast. (1989). "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England," *The Journal of Economic History* 49, no. 4 (Dec., 1989): 803-832.

new federal German state and the Bank Deutscher Länder<sup>69</sup>. It is thus also versed some of the same controversies plaguing the polemic following the North and Weingast publication<sup>70</sup>.

On a final yet under-developed note, I would explore avenues in which my dissertation might serve as a case study how the writing of economic history itself can exert influence on economic outcomes. The interpretation of the Wirtschaftswunder and Ordoliberalism' role in it seems to have lend significant credence to school of thought until this day. Other than expanding our knowledge of the origins of the Bundesbank, this might contain some lessons on the constitutive influence of economic history as a scientific discipline.

#### IV. Potential sources.

My research would draw on the combination of a review of the literature mentioned before, archival work and, if possible, oral interviews with retired and current Bundesbankers. There are several archives that will likely contain valuable clues for me. The first is the Bundesbank historical archive, located in Frankfurt<sup>71</sup>. This archive holds the records of the entire postwar period, including the era of the Bank Deutscher Länder and the Bundesbank<sup>72</sup>. This is an exceedingly large archive, and contains notes on all the board meetings held in this period, all the scientific publications put out by the German central bank, as well as lists of personnel. The second archive I would have to delve into is the Reichsbank archive in Berlin. This is part of the Bundesarchiv at large (The German Federal Archives). There might be some archives of the American economists who were involved with designing the German central bank. For example, Edward Tenenbaum, the American economist leading the charge on the project, has donated his

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<sup>69</sup> Ibid, p. 804-805

<sup>70</sup> See for example J. G. A. Pocock. (1985). "The Mobility of Property and the Rise of Eighteenth-Century Sociology," in *Virtue, Commerce and History: Essays on Political Thought and History*. Cambridge, UK: Cambridge University Press: 103-123;

David Stasavage, "Partisan Politics and Public Debt: The Importance of the 'Whig Supremacy' for Britain's Financial Revolution," *European Review of Economic History* 11, no. 1 (2007): 123-53.

<sup>71</sup> The historical archive of the Bundesbank goes from 1948 onwards. See [http://www.bundesbank.de/Redaktion/EN/Standardartikel/Bundesbank/Library\\_and\\_archives/historical\\_archiv\\_e.html](http://www.bundesbank.de/Redaktion/EN/Standardartikel/Bundesbank/Library_and_archives/historical_archiv_e.html)>

<sup>72</sup> Ibid

archives to the Harry Truman library<sup>73</sup>. Finally, there is a promising archive controlled by the Walter Eucken Institut in Freiburg<sup>74</sup>. I am confident I will be capable of finding more of the Ordoliberalists archives, many of which will presumably be located in Freiburg also. In this light, an additional source of valuable information is the archive of scientific journal “Ordo” which was the main publication for the Ordoliberalists<sup>75</sup>. Finally, I would hope to track down old employees of the Bundesbank, including hopefully some who worked for the Bundesbank in the 1950s, and conduct interviews with them. Oral histories suffer from obvious drawbacks, particularly ones centering on decades long past. Nevertheless, these interviews might confirm or disconfirm some of the hypotheses outlined in this research prospectus, or give new leads on where to find valuable information.

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<sup>73</sup> <http://www.trumanlibrary.org/hstpape/tenenbaumea.htm>

<sup>74</sup> The website of the Walter Eucken Institute can be accessed through <<http://www.eucken.de/meta/suche.html>>

<sup>75</sup> Some of the archives of the “Ordo” journal can be accessed online under <<http://archive.is/www.ordo-journal.com>>

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