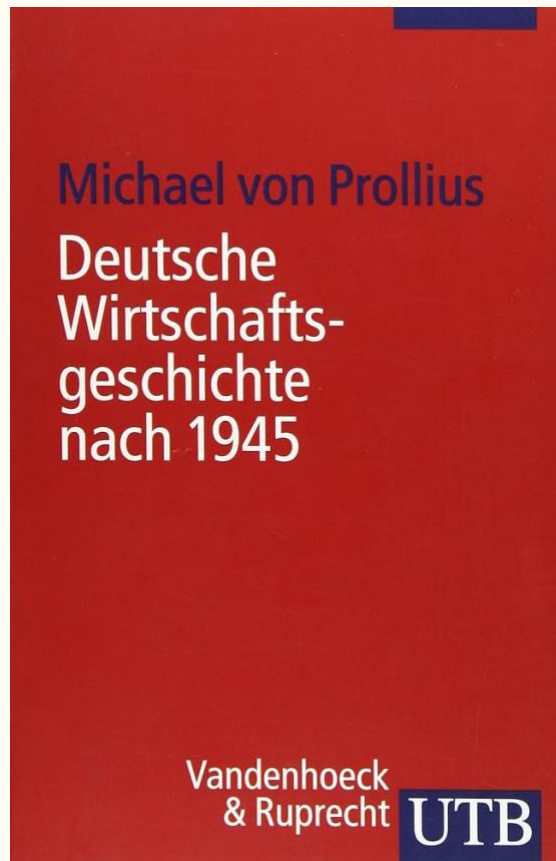


German Economic History after 1945



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One-Sentence Summary

This book traces the postwar economic development of Germany through the lens of *Ordnungspolitik*, showing how the Social Market Economy served as both guiding framework and contested myth, while cycles of growth, welfare expansion, crisis, and delayed reform shaped the trajectory of the Federal Republic from 1945 to the early 2000s.

About This Book

Publication Details:

- **Author:** Michael von Prollius
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Genesis and Methodology:

The work originates in the author's longstanding engagement with the question: **What explains Germany's economic development after 1945?** Combining economic history, political economy, and the history of economic thought, the book applies the principle of *Ordnungspolitik* – economic order policy – as a unifying interpretive framework. This approach reveals not merely descriptive phases but the structural logic of German “capitalism” – the *Soziale Marktwirtschaft*: institutions and doctrines shaping outcomes over time.

Author's Note:

The study owes much to Prof. Heinrich Volkmann, whose lectures, academic mentorship, and cooperation in teaching assignments influenced the author's work. Even an early seminar paper under Volkmann's guidance contributed to the methodological perspective that informs this book. The partly classical liberal, partly ordoliberal perspective has revealed a constant stream of flawed political and economic misdevelopments.

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Order, Growth, and Crisis in the Federal Republic A Structural Analysis of Postwar Economic Governance in Germany

Introduction

The Federal Republic of Germany presents one of the most remarkable economic stories of the 20th century: from total devastation in 1945 to an export powerhouse within decades, from stability to welfare expansion, and from crises to repeated reform attempts. The book addresses the central question: **Which factors and principles determined this path?** The answer lies in the dynamic tension between economic doctrines, institutional structures, and practical politics – captured in the overarching concept of Ordnungspolitik.

I. The Challenge of Interpretation

Postwar Germany cannot be explained by statistics alone. The Wirtschaftswunder, the fiscal crises of the 1970s, the burdens of reunification, and the stagnation of the early 2000s all require a perspective that integrates economic ideas and institutional frameworks. The analysis shows that while paradigms shifted – ordoliberalism in the 1950s, Keynesianism in the 1970s, supply-side reform in the 1990s – the unifying thread was the commitment, at least rhetorically, to the Social Market Economy.

II. Ordnungspolitik as Analytical Lens

Ordnungspolitik provides the conceptual backbone of the book. It emphasizes the rule-based ordering of the economy: competition policy, monetary stability, and the state as guarantor of the framework rather than direct market participant.

- **Ordoliberalism (1940s–1960s):** Defined the initial framework, emphasizing market competition, price stability, and a limited but strong state.
- **Keynesianism (1960s–1980s):** Introduced demand management, deficit spending, and an expanding welfare state.

- **Supply-side approaches (1980s–2000s):** Focused on deregulation, fiscal consolidation, and structural adjustment under global competition.

Each paradigm was not merely a theory but informed political practice, sometimes coherently, often inconsistently. Thus the book analyses and describes in greater detail the political and economic developments and decisions that defined and shifted the economic order from economic miracle to economic crisis.

III. The Social Market Economy: Guiding Idea and Myth

One of the book's key insights is the dual role of the Social Market Economy.

- **As a guiding idea,** it provided legitimacy across parties and decades. Politicians, economists, and the public invoked it as shorthand for prosperity with fairness.
- **As a myth,** it masked divergences between rhetoric and practice: Keynesian deficit spending, corporatist bargaining, subsidies, and protectionist tendencies often and early on contradicted ordoliberal principles.
- **As a symbol,** it anchored German economic identity, both domestically and internationally. The Social Market Economy became the brand of the Federal Republic, even as its content shifted.

IV. From Scarcity to Prosperity: 1945–1960s

- **Mangelwirtschaft (scarcity economy):** Years of rationing, black markets, and collapsed infrastructure.
- **Currency reform 1948 and Erhard's liberalization:** A radical shift that released productive energies and restored functioning markets.
- **The Economic Miracle:** Double-digit growth, industrial expansion, consumer boom. By the 1960s, Germany had become a leading export nation.
- **Institutional consolidation:** Competition law, Bundesbank independence, European integration (EEC).
- **Tensions:** Early signs of pressure—balance of payments issues, debates over rearmament costs—already hinted that prosperity required constant adaptation.

V. The Welfare Economy: 1970s–1980s

- **Keynesian ascendancy:** Expansion of welfare commitments, fiscal activism, and attempts to stabilize cycles through government demand management.
- **Oil crises and stagflation:** Inflation and unemployment undermined Keynesian orthodoxy, exposing structural weaknesses in industry.
- **Structural change:** Heavy industries declined, services and high-tech grew, but often with painful and delayed adjustment.
- **Political consensus:** Despite growing strains, the welfare state became entrenched. The Social Market Economy narrative now emphasized social protection as much as competition.
- **Mounting costs:** Fiscal deficits, rising debt, and rigid labor markets foreshadowed the difficulties of later decades.

VI. Reunification and Transformation: 1990s

- **Reunification shock:** The collapse of East German industry seemed to require massive transfers. Productivity gaps, unemployment, and social costs strained the system.
- **Public finance burden:** Deficits and debt surged, undermining fiscal stability.
- **Globalization challenge:** The rise of new competitors and the integration of world markets exposed inefficiencies in the German model.
- **Delayed reform:** Though the need for labor market liberalization and fiscal consolidation was evident, political will was slow to materialize or did not exist at all.

VII. Crisis and Reform in the Early 2000s

- **Stagnation:** Slow growth, persistent unemployment, and high non-wage costs eroded competitiveness.
- **Supply-side response:** Calls for structural reform, deregulation, and modernization of labor markets gained urgency.
- **Agenda 2010 (beyond the book's publication horizon):** Emerging policy debates hinted at a shift toward competitiveness and sustainability.
- **Continuity of delay:** Once again, reforms followed crisis rather than preceding it. This recurring pattern is a central finding of the study.

VIII. Evaluation: Patterns of Order and Change

- **Strengths:** Institutional stability, capacity for adaptation, export orientation, social cohesion.
- **Weaknesses:** Reform inertia, fiscal overextension, vulnerability to external shocks.
- **Key pattern:** The Federal Republic repeatedly experienced **crisis as catalyst**. Major reforms were politically feasible only after crises revealed unsustainability. This “delay-and-correct” pattern is characteristic of the German model. Besides, government had to address growing problems that it had caused itself. The book documents the departure from sound political and economic principals over time – in a nutshell: from economic miracle to economic crisis.

IX. Historical Significance

The study demonstrates how the Federal Republic’s economic history cannot be detached from ideas of order. The Social Market Economy, in its dual role as Leitidee and myth, provided a unifying but flexible frame. The sequence Ordoliberalism–Keynesianism–Supply-side reform reflects the broader shifts in Western capitalism, but filtered through Germany’s unique institutions.

By tracing this history, the book not only explains Germany’s trajectory from a proclaimed market economy to a welfare state but also illuminates the dynamic relationship between economic thought, institutional design, and political practice.

Conclusion

The German economy after 1945 evolved through alternating phases of prosperity, welfare expansion, crisis, and reform. Ordnungspolitik provided intellectual orientation, while the Social Market Economy served as both guiding principle and contested symbol. The Federal Republic’s path illustrates a recurring pattern: **prosperity built on order, challenged by crisis, and renewed by delayed reform**.

Broader Significance

This book offers students, scholars, and international readers an accessible yet systematic account as well as introduction of (West) German economic development. It highlights how doctrines shape policy, how institutions endure and adapt, and how myths sustain legitimacy. By analyzing Germany’s experience, it contributes to broader debates about the sustainability of welfare states, the resilience of capitalist orders, and the importance of intellectual frameworks in shaping economic outcomes.

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About the Author

Michael von Prollius is a German historian, economist, and author specializing in the intersection of ideas, institutions, and historical development. He holds degrees in history and economics and has conducted extensive research spanning ancient history, economic thought, political philosophy, and contemporary policy analysis.

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