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Causes and Effects of the Economic Crisis in the Federal Republic of Germany in 1957–1958

Przyczyny i skutki kryzysu gospodarczego w Republice Federalnej Niemiec w latach 1957–1958

• Abstract •

The economic crisis of 1957–1958 brought to an end the first and started the second post-war business cycle in the West Germany's economy. The long-term growth trend of the 1958–1970 period was interlaced with two downturns in the economic development, in the 1962–1963 and 1965–1967 periods, respectively. As in the entire period following the World War II, the downturn in economic activity did not lead to an absolute decline in industrial production and gross domestic product (GDP) on the year to year basis, but only to a reduction in the economic growth rate, or in other words – negative deviation of the growth rate from the long-term development trend.

Keywords: German economy; German economic miracle; economic development; business cycle; economic crisis

• Abstrakt •

Kryzys gospodarczy lat 1957–1958 zakończył pierwszy i rozpoczął drugi powojenny cykl koniunkturalny w gospodarce RFN. Długoterminowy trend wzrostowy w latach 1958–1970 przeplatał się z dwoma spadkami rozwoju gospodarczego, odpowiednio w latach 1962–1963 i 1965–1967. Podobnie jak w całym okresie po II wojnie światowej, tak i tym razem spadek aktywności gospodarczej nie doprowadził do bezwzględnego spadku produkcji przemysłowej i produktu krajowego brutto (PKB) w ujęciu rok do roku, a jedynie do obniżenia tempa wzrostu gospodarczego, czyli innymi słowy – do ujemnego odchylenia tempa wzrostu względem długoterminowego trendu rozwojowego.

Słowa kluczowe: gospodarka RFN; niemiecki cud gospodarczy; rozwój gospodarczy; cykl koniunkturalny; kryzys gospodarczy

Introduction

The economic crisis of 1957–1958 closed the first and gave rise to the second post-war economic cycle in Germany. The long-term growth trend in the period 1958–1970 was interlaced with two cyclical downturns (observed in 1962/1963 and 1965–1967, respectively). Similarly, as in the entire post-World War II period, the economic downturn did not lead to absolute decline in the volume of industrial production and in Gross Domestic Product compared to the previous year, but only to a slowdown of the rate of economic growth expressed as a negative deviation of the growth rate from the long-term development trend (*Economic Bulletin for Europe*, 1957a). Research on the business cycle in the economy of the Federal Republic of Germany after World War II indicates that the crisis years of 1957–1958 brought about sizeable breakthrough in the economy. Since then, the transitory factors, which had positive impact during the first business cycle, begun to disappear which in turn resulted in lower average rate of growth. The growth was therefore often interjected by more frequent declines in economic activity (compared to the 1950s) and by accelerating inflationary pressures during expansion (Bottiger, 1992).

The expansion in the capitalist countries was coupled, in that period, with mass renewal and expansion of fixed assets. In the countries of Western Europe in the 1954–1957 period, the volume of investments exceeded the level of the year 1950 on average by 42.5% (including in Germany by 69%, Italy by 61%, Great Britain by 33%, and in France by 30%). In the period 1955–1957, the said outlays were higher by, respectively, 25% and 57% than in 1950 (Grimm, 1992, p. 246).

However, due to almost prevalent universal decline in the inflow of orders, sharp slowdown in the rate of growth in industrial production of certain countries and branches and its absolute decline in the other, reduced utilization of fixed assets, and significant worsening of sales prospects both domestically and on external markets, investment expenditures were reduced in almost every country. Moreover, in many cases the cycle of investment programs which started in the period 1955–1956 was coming to an end. In the number of countries investment outlays started to decline, which made the full utilization of machine industry's productive capacities impossible. In the Federal Republic of Germany, the rate of growth in industrial production and exports slowed down, and investment outlays as well as production of the construction sector declined by 2.5–3%. It was for the first time in the post-war period that the production in a number of important industrial branches declined – particularly large decrease was observed in the production of: cast iron and cast steel, forges' equipment and presses, tractors, transformers, construction

equipment, window panes, bricks, cement as well as bicycles, motorcycles, scooters, photo cameras, and radio receivers.

Economic trends in 1957

The research on the business cycle developments in the Federal Republic of Germany after World War II indicated that the crisis years of 1957–1958 constitute critical period in the economy of the Federal Republic of Germany (*Economic Bulletin for Europe*, 1957). Since that moment, the transitory factors, which had positive impact during the first business cycle, started to disappear, which in turn led to the decline in the average rate of growth. From now on, the said growth was interrupted by both more frequent episodes of slowdowns in economic activity, compared to the situation observed in the 1950s, and buildup of inflationary pressures during the expansion phase. The expansion phase in the capitalist countries was at that time closely linked to the mass renewal and expansion of fixed capital. In the Western European countries in the 1954–1957 period, the volume of investments exceeded the level observed in 1950 on average by 42.5%, including in FRG by 69%, Italy by 61%, Great Britain by 33%, and in France by 30%. In case of the US and Canada, the growth in the level of investments in 1955–1957 was by 25% and 57%, respectively, higher than in 1950.

However, due to almost general shrinking of the number of orders and to sharp slowdown in the production growth in some branches, or evident absolute decline in others as well as to reduced utilization rate of fixed assets and general deterioration of the sales prospects on both domestic and foreign markets, investment outlays were reduced in almost every country. More so that in many instances the realization of the investment programs undertaken in the period 1955–1956 was coming to an end. In the number of countries investment outlays started to shrink, precluding full utilization of productive capacities build during the first stages of the economic upturn (Scheel, 1965).

Nevertheless, the output of both industrial production and exports in the FRG stayed on a high level. In January 1958, the industrial production's index was 5.1% higher than in May 1957, which was approximately equal to the average yearly rate of growth in 1957. However, the level higher than the one from twelve months earlier was observed only until February (growth of 2%). The higher production than that observed in 1957 continued to a large extent in few important industrial branches such as: extraction and refining of oil, as well as in the automobile, electro-technical and foodstuffs industries. Simultaneously, the extraction of coal, melting of steel,

production of steel edifices, production of the machines industry, ceramics industry, and textile industry, as well as the production of mass consumption goods and construction were below the level observed in 1957.

The exports rate of growth profoundly weakened. In January 1956, exports from the FRG were 20.3% higher than a year before. In January 1957, the respective rate of growth weakened to 14.2%, while in January 1958, it dropped further to mere 6.1%. For the first time in a number of years, in March 1958 exports were lower – in absolute terms – than a year before. It should be also added that current exports covered also the backlog of orders placed previously which had to be filled. Moreover, in the boom years of 1955–1956, FRG based its growth, to a large extent, on the enormous demand which existed on the external markets. “Monatsberichte der Deutschen Bundesbank” bulletin wrote: “For some time now the decline in the external demand has been visible. In the second half of 1957, despite the growth in prices, the inflow of orders expressed in the value terms was 5% lower than in the responding period of the previous year. The clouds which surface on the horizon of the business cycles worldwide cast their shadow also on the exports of goods from the FRG”. And also added that: “External demand, in unison with the business cycle conditions in the sizeable part of the global economy, has been progressively declining since mid-1957, leading to significant shifts in the framework of factors which determine the economic development of FRG”. It is no coincidence that West Germany, the country which benefited more than the others from the development of international trade during the economic upturn, later suffered the most from the changing economic situation (Sziotka, 1976).

One has also to bear in mind that among the symptoms of the cyclical expansion and boom in the capitalist production was growth in international trade in general (and in the sales of oil, coal, iron ore, iron, and scrap metal in particular). The most plastic presentation of the economic upturn was revealed – both in absolute and relative terms – in foreign trade in industrial equipment. This was highly conducive to FRG exports. Improved competitive abilities of that country on the equipment market were supported by lower prices of German products than of the American and British ones. Moreover, German industry was not burdened by the military orders, and consequently was able to guarantee shorter delivery dates.

The profound shift in the business cycle had inevitably affected the exports of Federal Republic, as the expiry of the expansion and boom stages had resulted in reduced demand for equipment. Both in December 1957 and in February 1958, the inflow of orders to that country was lower than in the corresponding month a year earlier – by 7% and 6%, respectively. And, what is most important – in December 1957 – new orders constituted only 88% of orders to be filled during the given

month, as against 96% in November, 100% on average in the year of 1957, and 14% in 1965. It has to be underlined that particularly deep decline in the orders for equipment took place in February (9.5%) while the general decline in orders in industry amounted then to 6%.

In 1957, the production of the West Germany's engineering industry increased by 4%, including the general machine building industry by 3.4%, that is, at a lower rate than the total industrial production. The growth in production of the general machinery industry was observed in January 1958 when it amounted to meager 3.2%, below the growth rate in production of consumer durables (e.g., cars – output soared by 33.8%) and foodstuffs. Such developments were caused by the fact that in the FRG, similarly to the other market economies, the cycle of mass renovation (modernization) of fixed capital (assets) was coming to an end. Munich-based Institute on the Market Economy Research stressed, i.a., that "FRG is going through stagnation in investments in fixed assets". Taking into account the fact that capacity utilization in the FRG was, as of 1958, significantly lower than in 1955 (by 7%), the decline in outlays on capacity building appeared inevitable.

However, in the West Germany's industry there was still a room for investments aimed at reduction of production costs, rationalization of production, reduction in the utilization of human labor and at wider application of new technology as well as for investments of military character. In February 1958, domestic orders for equipment were 11% lower than in February 1957. Simultaneously, there was a continued growth in production of automobiles, TV sets, upholstered furniture, refrigerators, and other electrical equipment. However due to the looming "clear and present danger of long-lasting and persistent decline in external demand" (*Der Volkswirt*, 1958a, p. 433) and because of the seriously weakened situation in the steel industry and in the coal mining, due to decreases in production of certain construction materials, aluminum, artificial fiber, yarn and textiles, as well as photo cameras, radio receivers, scooters, typewriters, it could not be excluded that the country was about to experience soon the reduction in total production of industry.

In 1957, the industrial production in the FRG posted the lowest level in the entire post-war period. Foreign trade turnover was also lower than ever before. In the 1950–1957 period, the industry of the FRG gained access to a sizeable domestic markets. There was a need to renovate fixed assets, which were to a large extent at least twenty years old, and therefore not only physically but – due to the technical progress – also morally worn. Also, the partition of the country also brought about an array of disproportions inside the economic system (for example, almost entire metallurgy but only $\frac{1}{3}$ of the electro-technical industry were situated in the FRG). All of the above-mentioned factors contributed to a large demand for equipment.

There was a growth in employment, and consequently growth in consumption, which stimulated, in turn, production increases in a branches producing mass consumption goods. Situation on the external markets was also beneficial to the West Germany's industry as Western European countries exhibited sizeable demand for industrial goods, particularly for equipment.

During the war and in the post-war period, West Germany's enterprises were displaced from the world markets by companies from other countries, but starting from around 1950, they were able to reclaim, step by step, the lost markets and partially managed to enter the new ones. In their competitive struggle, West Germany's enterprises had at least two sources of advantage over their competitors – shorter delivery dates (since the FRG industry was not burdened with military orders) and lower prices, resulting chiefly from the lower wages of the country's workers and their oftentimes higher productivity than in other market economies.

Consequently, the Federal Republic's industry had accumulated productive capacities which were higher than domestic demand. The process of renovation and expansion of fixed assets slowed down and investments – which had been growing since the end of the war – had declined in 1957 for the first time in real terms. The decline in demand on equipment had resulted in reduced domestic demand for coal and steel. In many capitalist economies, there was also a decline in the demand for equipment which translated into reduction in the number of orders for the West Germany's industry. Though all those developments had profound impact only on selected production branches in the FRG and led to decline in production of a relatively narrow range of goods, the adverse trends in the nation's economic development were quite visible.

The periodic "Volkswirt" wrote: "Situation in the Federal Republic is generally characterized by the fact that large investments made in the 1955–1956 period finished and that production of the construction sector is lower than in 1956. Different industrial branches have been for a long time coping with declining demand. Production of bicycles, construction equipment, tractors and personal automobiles can serve as an example here. Other branches – textile industry, apparel industry and production of artificial fibers – are increasingly feeling the effects of strengthening competition of other countries. In the Ruhr, the stocks of coal and coke have accumulated. There is an uncertainty related to the prices of steel. All these factors can create the impression that also in our country the stagnation or even decline had arrived" (*Der Volkswirt*, 1958a, pp. 7–9).

The general slowdown in the economic growth of the Federal Republic observed in 1956 continued throughout 1957. Gross social product grew from 192.5 billion DM in 1956 to 207 billion DM in 1957, which translates into real growth – after

price increases are accounted for – of 5% (as against 6% in 1956 and 12% in 1955). The magnitude of industrial production, which accounted for about half of the global product, increased by 5.7%, however in this field the economic slowdown was even more pronounced (in 1956, industrial production increased by 7.6% and in 1955 by 15%).

The volume of industrial production in 1957 was influenced by two mutually contradictory factors – shortening of the working week by 4% (on average from 49 to 47 hours in case of men) on one hand, and profound productivity growth per one hour of labor (by 8%, compared to 4% growth a year before). However, the slowdown in production growth was also caused by the market conditions. “Slowdown in the rate of production growth shouldn’t be attributed to a shorter working week. Such an assertion is contradicted, among others, by the fact that on average in the entire industry losses resulting from reduced number of working hours were more than compensated by labor productivity gains. There wasn’t also an impact of the productive capacity at work here. As in the previous years, productive capacities grew highly, at a rate above that of production growth” (Schiller, 1966). The slowdown in industrial production’s growth observed in 1957, which started to surface in the second half of 1956, was mainly caused by the changing economic conditions. The primary reason should be ascribed to the fact that domestic demand for industrial goods (particularly for equipment) and subsequently also domestic demand, were not able to match production growth. As the number of orders started to decline, the incentives for expanding production also weakened.

The decline in production of numerous kinds of equipment and construction materials – the branches of the sector I, which played main role during the recovery phase – was a corollary of the decline in investments. While in 1956 investments increased by 6% (in constant prices), in 1957 they shrunk by 2.5%. It has to be underlined that in 1957 investments were – to a much lower degree than previously – earmarked for expansion of enterprises and directed mostly on modernization of equipment. Industrial construction and housing construction in 1957 was lower than the year earlier. At the same time, public construction exceeded levels observed in 1956. The size of investments, despite their decline, still exceeded the scale of wear and tear of obsolete equipment, thus leading to the significant increase in production capacities observed in 1957, and consequently to growth in spare capacities.

Another fact that pointed at the end of the expansion phase in the West German economy was decline in the portfolio of iron metallurgy. Concerns like “Mannesman” and “Phonix-Rheinrohr” introduced shortened workweek (*Neue Rhein-Zeitung*, 1958). The “August-Thyssen” Society reduced the smelting of steel by 20%, “Hosch” by 10%. The stocks of coal in mines stood, as of January 1958,

at 1.1 million tons, compared to 184 thousand tons in January 1957. About 10% of West Germany's fleet was immobilized.

The breakthrough which occurred in the business cycle in the Federal Republic was highlighted in the national press: "The symptoms of weakening business cycle had become so evident and so prevalent that even the most staunch optimists couldn't overlook them" (*Die Welt*, 1958); "The tendencies observed previously – the boom of the last 12 years – are no longer in force" (*Wirtschaft und Statistik*, 1958a).

In 1957, the economy of the West Germany, witnessed, together with the concentration of production, particularly intensive concentration of capital. The said process was evident in almost all industrial branches, banking sector, as well as in wholesale and retail trade. Large companies were striving to consolidate their financial situation and production, preparing for the economic problems ahead. Enterprises which had sufficient capital at their disposal were attempting to "secure necessary materials and resources" in order to be able to "survive the crisis and defend themselves from the competition of large companies".

The most visible process of centralization of capital was evident in the mining and metallurgical industries of the FRG. Steel enterprises "Rheinische Stahlwerke" and "Rheinisch-Westfälische Eisen- und Stahlwerke" merged with the machinery building enterprise "Rheinstahl-Union Maschinen und Stahlbau", the controlling stock of the metallurgical enterprise "Bochumer Verein" went into the hands of Krupp. Consequently, Krupp controlled 16.3% of smelting of steel in the country, the consolidation of societies which were created after the war from the steel Trust strengthened, and Thyssen group took control of 22% of the smelting of steel in the FRG.

In 1957, an important stage of the capital market's centralization process was concluded. Three main banks: Deutsche, Dresdner, and Commerzbank – had been divided after the war into 10 independent (though in many respects this independence was purely formal) institutions (later on into three). Therefore, large majority of operations related to crediting industry was conducted – as before the war – by the three above-mentioned bank concerns (Stucken, 1953). The rebirth of the concerns allows to conclude that the pre-war structure of German capital market was rebuilt.

One of the important factors behind the post-war growth in industrial production of the FRG was economic expansion abroad. Though only 15% of the national industrial production was earmarked for external markets, these figures encompassed 31% of the production of machinery, 38% of the production of precision mechanics and optical industry, 48% of automobiles, 56% of ships, but only 7% of mass production good, and 1.4% of foodstuffs (*Wirtschaft und Statistik*, 1958, pp. 8–25). In 1957, Federal Republic's trade turnover increased by 15% (imports by 13% and

exports by almost 17%). With the 6% growth in industrial production, it attested to the fact that the country's economy was more than before dependent on foreign markets and economic developments abroad. In the end of 1957, foreign orders were significantly reduced. In December 1957, they were 7% lower than in December 1956. Moreover, while in 1956 inflow of foreign orders was 14% higher than the deliveries of goods, during 1957 orders were – on average – equal with deliveries, and in November 1957 they stood at 96%, and in December 1957 – at 88% of deliveries (Monatsberichte der Deutschen Bundesbank, 1958, pp. 4–34). Certain orders were cancelled, since “the part of foreign procurers had changed their plans on account of deteriorating business conditions, or is not able to pay for their previously placed orders” (Monatsberichte der Deutschen Bundesbank, 1958, p. 17).

The slowdown in the Federal Republic's exports growth and reduction in foreign orders followed directly from changes taking place in other market economies. The newspaper “Industriekurier” wrote: “In the future exports are going to decline. The economies of the largest industrialized countries, which had decisive economic position worldwide, are facing the ‘Stop’ sign ahead. In the USA, the economic development stopped. France is undergoing currency problems and is forced to reduce imports, while Great Britain tries to overcome strong inflationary pressures and reduce purchases in other European countries. Economically backward countries, where the inflow of foreign currencies depends on the sales of resources, are increasingly less helpful, as – if we exclude credits – they are facing declining import opportunities. The general potential for sales has worsened, at least for the immediate future. Simultaneously, the competitive struggle intensifies, as domestic demand is going down. In the view of all the above, the advantageous conditions so far supporting West Germany in terms of competitive struggle worldwide had lost their importance”.

Though the level of investments in 1958 was still high, the stocks of foreign currencies and gold sizeable, and production volume higher than in the beginning of 1957, the deterioration of economic situation of the country in 1958 was inevitable. West Germany's industrialists were hoping to compensate for the possible decline in exports with expanding domestic demand. However, as the press, asserted: “The national economy shouldn't be expected to provide any serious incentives for increases in production of the means of production” (*Der Volkswirt*, 1958), and – what is particularly important – larger parts of exports encompasses namely these industrial branches which find it extremely difficult, or impossible at all, to compensate for decline in exports by respective increase in sales on domestic market. Industrial circles in the FRG had high hopes that growing integration of the state would protect the economy from the crisis. For example, West German Institute

of Economic Research, while pondering the condition and prospects of the nation's economic development, underlined: "If the economic development in 1958 will progress significantly less beneficially than it is predicted, it will be indispensable to undertake necessary financial and political measures to support the economy". Among such measures were, e.g., the discount rate, which was reduced on three separate occasions since September 1957. The said measure, aimed at stimulating investment activity, did not bring desired fruits. Certain German commentators did not think highly of such measures: "Whether it is temporary stopping or the beginning of something more serious will be determined in the future. The only thing is clear: we are hopeless in the face of the crisis. Various solutions proposed within the framework of neoliberal theories are highly insufficient" (*Nürnberger Nachrichten*, 1958).

In 1957, exports from the FRG increased by 16.5% and imports by 12.9%. The surplus in trade balance grew by 51% and reached 4.4 billion DM. The review published by the OEEC (Organization for European Economic Co-operation) stated that: "Growth in the FRG exports starts to threaten the trade of other West European countries". Authors of the review asserted that if necessary measures were not taken, the situation might arise in which further elimination of barriers to mutual trade in the Western Europe will be impossible, which in turn will lead to decline in their trade turnover. Exports of the FRG has increased thanks to intensified outflow of such goods as equipment, automobiles, ships, electrotechnical goods, pig iron, and steel (*Der Aussenhandel...*, 1957, pp. 7–34).

In the Federal Republic, the rate of growth in industrial production continued to slow down. The production of general machinery building industry in 1957 grew by 3.5% (in 1956 by 9%), that of communication equipment by 6% (in 1956 by 8.7%), electro-technical industry by 7% (in 1956 by 10.5%). Simultaneously, the production of electric engines, generators, transformers, radio receivers, and electric bulbs declined.

Economic trends in 1958

In 1958, the slowdown in the industrial production in the Federal Republic of Germany, already observed during the few previous years, had accelerated. In 1958, said production increased by mere 3.1%, as opposed to 15.1% in 1955, 7.6% in 1956, and 5.6% in 1957. While certain branches exhibited growth in production, in other ones there was sizeable decline. While in 1957 absolute decrease in production was observed only in case of certain goods, in 1958 it expanded to cover whole branches,

even these which had an important role in the economy and decisive impact on the future rate of growth. Of the 40 branches (according to the classification presented by the Statistical Office of the FRG), in 19 branches (producing about 35% of the value of pure output) production declined on average by 3.6%, and in 21 branches responsible for about 65 of the total value of pure production, production went up on average by 6.5%. In 1958, the production of refineries, textile, leather, chemical, electrotechnical and automobile industries declined.

The decline in production took place in steel industry and production of non-ferrous metals, in the production of gas, mass consumption industrial products (textiles, apparel, leather goods, shoes, etc.) as well as in coal sector and sawmill industry. Production of the metallurgy sector was almost continuously declining during 1958. It should be underlined that, of the entire post-war period the steel industry in the FRG faced problems only in 1953 when smelting of steel declined by 2% compared to the previous year's level. Decline in the smelting of steel and in the production of rolled products in 1958 resulted mostly from the reduced demand on domestic markets (as orders for metallurgical products placed by companies engaged in shipbuilding, machinery building, production of transport vehicles, and construction declined). The portfolio of orders in the metallurgy sector declined from 5.7 million tons in the beginning of 1958 to about 3 million tons towards the end of the year. Capacity utilization in this sector run at 70–75% only. Of the 125 blast furnaces, 96 were in operations as of the end of 1958 (as against 111 in 1957), while of the 214 open-hearth furnaces – 153 (in 1957 – 170). During 1958, the sector's employment declined by 25 thousand persons, while over 40 thousands of employed were forced to work less than full time during each week. Though orders for steel and rolled goods declined, the consumption of iron and steel did not shrink. This attested to the fact that in 1958, the metallurgy sector operated, to a large extent, on accumulated stockpiles of metals.

Reduced production of iron and steel led to lower demand for solid fuels. The demand for coal on the part of the number of other industrial branches and of transport had also declined. Altogether it led to the crisis in the country's coal mining sector. The extraction of coal decreased from 132.2 million tons in 1957 to 32.5 million tons in 1958. Moreover, mines were extracting coals for stockpiles, which in turn led to enormous accommodation of inventories.

The textile industry constituted third focal point of the crisis. The sector's turnover declined by 8.2% compared to the figures observed in 1957, while the inflow of orders dropped by 19%. The number of employed in the sector observed the sharpest decline of all the branches – that is, by 53 thousand, or 9%. Over 70 thousand workers in the textiles industry worked less than full time during the working week.

“All these factors impact on the marketplace is such that the avalanches had been built which inevitably looms over the textiles industry, and not only in the Federal Republic. There is not a country – at least in Western Europe – which will be able to escape from it. There is universal surplus of production capacity, which leads to reduction in production, closing down of enterprises, to mergers and takeovers of enterprises” (*Der Volkswirt*, 1959, p. 14). The crisis in the West Germany's textile industry was compounded by the decline in effective demand on the part of population, sizeable imports of cheap textiles from the Asian and West European countries, as well as by the instability on the resources market and concerns over possible further decline in the value of inventories.

In the shipbuilding industry, due to the declining importance of the sea transport, the inflow of new orders was insignificant. Large shipyards had backlogs of old orders of the total of 3.5 million tones, which assured their continuity of operation for the coming 2–2.5 years. Medium and small shipyards, however, were without orders and had to lay off employees. The number of employed in the sector declined between December 1957 and December 1958 by 10 thousand persons.

As it had been already indicated, in 1958, the general indicator of industrial production in the FRG in 1958 had increased, mostly thanks to the productivity gains of 5%. The increased productivity made up for the reduction in the number of hours worked (which in 1958 amounted to 2.9%, on the back of 4% decline in 1957). When the working time had been reduced in 1957, it did not have negative consequences on the size of wages; however, in 1958, the reduction in the working time resulted from the worsening economic situation of the country (Gedymin, 2002).

Second characteristic feature of the economic situation in the Federal Republic, other than the reduced production in the number of branches, was gradual decline in prices. It started in Q2 1958, and followed several years of continued price growth. This was an indication of general instability of the economic situation in West Germany. In 1958, the domestic trade turnover amounted to 212 billion DM, which signified 5% growth over the previous year's figures (*Deutsches Geld...*, 1977). There was a decline, however, in the turnover in wholesale trade in metal products and textiles, while the demand for equipment and machinery, resources and industrial materials, as well as for mass consumption goods had grown much slower than in the previous years.

The situation on the domestic market of FRG reflected to a large degree high volume of investments. In 1958, investments in the entire economy amounted to 49.2 billion DM (compared to 46.1 billion DM in 1957). In industry they reached about 13 billion DM. Actual volume of industrial investments remained on an

unchanged level for three years in a row. The renovation (modernization) of fixed assets continued, as companies aimed at reducing costs in the face of strengthening competition. Productive capacities grew in those branches which still faced strong demand for their products. In 1958, the branches characterized by sizeable over-production witnessed continued modernization of equipment. Generally speaking, productive capacity of the Federal Republic's industry increased in 1958 by 7.5% (as against 7.5% in 1957 and 9% in 1956). Consequently, the gap between the global demand in the economy on one hand, and the economy's productive capacities (which were progressively less and less utilized) widened. "Even in the face of declining investment activity productive reserves are constantly growing, while the possibility of their utilization is inconsiderable in the face of arrested economic development. The longer it takes, the more difficult it is to adjust demand to increasing productive capacities" (Wochenbericht, 1959, p. 25).

The reduction in production of numerous important branches of the economy, declining trend in prices and other symptoms which attested to the instability of the West Germany's economy had caused the government to introduce new economic policy measures aimed at improving the situation. In order to assist enterprises in the coal sector, the government of the FRG had introduced 20 DM custom duties per ton of imported coal. The regulation was introduced which set 4% turnover tax on enterprises dealing in extraction of oil, aimed at improving competitiveness of coal vis a vis liquid fuels. The latter purpose was also served by measures aimed at limiting import of mazout (fuel-oil). The government accepted the cartel agreement concluded among mining concerns and oil extracting enterprises, according to which the latter were obliged not to use any measures aimed at displacement of coal by liquid fuels, not to enter new agreements with new buyers on the sales of oil as long as the stocks of coal in mines exceeded 7 million tons, and not to finance conversion of furnaces from the fixed to liquid fuels. Ministry of Economy recommended that metallurgical enterprises increase their consumption of scrap metal as pig iron, in order to increase the utilization of blast furnaces as well as the consumption of coal. Moreover, certain measures aimed at increasing export of coal were undertaken. Large textile enterprises were awarded government loan of 100 million DM to be used for modernization of machinery and equipment (Zagóra-Jonszta, 1999). In order to reduce the cost of credit and create new impulse for investment, between January 1958 and January 1959 the rediscount rate was cut from 3.5% to 3%, and subsequently to 2.75%. Number of other financial measures were applied, including tax-related ones.

Implementation of measures aimed at counteracting the crisis had often met with insurmountable difficulties. For example, plans for suspension of the import of coal

met with objections of the American owners of mines. There had been long-term contracts signed on the supplies of coal, and breach of this contract entailed for them large financial losses. Therefore, the compromise was reached as 5.1 million tons of coals were exempt from custom-duties each year.

Foreign markets, which previously played an important role in the growth in the FRG industrial production, in 1958 were not able to do so, for the first time in history. In terms of the value of exports, West Germany's industry grew by 2.6% that year (in 1957 by 17%), while imports declined by 2% (in 1957 they grew by 13%). Simultaneously, foreign markets continued to project highly important impact on the nation's industry. The shares of exports in individual branches were as follows: shipbuilding industry – 53%, automobile industry – 36%, machinery building industry – 30% (*Wirtschaft und Statistik*, 1959, pp. 11–23).

Summary and conclusions for the future

The deterioration of the nation's economic situation and intensification of the competitive struggle on the international market stimulated West Germany's enterprises to strengthen their outward expansion. 70% of the exports went to the West European countries, which occupied the leading position in terms of trade directions. That is why West German concerns took every effort to create "common market" on which they intended to take the dominant position. As of that time, "common market" did not exert serious influence on the economy of the FRG, since this market entered into force only on January 1, 1959. However, its establishment opened for German enterprises a large window of opportunity in terms of possible expansion.

Mid-term and long-term loans granted by the FRG were in general earmarked for financing exports of equipment from the Federal Republic. Foreign direct capital investments of the FRG in the end of 1958 reached 2.2 billion DM, while foreign direct investments abroad increased in 1958 by 17% and stood at 564.2 million DM, as against 482.8 million DM in 1957. The government of Federal Republic of Germany prepared extensive investment program in the economically backward countries of Asia, Africa, and Latin America (Hensel, 1977). The growth in capital outflows from the FRG was assisted by accumulation of enormous reserves of gold and currencies, which as of the end of 1958 climbed to 26 billion DM. One of the objectives which were to be served by the reduction of the interest rate (rediscount rate) was to stimulate exportation (outflow) of capital. In 1958, previously existing

currency restrictions were eliminated, and since then the FRG did not require special licenses to purchase foreign property in any currency.

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