MAGKS

Aachen Siegen Marburg Gießen Kassel Göttingen

Joint Discussion Paper Series in Economics

by the Universities of

Aachen · Gießen · Göttingen
Kassel · Marburg · Siegen

ISSN 1867-3678

No. 24-2019

Carsten Hefeker

Stable Money and Central Bank Independence: Implementing Monetary Institutions in Postwar Germany

Coordination: Bernd Hayo • Philipps-University Marburg
School of Business and Economics • Universitätsstraße 24, D-35032 Marburg
Tel: +49-6421-2823091, Fax: +49-6421-2823088, e-mail: hayo@wiwi.uni-marburg.de

Stable Money and Central Bank Independence:

Implementing Monetary Institutions in Postwar Germany*

Carsten Hefeker†

University of Siegen and CESifo

September 2019

Abstract:
Germany prides itself in having one of the most successful central banks and currencies with respect to independence and stability. I show that not only were both imposed on the country after 1945 but that there was also initial resistance to both among German experts and officials. This was then a rare case of successful imposition of institutions from abroad. Events are discussed in light of Peter Bernholz's requirements for stable money and a successful central bank.

JEL-Classification: E42, E58, N14, N24.
Keywords: Currency reform, Bundesbank, central bank independence, institutional reform.

* For helpful comments and suggestions, I thank Helge Berger, Peter Bernholz, Jerg Gutmann, Arye Hillman, Tommy Krieger and participants of the 2019 Silvaplana workshop in honor of Peter Bernholz.
† University of Siegen, Department of Economics, Unteres Schloss 3, 57068 Siegen, Germany; carsten.hefeker@uni-siegen.de.

1. Introduction

Germany's central bank, the Bundesbank, and its currency, the deutsche mark, have been viewed as the world's role models for a strong and independent central bank, low inflation, and a stable currency (Berger and de Haan 1999, Bernholz 2013). The new currency in 1948 laid the foundation for the German "economic miracle" and the Bundesbank provided the necessary stable monetary order for a well-functioning market economy (Bernholz 1989). Despite becoming part of the European Central Bank in 1999 and losing its dominant influence in Europe, the Bundesbank remains the most respected public institution in Germany and ranks before parliament (Hayo and Neuenkirch 2014). Given the pride of Germans in the Bundesbank, it is of some irony that both the Bank and the currency were imposed on Germany after the Second World War, and that many German experts and politicians were initially opposed to the design of the central bank and important features of the currency reform. When Germany became independent from Allied rule and developed concrete plans for the institutional design of the Bundesbank, there still remained strong political opposition from the German government with regard to the degree of independence that the Bundesbank would have. But there is another irony, in the fact that the Allied countries that implemented currency reform and designed the forerunner of the Bundesbank, the Bank deutscher Länder (BdL), the United States, the United Kingdom and France, in their own countries did not follow the institutional model they imposed on Germany. None of their central banks had a level of independence that was comparable to that of the Bundesbank (Goodman 1992).[1]

This case of imposed institutions is remarkable because the German population very quickly adopted the design that was imposed on them by the Allies and made it their own. From being considered an Allied reform then, it is usually considered as a "German" reform today (Wandel 1979). That the imposition of institutions is accepted and successfully maintained is not necessarily always the case, as other examples show. Indeed, Acemoglu et al. (2011) and Krasner and Weinstein (2014) name Germany and Japan after the Second World War as two rare cases in which large scale institutional reform was successfully imposed on other countries.[2] Importing institutions often fails, as Berkowitz et al. (2003) argue, because local conditions are not sufficiently taken into account. Carlin (2010) stresses

[1] There were a number of currency reforms in Western and Eastern Europe after the war that differed in institutional detail (see Klopstock 1946 and Gurley 1953) and degree of success (Dornbusch and Wolf 1990) from the German reform. The combination of currency reform and central bank design was unique to Germany.

[2] However, Japan did not experience the same fundamental change in monetary institutions and currency reform as did Germany (see Holtfrerich and Iwami 1999).

that German recovery after World War II worked relatively well because it could build on existing institutions.[3] But even if this is the case, it does not apply to monetary institutions, which were radically changed.

The success of the imposed institutional change is probably due to the experiences that Germans had had twice in short time with government controlled monetary policy. Already after World War I the victors had demanded that the Reichsbank be made free from political interference, but independence could not be defended against Nazi power (Holtfrerich 1988). In 1945, Germany was characterized by a complete collapse of political and economic order and a situation in which money had become largely useless because of repressed inflation. The Reichsbank was completely discredited due to its role in financing Hitler's war and, as a consequence, the Allies not only created a new institution, but they also protected it against excessive political influence and against the will of German politicians and experts. On the German side, instead, early plans for currency reform and in particular for the new central bank were still inspired by the Reichsbank's structure and the Allied institutional setup thus went against the expressed wishes of most German officials.

A few years later, the situation had changed. When the Allies gave up control of Germany and the Bundesbank was to be created, the attempt by the government to gain stronger control of monetary policy failed not least because of public support for the independence of the central bank (Goodman 1992, Berger 1997b, de Haan 2018). The design of the Allies had gathered sufficient public support to ensure the Bundesbank's unique role and independence, and a clear institutional break with earlier German monetary history. This was not least due to the skilled press and public relations policy of the new central bank (Mee 2016).

The currency reform and central bank design thus underline the importance of foreign influences on Germany's institutions and how decisive they were in granting independence in the first place. While formal oversight of monetary policy rested with the Allies, they used it only sparingly, which helped to establish central bank independence. Not surprisingly, and in line with standard theories of political influence on monetary policy, when the Allies lifted their supervision, the new Germany government was tempted to reign in central bank independence. By that time, however, public opinion was firmly on the side of the central bank and the government had to back-off. Thus, the German example shows that independence is not only a question of institutional design but also needs public support to be

[3] Ritschl (2005) shows that many institutional structures of the postwar order in Germany are actually left-overs from the Nazi era.

successfully defended (Hayo and Hefeker 2002). One could argue that this public support ensured that de facto independence of the German central bank was greater than it was de jure.

The story of how monetary stability and central bank independence came to Germany has a double connection to Peter Bernholz. First, the importance of central bank independence and monetary stability is a focus of his work, which combines economic history, institutional economics, and political economy. A recurrent theme is the importance of a stable monetary regime, supported by independence of the central bank and preferably some anchor, such as gold, for the currency (Bernholz 1989, 2003). He repeatedly stressed the importance of stable monetary systems in Germany, or Switzerland whose central bank has a reputation similar to the Bundesbank, and for the transition from the Bundesbank to the European Central Bank (Bernholz 1998, 2007, 2013).

In Bernholz (1989), he analyzed in great detail what is needed to ensure a stable monetary constitution (see also Bernholz 1986). In his view, a completely independent central bank is not enough, but what is required in addition is a prohibition on government budgetary deficits as well as a mechanism that limits the money supply.[4] Any change to this constitution should require a parliamentary majority of two thirds and a public referendum, and no emergency clause should allow the breaking of these rules. His ideal monetary constitution would be one with currency competition and free banking but without a central bank. Competing monies should be based on a gold standard so that anyone could demand payment in gold, and government-controlled central banks should be ruled out by the Constitution. Bernholz (2013) subsequently modified his view and argued that a move to a gold standard required the coordinated decision of most large countries, which cannot be expected. As a second best, the independence of the central bank should be a fourth institutional and independent pillar along with the government, parliament, and judiciary. The central bank moreover should adhere to a strict monetary rule.

Secondly, there is a personal, if indirect, connection between Bernholz and the early years of the German mark. Before becoming a professor, he worked as a postdoc at the Universities of Munich and Frankfurt with Hans Möller and Heinz Sauermann, who were important in the German currency reform debate. Both were involved from very early on in the discussion of German currency reform and belonged to the group of German experts on whom American advisers to the military government relied. Möller was part of the group in

[4] Bernholz (1989) also analyzed the position of German ordoliberals concerning money in a market economy, which is an important intellectual foundation for the Bundesbank’s role.

Rothwesten that prepared the currency reform, while Sauermann contributed to the American plan for the currency reform. Both wrote extensively on the creation of postwar monetary institutions in Germany (Möller 1961, 1967; Sauermann 1950, 1955, 1979).

2. The need for reform

When the second world war ended, Germany had a monetary overhang, controlled prices, a shortage of goods, and a monetary institution without credibility. Large parts of the fiscal expenditures of the war machine had been deficit financed by money creation, which had increased money supply (Dornbusch and Wolf 1990). During the war, commercial banks invested most of their deposits in government bonds, which became worthless after the regime collapsed (Brackmann 1993, Buchheim 1988, 2001). Money supply was estimated at 60 bn Reichsmark in 1945 and between 180 and 240 bn in checks and saving accounts. The value of production, in contrast was estimated at only 35 bn Reichsmark (Sauermann 1950). At the same time, prices had been fixed at their 1936 levels, so that in 1946 the price level in the American zone was at 120 percent of the 1936 level, while the money supply was up 500 percent for bank deposits and 1000 percent for currency, reflecting high repressed inflation (Gundlach 1987, Buchheim 2001).[5] Bank accounts, however, were only blocked in the Soviet zone but remained open in West-Germany so that the public had access to their accounts (Sauermann 1950). Aggravating the problem, in addition to circulating Reichsmark, so-called military marks were issued by the occupation forces (Möller 1976).[6]

Black markets developed in which prices were much higher than their official level (see Mendershausen 1949). Money had little purchasing power and people resorted to barter trade and substitute currencies, such as cigarettes. As a consequence, productivity declined because employees spent their time hunting for goods instead of working. Many employers started to pay their workers in goods rather than money (Gundlach 1987), and firms, rather than selling their goods for useless money, resorted to hoarding intermediate and final products (Buchheim 1988, 1998). Given these circumstances, monetary reform was widely expected already from 1945 on, and many Germans expected it to happen rather sooner than later (Sauermann 1950). When it eventually came in 1948, a large increase in black market

[5] Shifting resources to war efforts increased prices for civilian goods already in 1935/6, prompting the Nazis to freeze prices in 1936 and wages in 1938 (Dornbusch and Wolf 1990).
[6] The Soviets issued more than three times as much of these marks than the western Allies which then flowed back to the US zone and were converted into US-dollars (Backer 1978, Petrov 1967). This would later create political problems when a joint currency reform was discussed (see below).

prices between May and June was a clear indication that it was widely expected at the time, despite secret preparations of the currency reform.[7]

While need for monetary reform was uncontested, the Allies had fundamentally different ideas of how a post-war order in Germany should look, which also influenced, and significantly delayed, plans for central bank and currency reform.[8] The Soviets and the French wanted foremost that Germany would be decentralized and never again be able to threat its neighbors (Pollard 1985, Wandel 1980). This was initially also the American position under the Morgenthau plan. While President Roosevelt adopted Morgenthau's ideas, other parts of the government and the military forces opposed it. Since the American occupation zone was not economically viable alone, a wish for economic cooperation with other zones and to leave Germany soon increasingly influenced American policy (Blum 1969, Brown 1947). President Truman quickly reversed Morgenthau's directives and in September 1946 secretary of state Byrnes in a speech in Stuttgart called for economic cooperation among the occupation zones as it became increasingly clear that Morgenthau's policy would lead to economic disaster in Germany and become too expensive for the western Allies. It took until July 1947, however, before the Morgenthau position was officially reversed, shortly after the Marshall plan, calling for European cooperation more broadly, was announced.[9] This, and the beginning cold war, also led to a shift in the French position, culminating in the official merger of the three western zones (Pollard 1985, Wandel 1980).

From the beginning the British position favored a planned economic system with directed production plans that came close to a fully planned economy (Ambrosius 1977). In early 1946, they created a "Zentralamt für Wirtschaft" (central office for the economy) with far-reaching powers because they were convinced that a planned economy would be better suited for rapid reconstruction. The US zone instead favored a decentralized economic system with private ownership of resources. When the two zones agreed to merge, effective January 1947, a bizonal Wirtschaftsrat der Länder (economic council of states) that was to coordinate

---

[7] One important part of the currency reform was the liberalization of prices that followed. This was a German decision, however, and is therefore not the focus of this paper. There is some debate whether this particular step was supported by the US military government. Folklore has it that Erhard did this against the wishes of the military government but this is a myth (Bernholz 1979). In fact, the American plan for currency reform already contained the advice to liberalize prices (Sauermann 1979).

[8] Another conflict that made cooperation difficult was the issue of German reparations. While France and the Soviet Union insisted on reparations, Britain and the USA were hesitant, given post-World War I experience (Wandel 1980).

[9] Occupation policy was officially regulated in JCS directive 1067 of April 1945, which called for the pastoralization of Germany. While the US military government in Germany never actually followed this policy, it was officially reversed with JCS 1779 only in July 1947.

reconstruction and economic policies was created. In early 1947, a Sonderstelle Geld und Kredit (special office for money and credit) was added to the finance commission of the economic council. Ludwig Erhard became head of the Sonderstelle and decisive in the German discussion about currency reform.[10] This group eventually came up with the Homburg plan for currency reform, but the Germans and the Allied worked separately, and the Germans were not informed about American plans (Sauermann 1979). Only in April 1948 did the American specialists meet with the German group.

3. The creation of the Central Bank system

This section shows that strong differences existed between the Allies' plans and German ideas about the set-up and independence of the central bank. The design of the banking system, in particular the degree of centralization, was also contested among the Allies, which might explain why it took so long to set it up. Supervision of the new central banking system rested with the Allies, who, however, left it a relatively large degree of leeway. This was used to establish political independence not only from German political influence but also from Allied interference.

3.1. Allied plans for a Central Bank

The Potsdam agreement among the four Allies of August 1945 envisaged a decentralized economic system, which was nevertheless to be treated as a single economic unit. The commander of the American Occupation forces in Germany (OMGUS), General Lucius D. Clay, interpreted this as implying the decentralization of the banking system and bank supervision at the state level; the establishment of a central bank for each federal state; the elimination of the Reichsbank, and also of the central offices of the six big commercial banks.[11] The US plan for the banking system, developed already in November 1945 by Joseph M. Dodge, head of the Financial Department of the US military government and financial adviser to Clay, thus advocated a state-based system of central banks and banking supervision, similar to the federal banking system in the United States.[12] Due to the experience under the Nazi regime, the close connection between the political system and the private banking system would be dissolved and bank power in general be reduced. In the three

[10] Erhard later became economics minister (1949-1963) under Chancellor Konrad Adenauer and his successor (1963-1966).
[11] The six German big banks are Deutsche Bank, Commerzbank, Dresdner Bank, Bank der Deutschen Arbeit, Berliner Handelsgesellschaft and Reichskreditgesellschaft (Bennett 1950).
[12] Dodge was a private banker and Clay's adviser until June 1946. He was succeeded by his deputy, Jack Bennett.

Western zones, banks continued to operate, with the three occupation forces having quite different ideas about how a new banking system should be designed. In contrast to the Americans, the British favored a more centralized banking system. They did not share the view that there was an excessive concentration of power in the existing system but wanted to avoid local bank monopolies under decentralization (Adler 1949). In the Soviet zone, private banks were closed and a new state-controlled and owned banking system was established (Buchheim 1998).

The other Allies also disagreed with the US side about how to deal with the Reichsbank and how centralized the banking system should be. While the US wanted to abolish everything connected with the Reichsbank, the French and British wanted to build on existing Reichsbank offices and use the existing network between them for payments across the occupied zones. But while the French wanted to decentralize, the British pushed for centralization of the new central banking system. One reason for this might have been the traditional good relations between the Bank of England and the Reichsbank and that representatives of the Reichsbank preferred a centralized central bank system (Dickhaus 1998, Bibow 2010). Following the Bank of England model of a centralized central bank system, in November 1945 the British created a coordinating Reichsbank head office for the British zone in Hamburg.

In April 1946 an additional plan by Dodge, presented to the Allied Control Council, suggested a Länder-Union-Bank as a coordination and control body. The plan was rejected, however. When the Allies were unable to agree on banking policy, the Control Council decided in October 1946 to leave banking policy to the respective military government in each zone. The US continued to push ahead with its plans and on January 1, 1947 state central banks (Landeszentralbanken or LZB) began to operate in the US zone. A reason for pushing this issue forward fast in the US occupied states was to create the state central banks before state parliaments became effective and could attempt to influence the system (Buchheim 2001). The French quickly followed the US example and in February 1947 created Landeszentralbanken in the French zone. Eventually, the British position was no longer tenable and in early 1948 Landeszentralbanken were also created in the British zone.

Formally, the LZBs were independent of the Reichsbank structure, which was abolished. But the new banks took over personnel, buildings, as well as the assets of the Reichsbank offices. The LZB’s capital stock was held by the respective states and was intended later to be transferred to private banks, but this did not happen, and the banks remained property of the respective states (Buchheim 1998). The directorate of the LZB, led by the president and his deputy, was appointed by the prime minister of each state and could be recalled any time without further explanation. Also, the president of the governing board (Aufsichtsrat) was nominated by the prime minister, and the president of the LZB automatically became his deputy. Further members comprised the president of the banking supervision authority and representatives of commerce, agriculture and labor groups, because the governing board was to explicitly represent the broader economic interests of industry and stakeholders. The board was in charge of shaping general policy, supervision of the directors, and setting policy, but there was no formal direct authority of politics over this body. Given that many positions were political appointments, however, at least indirect political influence cannot be ruled out.

Legally, the LZBs were in charge of regulating currency circulation, providing the payment network for commercial banks, acting as a fiscal agent for state governments, and conducting payments with other zones. In another break with the former system, LZB offices were no longer allowed to directly deal with private firms and compete with private banks in commercial activities. The LZB had no authority over money creation, and could thus not act as a "normal" central bank. For this, another body would have to be created. The British were successful in convincing the Americans that a Bank deutscher Länder (BdL), a bank of German states, should be created as a coordinating mechanism. It was established on March 1, 1948 by the Americans and British and soon joined by the French. The system was held open to possible later Soviet participation but the Soviets created their own institutions in their zone.

Policy at the BdL was set by the central bank council (Zentralbankrat or ZBR), in which the presidents of the LZBs were members. Besides all of the LZB presidents, the council comprised the president of the governing council and the president of the directorate, responsible for implementation of decisions and daily business, who were both elected by the council members. Decisions were based on simple majority vote. Thus, in contrast to the state central banks, there was no direct influence of the state governments on the BdL council. This was considered necessary to allow for a later accession of other zones. The council was to be responsible only to the Allied Banking Commission (ABC) but not to German or bizonal authorities (see below).[13]

Along with the BdL was thus created a new monetary institution to coordinate a federal central banking system. It was to be responsible for the payment system and also for

[13] Nominally, the president of the governing board had more power than the president of the directorate. De facto, however, Wilhelm Vocke of the directorate would become more influential than Karl Bernard of the governing board (Marsh 1992, Mee 2016).

banking supervision, serving as fiscal agent of state governments and the military administration. The BdL also served as bank for the LZBs, conducting payments for them and refinancing them. The LZBs had to held their reserves with the BdL and were to implement the policy set by the BdL, in particular interest rates, making them practically agents of the BdL.[14] Moreover, it was to set minimum reserve requirements and discount rates. The new bank was also responsible as a “bank of banks”, thus separating the central bank function from the commercial banking system. Like the state central bank, the BdL only interacted with the banking system and official entities, which was a clear break with the tradition of the Reichsbank, which also pursued commercial activities (Holtfrerich 1988). The second substantial change was the strong federal element that had not been present in the Reichsbank, but which was welcomed by representatives of the new states. Lastly, in contrast to the Reichsbank organizational structure, the BdL and the state central banks were legally independent, but the LZBs held the capital of the BdL.

While there was a clear break with the Reichsbank’s institutional structure, this was less the case with regard to high ranking officials. In fact, many of those who had served in the Reichsbank system joined the new central bank system (Buchheim 1998, 115).[15] Only in the US zone were exclusively persons without Reichsbank connection appointed. It is therefore not surprising that, even among the LZB presidents, not all were convinced that a decentralized system would be the best solution. In the first election for the presidents of the governing board and the directorate, the LZBs presidents voted for persons with a past in the Reichsbank. Particularly Wilhelm Vocke, president of the directorate, was a proponent of a more centralized system.

3.2. German plans

German plans for a central bank differed from the US plan in several aspects but, even among German officials as well as in the press and public discussion, there were two opposing lessons from the Reichsbank’s history to be learned for the new institution. While one group believed that the lesson from the Nazis’ abuse of the central bank required full independence to avoid a repetition, others believed that the Reichsbank’s misdirected monetary policy was chiefly responsible for the disastrous consequences of the Great Depression. An independent

[14] With the creation of the Bundesbank, the two-tier system was abolished and the LZB became mere administrative offices of the Bundesbank (Hauptverwaltungen).

[15] On the personal connections between the Reichsbank and the new central bank, see Marsh (1992) and Mee (2016).

central bank should not be able to make the same mistakes again (see Mee 2016 on this debate in Germany).

The bizonal state council (Länderrat) of German officials, in discussions with Dodge in 1946 for one, proposed a much stronger political role for government in the state central banks. Not only should the president of the governing board be nominated by the prime ministers of the state, but all members should be political appointees. In addition, the president of the governing board should be a delegate of the state government, and finally the state banking supervision authorities should have the right to veto all decisions and decide in case of a conflict between the directorate and the governing board. Dodge protested vigorously, stating that this "would preserve the Fuhrer principle throughout" (Buchheim 2001, 5).

Even people who would later have high ranking positions in the central banking system in Germany explicitly voiced opposition against too great independence of the central banks, arguing that interest rate policy, minimum reserve requirements, and open market operations are instruments with important economic consequences that should be under the control of government (Buchheim 2001, 6).[16] In the end, the US prevailed and the political influence on appointments and the arbiter role for the banking supervision authority were cancelled.

A similar conflict emerged with respect to the structure of the federal central bank (BdL). While the US plan for the BdL insisted on the council being formed by the presidents of the state central banks and the directorate, the German side voiced different criticisms. One side, represented by Wilhelm Vocke from Hamburg and later first president of the directorate of the BdL, criticized the strong position of the state central banks in the council. Since they were political appointees of their state governments, there was a danger of political influence on monetary policy, he believed. His idea rather was to give sole monetary policy control to the directorate. This position obviously ran against the US concern for decentralization and had no chance of realization.

Members of the Sonderstelle Geld und Kredit instead were convinced that future economic policy would mainly be credit policy and thus wanted to ensure that the government's economic policy would not be undermined by an overly independent central

[16] Bibow (2010, 499, FN11) cites Miksch, an important adviser of later economics minister Erhard, that "central bank independence is very unpopular in Germany itself. It does not arise from the will of the Germany people but is part of the institutional setup that has been imposed by the victors to rule out a resurrection of German power politics" (my translation). See below on the public's position concerning central bank independence.

bank. There should be some independence of avoid monetary financing of fiscal policy, as experienced under Hitler, but full independence was not favored. Too orthodox monetary policy was to be avoided and the perceived monetary policy mistakes of the Reichsbank during the Great Depression were not to be repeated. For this reason, a German advisory council (including Erhard) proposed to the Americans that representatives of commerce, banking, agriculture and labor should be part of the central bank council. In the council, only half of the seats should be given to the LZBs and the rest should reflect such broader economic interests (Buchheim 2001, 12).

In its Homburg plan, the German concept for the currency reform, the Sonderstelle in April 1948 also proposed the creation of a currency bureau (Währungsamt) that would report to the head of the governing board, who would be the later chancellor of the federal government. The currency bureau should be responsible for preparing currency policy, and it should hear the positions of the states as well that of the BdL, without undermining the policy of the BdL. But it should serve to coordinate monetary policies and general economic policy. This would compensate for the too great independence of the BdL and ensure that monetary policy could be influenced if the need should arise to support the government’s policy (Buchheim 2001).

Even the presidents of the four state central banks in the US zone (Grassmann, Pfleiderer, Tepe and Veit) supported the idea of economic councils and thus accepted a diminished role for themselves, to ensure that banking policy would become part of a unified economic policy. This is in marked contrast to the later law, which required monetary policy support of general economic policy by the central bank, but only conditional on this not violating the main tasks of the central bank (“unter Wahrung ihrer Aufgaben”), thus reversing priorities by putting its own tasks first and viewing support of government policy as a subsidiary task.

In a final meeting between the Americans and the Germans before the laws were to be decided upon, the German side again brought in their ideas. Minor ones would be accepted, such as the name for the institution “Bank deutscher Länder” but the creation of economic councils was rejected; there would only be the presidents of the state central banks and the directorate. Also, Erhard’s proposal to eliminate the supervisory role of the Allied Banking Commission was rejected. While the US showed some openness for this idea, the French insisted on the supervisory role of the ABC (Buchheim 2001, 13). Thus, not surprisingly, in the military law creating the BdL, which entered into force on March 1, 1948, the Allied position prevailed over the German one. In protest, the German commission in its report explicitly disavowed any responsibility for the law (Buchheim 2001, 14).

3.3. Allied supervision of the Central Bank

Along with the central bank system, in 1948 the Allies created an Allied Banking Commission (ABC) with the expressed aim of supervising the policies of the BdL. The BdL law explicitly stated that the central bank council would be subject to the rulings of the Commission and report to it. It was comprised of the financial advisers of the US, British and French Military Governors and was housed in the same building with the BdL in Frankfurt.[17] Thus, while the central bank system in Germany would be independent of German political influence, this was not true for Allied influence. In fact, in early 1948, General Clay, the US supreme commander in Germany, wrote that the only reason for not subjecting the BdL to the bizonal economic council was that the US still hoped to convince the other allies to join. Should this fail, he would be open to discussing how the BdL could be subjected to the orders of the bizonal leadership (Bibow 2010, 499).[18]

Remarkably, this independence was in considerable contrast to the situation of the Allied central banks in their own countries. The Banque de France, the Bank of England and also the US Federal Reserve were all subject to political orders concerning interest rate policies. In fact, the Bank of England Act of 1946 had nationalized the bank and explicitly made it subject to the legal control of the Treasury (Goodhart 2018). Likewise, the Banque de France was officially nationalized in 1945 and ordered to simply execute the orders of the treasury (Bignon and Flandreau 2018). From the onset of the war, in the US there had been close cooperation between treasury and central bank as well, to manage federal debt and setting interest rates. Only in 1951 did the so-called Accord restore independent interest rate setting discretion to the Federal Reserve (Meltzer 2003).

In general, it seems that the ABC did not interfere much in decision making at the BdL because Vocke closely coordinated and communicated with the ABC (Holtfrerich 1988). Nevertheless, from time to time, the BdL seems deliberately to have risked or even sought conflict with the ABC in order to stress their independence from Allied supervision (Berger 1997a, 1997b, Bibow 2010, de Haan 2018). Already in its first decision with the election of

[17] In the ABC the conflict about centralization between the Americans and the British continued. The British strongly supported Vocke, the president of the BdL directorate in his push of more centralization against the US position for decentralization (Dickhaus 1998).

[18] In 1988 the Bundesbank itself would write about this time that it was independent from German authorities but that it, as in 1924-1930, was dependent on foreign political bodies (Bibow 2010, 501).

the president of the directorate and the governing board, the members of the ZBR voted for Abs and Schniewind, against the declared wishes of the ABC. When the ABC refused to appoint them because of their alleged connection to the Nazi regime, Vocke and Bernard were elected instead (Marsh 1992, Dickhaus 1997).

In another instance, in 1948 the BdL refused to increase the interest rate despite strong price pressures and the expressed wish of the ABC. After the currency reform, prices were increasing with a rate of 20 percent and the ABC threatened the BdL about enforcing an increase in interest rate. A compromise was reached that left interest rates unchanged but increased minimum reserve requirements. Berger (1997a) argues that subsequently the ABC even shielded the BdL from political pressure and thus helped to defend its political independence (see also Mee 2016, 133).

With the establishment of the German Federal Republic in 1949, the powers of the ABC moved to the Allied High Commission and its Finance Committee, and in 1951 the Allies ceded all supervisory power of the BdL. But even before that Vocke wrote to Adenauer that the ABC would no longer use their right to intervene in BdL policy, of which he had been assured by British contacts (Berger 1997b, 51). The BdL was thus able to establish some independence from the ABC and use it at the same time in defense against influence from German politicians.

4. The creation of the Deutsche Mark

The currency reform again shows that not only did strong differences develop between the the Allies and the German side, but also there were conflicting ideas among the Allies that considerably delayed the implementation of the reform. Ultimately, the conflict between the western Allies and the Soviet Union sealed the economic and political division of Germany.

4.1. Allied plans for currency reform

As argued above, currency reform was considered necessary to restart industrial production and was widely and early expected. Thus, parallel to banking, the Allies worked on plans for currency reform, and already, in mid-1945, the four Allies met in Berlin to discuss currency reform. But again, the Allies could not agree and negotiations among them would take considerable time. In the end, the US side prevailed with its plans for West-Germany.

Several parts in the US administration had considered plans for currency reform during the war (Kindleberger and Ostrander 2003), and in early 1946, the US government sent a team consisting of Gerhard Colm and Raymond Goldsmith to Germany to cooperate closely with Dodge, Clay's financial adviser, on the so-called Colm-Dodge-Goldsmith (CDG) plan, which was to become the basis for currency reform.[19] The group had their first draft ready by April 5, followed by another on May 14, and handed the final version on May 20 to General Clay, but it was not presented to the German public (Wandel 1979, 322). The plan was accompanied by more than 200 pages of appendix that analyzed in detail the financial and monetary situation in Germany, the government budget, the state of banks, and reform experiences in other countries (Sauermann 1955). A large group of Germans was involved in the preparation of this plan (including Sauermann, Gottlieb, Metzler, Mendershausen) but officials from the German side, such as Erhard and his Sonderstelle, were involved only later and had little influence on the final outcome.

The plan itself suggested three steps: the conversion of Reichsmark into a new currency at the ratio of 10:1 and a similar reduction for bank deposits, mortgages, public and private debt (excluding the Reich debt), but not for recurrent payments such as wages or rents; a mortgage of 50 percent of the value of real assets like land, buildings, plants and equipment to be put into a fund for the equalization of war losses (Lastenausgleich) to compensate losers; and a progressive capital levy of up to 90 percent on gains in wealth between 1935 and 1945 (Backer 1978, Brackmann 1993). While the State Department accepted the report, the War Department did not, objecting to the loss-equalization and capital levy. A compromise was reached in which it was agreed that these steps would be left to a future German government to decide (Möller 1976). Clay objected to this in turn by pointing out that this would place a heavy political burden on a new government that would need to build popularity.

The British also objected to CDG because British plans wanted to socialize Germany instead of the American plans to put Germans in charge. Even conservative British officers entertained socialist ideas and viewed the current situation as a way to gain more control over the German economy (Wandel 1979, 325). A radical currency reform would imply losing control and a destruction of private property by strong devaluation. In their view, blocking part of the saving accounts with a gradual later release to allow for gradual inflation and a strong increase in taxation would be preferable, so as to reduce the monetary overhang gradually rather than through a currency reform (Turner 1987, Kindleberger and Ostrander 2003). Especially the American idea of imposing a capital levy on wealth owners and canceling government debt was considered a recipe for disaster by the British side.

[19] This should not be confused with Dodge's plan for a new central bank from November 1945. The currency plan is reprinted in Colm-Dodge-Goldsmith (1955), the first time that it was made publicly available in Germany. It is introduced by Sauermann (1955) and reprinted along other plans and additional material in Möller (1961).

The French objected too because they believed that the Germans were being treated too lightly. Their ambitious plans for requisition of German resources and production required easy access to German currency reserves or generous allocation of a new currency (Gottlieb 1956). Moreover, currency reform would have made the Reichsmarks in the possession of the Allies lose much of their value, thus making the financing of occupation costs more difficult. In particular the French and the Soviets used Reichsmarks along with military marks at overvalued exchange rates to finance their occupation costs (Petrov 1967, Wandel 1980). But in the end, the US prevailed and Clay delegated the implementation of currency reform to Jack Bennett (Dodge's successor as financial adviser) and Edward Tennenbaum (Gundlach 1987).[20]

4.2. The German role in currency reform

Also in Germany already during the war, planning for a post-war monetary system and for the reconstruction of economic order was taking place.[21] One group of academics around Walter Eucken of Freiburg University saw a strong connection between a sound currency and the economic order in general, and had a strong influence on the debate in Germany (Bernholz 1989). Overall, Kindleberger and Ostrander (2003) estimate that round about 250 such plans existed in the early post-war period, of which several are reprinted in Möller (1961), and Sauermann (1955) reports that the working group that came together in Rothwesten examined some 30 plans by German experts for their own work. Another plan was prepared by Erhard's special office for money and credit. The Sonderstelle called on a group of experts that prepared the so-called Homburg plan that was presented on April 18, 1948.

On April 20, German experts met with Allied officials in Rothwesten (near Kassel in Hesse) to work out the currency reform and prepare necessary legislation.[22] The so-called Konklave lasted 49 days, with about 20 meetings and was chaired by Tenenbaum for the trizonal group (Möller 1976, 446). While the Germans stayed there, liaison officers from the

[20] Wandel (1979, 320, 323) calls Tenenbaum the "father of the deutsche mark" and that he "like no other person, was responsible for the development and implementation of the German currency reform". He goes on that Tenenbaum implemented it against "lively opposition" from Germans and in part even against Washington's will. Tenenbaum later confirmed that he personally chose the name "Deutsche Mark" over several alternatives (Kindleberger and Ostrander 2003, 189).

[21] The Nazi government was concerned with a reorganization of the currency system after the war and let experts propose and discuss their plans relatively freely (Herbst 1977, Tribe 2001). See James (1994) for Nazi plans for an international monetary system after the war.

[22] A full list of participants can be found in Sauermann (1979). Möller (1961) has a list of regulations and laws that were prepared at Rothwesten and relied heavily on German experts.

Western Allies traveled back and forth to Berlin and zonal headquarters. In small groups, the German experts prepared laws, announcements and proclamations that in the end were much closer to the CDG plan than the Homburg plan (for details of the work of the group, see Möller 1976). On May 14, a group of German politicians, including Erhard, met with the experts in Rothwesten. Möller (1976, 449) describes the meeting as dramatic because there was wide disagreement, for instance about the conversion of debt contracts, between the experts and the politicians, as well among the experts themselves.

The German proposals differed from the final plan in several important aspects and were based on the Homburg plan, accepted by the currency committee of the bizonal economic council, which the German participants at Rothwesten were instructed to pursue (Brackmann 1993, Wandel 1980). In contrast to the US plan, the monetary overhang should be blocked but not immediately deleted. Eighty percent of saving accounts and Reich government debt should be exchanged against compensation bonds so that the total loss of these claims would not become obvious immediately. Moreover, other than in the US plan, in the German plan the loss-equalization (Lastenausgleich) should be connected to these claims and not be treated separately.[23] Tenenbaum instead insisted on a definitive solution of the overhang problem and complete cancellation of most claims. Only this would solve the monetary overhang immediately and avoid creating expectations of later conversions and corresponding political pressure. In this view, a harder solution would be better than a weaker one in order not to create inflationary pressure later (Buchheim 1998).

Moreover, as mentioned above, the Homburg plan wanted to create a Währungsamt (currency bureau) under the direction of the President of its governing board (who should be the later chancellor). It should prepare the change from old to new money and later be responsible for all measures concerning the currency. Due to the strong position of the chancellor in the federal government, this would make him a “super minister” (Möller 1978, 455). This was not acceptable to the Allies and the currency bureau was later created as a department within the BdL and without government influence.

Also the rate of conversion of private debt differed in the German perspective. The Homburg plan advocated a change of 1:1 whereas the Dodge plan foresaw a rate of 10:1. There was no provision of a cash endowment for firms and no compensation for Reich bonds since no haircut was planned. Lastly, as well, the endowment of cash per head was treated differently. The German plan foresaw a per capita endowment of 50 DM and also a slightly

[23] This issue was finally treated in separate legislation in 1949 and 1952 without Allied influence.

higher conversion of savings accounts (Buchheim 1998, 121). When the German position was not successful, the currency committee of the bizonal Wirtschaftsrat (economic council) explicitly disavowed any responsibility for the final plan and the same is true for the German members of the Konklave in Rothwesten (Buchheim 1998, 119). Hielscher, Erhard's successor as head of the Sonderstelle since March 1948, left Rothwesten in protest and the remaining German members of the Konklave protested in a letter that they had no influence on the Allied plan (Brackmann 1993, 261).

In the end, the solution was that each person living in the three western zones obtained initially 40 Deutsche Mark (DM) in exchange for 40 Reichsmark. A further 20 DM would be paid out later. Recurrent payments, like wages, were converted 1:1. Coins remained in circulation but lost 90 percent of their value as the DM initially only existed in paper form (Benz 1988). Official entities, including military governments, the post and railway obtained 60 DM for each employee. Bank and savings accounts were converted with deprecation of 10:1, of which only 50 percent was immediately available. In late September the rate was adjusted to 10:0.65 and 70 percent of the blocked accounts were deleted. Assets of commercial banks were not converted; instead banks received compensatory balances at the state central banks at a reduced rate (15 percent for demand deposits, 7 percent for saving accounts). For government bonds they received roughly 16 bn DM, which corresponded to 4 percent of total government debt. The conversion was finished in late 1949.[24]

Americans and Germans agreed on the fact the currency reform was imposed on Germany. In private memoirs, Tennenbaum later wrote: "The monetary reform, however much it may have met the yearnings and needs of the German public, was in fact dictated by a Military Government that professed to be trying to introduce democracy. It would be ridiculous to deny this." (cited by Meardon 2014, 356). On the German side, Emminger (1986, 23), a later Bundesbank president, wrote that "[o]nly an occupation force could undertake such a drastic monetary reform" and Möller (1976, 437) also believed that Germans could not have pursued such a harsh measure without making compromises. Moreover, it would certainly have been impossible for Germans to keep preparations secret (Wandel 1979, 321).

[24] The conversion rate was based on estimates about production capacity in 1946 and used the average velocity of money from 1931-33. But this overlooked that production capacity in 1948 was higher than in 1946 and it neglected a strong increase in velocity that led to an initially strong price increase after the reform (Gundlach 1987). Hielscher (1948), however, is a contemporary critique that the endowment was too high and responsible for the price increase after the reform. See also Dornbusch and Wolf (1990).

4.3. The delay of currency reform

The Potsdam agreement between the four Allies envisioned a joint policy concerning monetary and banking matters, so that currency reform was the responsibility of the Allied Control Council. Currency reform was much more discussed in the West than in the Soviet zone, however, because the strict control of the banking system and the price system made reform in the Soviet zone much less urgent and because the Soviets had an interest in continuing to use military marks and Reichsmarks (Wandel 1979, 1980).

Nevertheless, before the CDG plan was presented, the Allies had discussed where and under which conditions the new money could be printed in Germany. Already in October 1945 was a committee set up to discuss this. The Americans pushed for the reform to rid themselves from the responsibility for German development. While initially on the US side, the Soviets soon started to block negotiations, frequently breaking up meetings on new orders from Moscow. Conflict erupted between the US and the Soviet about the question of who was to be allowed to print new currency. The Soviets insisted on a second printing office in Leipzig in the Soviet occupation zone and demanded that the US hand over the engraving plates so that they would not depend on the US for access to new cash. The US side resisted, fearful of losing control over money circulation in Western zones when money from the Soviet zone spilled over, and the western Allies blocked the Soviet plan for a second printing office in Leipzig (Gottlieb 1956). This fear was based on experience because the Soviet had used the plates for printing Allied military marks to create much more money than was agreed upon, which then flowed back into western zones (Bennett 1950, Rundell 1964, Petrov 1967).

Clay's military government still hoped for a common currency reform with the Soviets in order not to fully separate the four zones. Only after the failed Allied conference in Moscow in September 1947 was it finally decided to go ahead with reform in Western zones and to start printing currency in the US and ship it later to Germany. Between February and April 1948, some 23,000 crates of banknotes arrived in Bremerhaven and were secretly transported to Frankfurt.

Even during the printing of the new currency, which took several months, the Americans continued to seek a compromise. Thus, the new currency did not show any official insignia of the western zones, so that it could have been used in a joint solution. Only in early 1948 did Washington decide to no longer pursue a common solution and instructed Clay to delay further negotiations. In March 1948 the Soviets officially left the Allied Control Council, and the western Allies pushed forward and convened the Konklave in Rothwesten. But even when the Soviets left the Allied Control Council and started their blockade of

Berlin, the introduction of the currency reform of June 20, 1948 was delayed for a couple of days in West-Berlin in the hope of reaching a last minute agreement with the Soviets on a joint solution for Berlin. Only when, four days later, the Soviets declared their own currency reform, the DM was also introduced in West-Berlin.

5. From the Bank deutscher Länder to the Bundesbank

The final design of the Bundesbank, which followed the Bank deutscher Länder, as well had to be defended against political ambitions to gain influence over monetary policy. With the protection of the Allies gone, the BdL fought with the federal government over relative influence. As this section now shows, public opinion ultimately sided with the central bank and the Adenauer government backed off.

The German constitution of May 23, 1949 obligated the federal government to create a federal central bank, called the Bundesbank, but without making a statement concerning the Bundesbank's political independence.[25] With the creation of the German federal state, the Allied Banking Commission requested from the government that it create the legal design for the new central bank. In 1951 a so-called transition law was put in place and on August 1, 1957 the Bundesbank eventually succeeded the Band deutscher Länder as the central bank of Germany. As before, a conflict arose between the position of the BdL, which wanted to give maximum independence to the new central bank and the federal government, which wanted to reign in the central bank's independence. According to Hentschel (1988, 10), politicians of all parties were of the opinion that total independence of the BdL was a mistake of Allied policy that needed correction. Some 25 different versions of the law were presented and discussed before compromise was eventually reached in 1957.

In 1949 the BdL began preparations for creating the Bundesbank. According to its plan, the BdL would be directly transformed into the Bundesbank, making the presidents of the directorate and the governing boards subject to the approval of the German Bundespräsident (the head of state), and creating a board, comprising the BdL presidents, the federal chancellor and the ministers of finance and economy, in which all important monetary decisions would be discussed. The BdL thus acknowledged that some discussion with the government would be necessary but according to its plan there would be no involvement of the federal government or parliament in the appointment of its presidents. Moreover, while the board should "trustfully" discuss policies, final decisions would lie exclusively with the

[25] The Bundesbank's independence was regulated by ordinary law and could have been changed by a simple parliamentary majority (Stern 1998).

Bundesbank (Bibow 2010). The conflict was thus a fundamental one: while the BdL aimed at a degree of independence not present in any other central bank at the time, the government's position was that the government should have the ultimate say over monetary policy, allowing a better coordination across policy fields.

Adenauer, the German Chancellor, was convinced that all economic policy decisions should be the prerogative of the government and not be shared with an independent central bank. In a letter to Fritz Schäffer, his minister of finance and initially responsible for the preparation of the Bundesbank law, he confirmed his view that the government could not forgo having decisive influence on monetary and currency policy (Buchheim 2001, 18).[26] Schäffer shared the view that monetary and fiscal policy should to some extent be coordinated, and in his first draft of the law duly proposed to simply transfer the ABC's power to the government, thus giving it control over the central bank's policy. The BdL protested against Schäffer's initial draft substituting the government for the ABC. It argued that the German government could not be compared to the occupation forces.

A later draft thus was more tailored to indirect influence on monetary policy. The mandate of the Bundesbank should be to secure the currency, taking into account economic necessities, and the German president should have the power to dismiss individual ZBR members before their term expired. Moreover, government representatives should be fully involved in decision making in meetings of the ZBR, and in cases of conflict a federal committee for monetary and economic decisions should decide. This committee would be chaired by a person appointed by the German president and be decisive in case of a tie. Chancellor Adenauer later went even further. The draft of September 1950 not only wanted to maintain the federal committee as an arbitration panel, which was vigorously opposed by the BdL, but now the chancellor himself would be chairing the committee, having decisive influence on monetary policy.

Not only the BdL but also economics minister Erhard voiced opposition to this proposal. Although Erhard as well believed that monetary policy should not be allowed to go against government policy, he favored the legal independence of the central bank and trusted in his capacity as economics minister to convince the bank of his opinion. Part of his support for the BdL's position might also have been due a power struggle within the German government (Bibow 2010). Erhard did not fully accept Schäffer's responsibility for central

[26] Throughout the discussion about the status of the Bundesbank Adenauer would keep his position, never accepting a necessity for central bank independence. The central bank should not become "a state within the state" (Berger and de Haan 1999, Bibow 2010, 559).

bank matters and thus might have sided with the BdL to undermine Schäffer's power. As Erhard became more powerful over time, this conflict weakened.[27]

Not surprisingly, the state governments as well wished to protect the federal structure of the central bank, and also public opinion sided with the BdL. While the German government preferred control over the Bundesbank's policy, the state governments favored the decentralized version and an independent central bank and objected to losing their influence to the federal government (Berger 1997b, 53).

The final decision was postponed and a transition law was passed in parliament before work on a final Bundesbank law started. The compromise reached with the transition law of 1951 envisaged a slight change in the allocation of seigniorage revenue between states and federal government and allowed members of the federal government to take part in meetings of the central bank council and to suspend decisions for 14 days (Buchheim 2001). The law contained the phrase that the BdL would be obliged to respect the general economic policy of the federal government and to support it as long as this would not conflict with its tasks. The central bank would thus be independent from direct order but obliged to cooperation.

This did not solve the issue with Adenauer, however. In addition to Adenauer's fundamental conviction that the central bank should follow the general economic policy of the government and a personal animosity between the BdL's President Vocke and him (Holtfrerich 1988), there were also concrete policy conflicts. One conflict arose over the current account deficit that developed during 1950/51 within the European Payments Union. The EPU was created in 1950 as a clearing union among European countries to economize on the use of scarce convertible US dollars. Countries were allocated quotas that entitled them to credit from the EPU to finance their imports. Germany soon exhausted its quota and would have to apply for additional loans from the EPU. The BdL advocated strict austerity and increased its discount rate from 4 to 6 percent. This came directly after Adenauer had summoned the central bank council to Bonn to put pressure on it not to increase interest rates. Adenauer intervened with the ABC to force the BdL to change its policy but the ABC sided with the BdL; in addition the EPU made its credit conditional on a strict policy of austerity (Berger 1997a, 1997b).

The second conflict came in the run-up to the 1957 federal election in Germany. Between 1952 and 1955 the BdL had in several rounds lowered its discount rate but shifted course in August 1955 as prices began to rise and increased the discount rate from 3 to 3.5

[27] After 1953 the responsibility for the Bundesbank law moved to the economics ministry and thus to Erhard.

percent. Moreover, the BdL had signaled privately to the government that it should not consider using a fiscal reserve (the so-called “Juliusturm”) that had been accumulated to pay for the later expected rearmament of the country. But the government continued to prepare plans to use these savings in the run-up to the election, despite the bank’s warning. The chancellor in turn let the BdL know that he expected consultation before further changes of interest rates and was supported in his position by the head organization of German industry (Bundesverband der Deutschen Industrie or BDI), which criticized the central bank’s move and was an important supporter of the government. To defend itself against this political and interest group pressure, and given that the final Bundesbank law was still in parliament, the bank sought help from ministers Erhard and Schäffer.

Adenauer sent the two ministers to Frankfurt in March 1956 to veto a second increase in the discount rate but both supported further tightening. Schäffer sided with the BdL on the grounds that the fiscal saving should not be used for election purposes whereas Erhard was concerned about price pressure. Both advised the council to ignore their veto using a formalistic legal argument. Consequently, the bank ignored the government’s veto and increased the discount rate further. In addition, the ministers surprised Adenauer with a stabilization plan for fiscal tightening in a cabinet meeting. In an angry speech before a public BDI meeting a couple of days later in Gürzenich (Cologne), Adenauer openly attacked his own ministers and threatened to take independence away from the central bank. The independence should have its limits if the central bank ignored the government’s policy guidelines (Berger 1997a).[28] Following this event, however, public reaction in Germany was overwhelmingly on the side of the BdL. Virtually every newspaper, the financial industry and even small business associations came out against Adenauer and he finally backed off (Berger and de Haan 1999, de Haan 2018).

The Gürzenich affair was a clear sign that public opinion would from now on side with the central bank in favor of independence and against government intervention (Neumann 1998). This had not always been the case so unambiguously. Given the increase of inflation after currency reform, the central bank’s initial image was not impeccable. Moreover, the early discussion about monetary and central bank policy still focused on the legacy of the Reichsbank and was often critical of Vocke’s background in the Reichsbank. But, as Mee (2016) shows, public opinion shifted markedly between the late 1940s and the mid-1950s.

---

[28] Berger (1997a) sees this as a tactical move by Adenauer to calm industrial interests by making the central bank a “scapegoat” because he later went along with the stabilization program of Schäffer and Erhard.

One reason for this was the skillful public relations and press policy of the Bank deutscher Länder and in particular Vocke. Already in 1948 a financial journalist named Muthesius approached Vocke and suggested influencing public opinion in the BdL's favor. He used the "Zeitschrift für das gesamte Kreditwesen", a publishing house that was close to the Bundesbank later, and contacts with other journalists, to improve the BdL's public standing. There even was a formal agreement two years later between the BdL and Methusius concerning the "cultivation of public opinion" (Mee 2016, 153), leading to a gradual shift of public opinion in the BdL's favor. In other instances, the BdL even sent money to friendly journalists (Mee 2016, 199).

In the end, there were only minor changes from the transition law of 1951 to the final Bundesbank law of July 1957 (Berger 1997a). Before 1957 the council consisted of the directorate, the president of the governing board, and the LZB presidents. Of the directorate, only the president was entitled to vote. After 1957, there was only the council with one president of the Bundesbank and all members of the directorate became entitled to vote in the council.[29] Since all members of the directorate were nominated by the federal government, this might look like an increase of federal political influence, but the LZB presidents remained in the majority. The LZBs at the same time lost their independence and became mere main offices of the Bundesbank within the federal states. Moreover, the Bundesbank was now wholly owned by the federal government and thus all seigniorage revenue flowed to the federal government.

6. Conclusion

The currency reform of 1948 and the creation of an independent central bank system that later became the Bundesbank were initiated by occupation forces in post-war Germany and was largely an American design. At the time, both were not unambiguously supported by German officials or economic experts as later impressions would suggest. Instead, many experts at the time argued that both were imposed on Germans against their will. The German "economic miracle" beginning with currency reform, however, soon created public support for the DM and an independent central bank. The clear institutional break with the tradition of the Reichsbank and the experiences with hyperinflation after the First World War and the repressed inflation after the Second World War created the environment in which a radical reform became acceptable. Yet, in contrast to the public, not all politicians shared the

[29] Karl Blessing was appointed first president of the Bundesbank. He also had a background in the Reichsbank (Marsh 1992).

preference for central bank independence and there were repeated attempts to influence monetary policy. In particular, the first federal chancellor, Adenauer, was not a friend of central bank independence and made repeated attempts to constrain the independence of the new institution. Later chancellors, like Schmidt and Kohl, also had their conflicts with the Bundesbank but in each case the public was firmly on the side of the central bank (de Haan 2018).

That independence could finally prevail is partly due to the American occupation force that ensured the initial independence of the central bank and insisted on political independence for the Bank deutscher Länder, thereby setting an important precedent for the structure of the Bundesbank. The ABC gave more independence to the BdL than was codified in law and the bank knew to use this to establish its independence from the German government later on. But it is also due to public support that ensured that the central bank won the conflict with the federal government in drafting the Bundesbank law and securing its independence. The Bank deutscher Länder and later the Bundesbank were very skillful in creating public opinion in their favor, which later helped to survive the Adenauer government's attack on its independence (Berger and de Haan 1999). While it is true that the central bank was successful in its conflict with the Adenauer government, it is hard to imagine that it could have achieved this, had it not been for the Allies who created the institutional tradition that ensured independence. The widespread support for the Bundesbank and the quick acceptance of the new currency and central bank as "German" in the country should not mask the initial resistance against both.

And while the performance of the deutsche mark and Bundesbank are exceptional in international comparison, it also clear that its actual design does not fully conform to what many economists view as the ideal central bank constitution. Peter Bernholz, in accordance with the German ordoliberals, has always argued for a rule-based monetary policy (Bernholz 1989, 2013). The Bundesbank, apart from the early years in which it was constrained by the fixed exchange rate system of Bretton Woods, was always free to set its policy as discretionary and not rule-bound. A monetary policy, however, that takes away discretion, such as rule-based monetary policy, a currency on the gold standard, or competitive money creation would create a monetary system that does not depend on the wisdom of central bankers. In fact, one could argue that a rule-based monetary policy is the exact opposite of central bank independence (Bibow 2010) whereas Bernholz's strong advocacy for the central bank as a fourth pillar next to government, parliament and judiciary must be understood as a precondition for a credible policy rule. The monetary policy setup in Germany was arguably not what Peter Bernholz would have preferred because the bank was not subject to external policy rules and independence was only secured by ordinary law. Constitutionally guaranteed independence of the central bank was only achieved with the European Central Bank.

References

Acemoglu, Daron, Davide Cantoni, Simon Johnson and James Robinson (2011) The Consequences of Radical Reform: The French Revolution, American Economic Review 101, 3286–3307.

Adler, Hans (1949) The Post-War Reorganization of the German Banking System, Quarterly Journal of Economics 63, 322-341.

Ambrosius, Gerold (1977) Die Durchsetzung der Sozialen Marktwirtschaft in Westdeutschland 1945-1949, Stuttgart: DVA.

Backer, John (1978) The Decision to Divide Germany: American Foreign Policy in Transition, Durham: Duke University Press.

Bennett, Jack (1950) The German Currency Reform, Annals of the American Academy of Political and Social Sciences 267 (January), 43-54.

Benz, Wolfgang (1988) Die Währungsreform: Legende und Wirklichkeit, in Heinz Friedrich (ed) Mein Kopfgeld, München: Beck, 14-28.

Berger, Helge (1997a) The Bundesbank's Path to Independence: Evidence from the 1950s. Public Choice 93, 427-453.

Berger, Helge (1997b) Konjunkturpolitik im Wirtschaftswunder, Tübingen: Mohr Siebeck.

Berger, Helge and Jakob De Haan (1999) A State within the State? An Event Study on the Bundesbank 1948–1973, Scottish Journal of Political Economy 46, 17-39.

Berkowitz, Daniel, Katharina Pistor and Jean-Francois Richard (2003) Economic Development, Legality and the Transplant Effect, European Economic Review 47, 165-195.

Bernholz, Peter (1979) Freedom and Constitutional Economic Order, Zeitschrift für die gesamte Staatswissenschaft 135, 510-532.

Bernholz, Peter (1986) The Implementation and Maintenance of a Monetary Constitution, Cato Journal 6, 477-511.

Bernholz, Peter (1989) Geldwertstabilität und Währungsordnung, Walter Eucken Institut, Vorträge und Aufsätze 122, Tübingen: Mohr Siebeck.

Bernholz, Peter (1998) Die Bundesbank und die Währungsintegration in Europa, in Deutsche Bundesbank (ed) Fünfzig Jahre Deutsche Mark: Notenbank und Währung in Deutschland seit 1948, München: Beck, 773-833.

Bernholz, Peter (2001) Monetary Constitution, Political-Economic Regime and Long-Term Inflation, Constitutional Political Economy 12, 3-12.

Bernholz, Peter (2003) Monetary Regimes and Inflation: History, Economic and Political Relationships, Cheltenham: Elgar.

Bernholz, Peter (2007): Die Nationalbank 1945–1982: Von der Devisenbann-Wirtschaft zur Geldmengensteuerung bei flexiblen Wechselkursen, in Schweizerische Nationalbank (ed) Die Schweizerische Nationalbank 1907 – 2007, Zürich: Neue Zürcher Zeitung, 119-211.

Bernholz, Peter (2013) Independent Central Banks as a Component of the Separation of Powers, Constitutional Political Economy 24, 199–214.

Bibow, Jörg (2010) Zur (Re)Etablierung zentralbankpolitischer Institutionen und Traditionen in Westdeutschland: Theoretische Grundlagen und politisches Kalkül (1946-1967), in Christian Scheer (ed) Studien zur Entwicklung der ökonomischen Theorie XXV, Schriften des Vereins für Socialpolitik, Berlin: Duncker and Humblot, 491-588.

Bignon, Vincent and Marc Flandreau (2018) The Other Way: A Narrative History of the Bank of France, in Rodney Edvinsson et al (eds) Sveriges Riksbank and the History of Central Banking, Cambridge: Cambridge University Press, 206-241.

Blum, Reinhard (1969) Soziale Marktwirtschaft, Tübingen: Mohr Siebeck.

Brackmann, Michael (1993) Vom totalen Krieg zum Wirtschaftswunder, Essen: Klartext.

Brown, Lewis (1947) A Report on Germany, New York: Farrar, Straus and Company.

Buchheim, Christoph (1988) Die Währungsreform 1948 in Westdeutschland. Vierteljahreshefte für Zeitgeschichte 36, 189-231.

Buchheim, Christoph (1998) Die Errichtung der Bank deutscher Länder und die Währungsreform in Westdeutschland, in Deutsche Bundesbank (ed) Fünfzig Jahre Deutsche Mark: Notenbank und Währung in Deutschland seit 1948, München: Beck, 91-138.

Buchheim, Christoph (2001) Die Unabhängigkeit der Bundesbank, Vierteljahreshefte für Zeitgeschichte 49, 1-30.

Carlin, Wendy (2010) Institutions and Economic Reforms, Review of Economics and Institutions 1, No 1, Article 2.

De Haan, Jakob (2018) The Struggle of German Central Banks to Maintain Price Stability, in Rodney Edvinsson et al (eds) Sveriges Riksbank and the History of Central Banking, Cambridge: Cambridge University Press, 388-417.

Dickhaus, Monika (1998) Fostering ‘The Bank that Rules Europe’: The Bank of England, the Allied Banking Commission and the Bank deutscher Länder, 1948–51, Contemporary European History 7, 161-179.

Dornbusch, Rudiger and Holger Wolf (1990) Monetary Overhang and Reforms in the 1940s. NBER working paper 3456.

Emminger, Otmar (1986) D-Mark, Dollar, Währungskrisen, Stuttgart: DVA.

Goodhart, Charles (2018) The Bank of England, 1694-2017, in Rodney Edvinsson et al (eds) Sveriges Riksbank and the History of Central Banking, Cambridge: Cambridge University Press, 143-171.

Goodman, John (1992) Monetary Sovereignty: The Politics of Central Banking in Western Europe, Ithaca: Cornell University Press.

Gottlieb, Manuel (1956) Failure of Quadripartite Monetary Reform 1945-1947, FinanzArchiv 17, 398-417.

Gundlach, Erich (1987) Währungsreform und wirtschaftliche Entwicklung: Westdeutschland 1948, Kiel Working Paper 286.

Gurley, John (1953) Excess Liquidity and European Monetary Reforms, 1944-1952, American Economic Review 43, 76-100.

Hayo, Bernd and Carsten Hefeker (2002) Reconsidering Central Bank Independence, European Journal of Political Economy 18, 653-674.

Hayo, Bernd and Edith Neuenkirch (2014) The German Public and its Trust in the ECB: The Role of Knowledge and Information Search, Journal of International Money and Finance 47, 286-303.

Hentschel, Volker (1988) Die Entstehung des Bundesbankgesetzes 1949-1957: Politische Kontroversen und Konflikte, Bankhistorisches Archiv 14, 3–31 and 79-115.

Herbst, Ludolf (1977) Krisenüberwindung und Wirtschaftsneuordnung. Ludwig Erhards Beteiligung an den Nachkriegsplanungen am Ende des Zweiten Weltkrieges, Vierteljahreshefte für Zeitgeschichte 25, 305-340.

Hielscher, Erwin (1948) Der Leidensweg der deutschen Währungsreform, München: Pflaum.

Holtfrerich, Carl-Ludwig (1988) Relations between Monetary Authorities and Governmental Institutions: The Case of Germany From the 19th Century to the Present, in Gianni Toniolo (ed) Central Banks' Independence in Historical Perspective, Berlin: De Gruyter, 105-159.

Holtfrerich, Carl-Ludwig and Toru Iwami (1999) Post-war Central Banking Reform: A German-Japanese Comparison, in Carl-Ludwig Holtfrerich et al (eds) The Emergence of Modern Central Banking from 1918 to the Present, Aldershot: Ashgate, 69-110.

James, Harold (1994) Post-War German Currency Plans, in Christoph Buchheim et al (eds) Zerrissne Zwischenkriegszeit, Baden-Baden: Nomos, 205-218.

Kindleberger, Charles and F. Taylor Ostrander (2003) The 1948 Monetary Reform in Western Germany, in Marc Flandreau et al (eds) International Financial History in the 20th Century, Cambridge. Cambridge University Press, 169-196.

Klopstock, Fred (1946) Monetary Reform in Liberated Europe, American Economic Review 36, 578-595.

Krasner, Stephen and Jeremy Weinstein (2014) Improving Governance from the Outside In, Annual Review of Political Science 17, 123-145.

Marsh, David (1992) The Bundesbank: The Bank that Rules Europe, London: Heineman.

Meardon, Stephen (2014) On Kindleberger and Hegemony: From Berlin to MIT and Back, History of Political Economy 46, 351-374.

Mee, Simon (2016) Monetary Mythology: The West German Central Bank and Historical Narratives, 1948-78, Ph. Dissertation, Oxford University.

Meltzer, Alan (2003) A History of the Federal Reserve, Vol I: 1913-1951, Chicago: Chicago University Press.

Möller, Hans (1961) Zur Vorgeschichte der Deutschen Mark, Basel: Kyklos-Verlag.

Möller, Hans (1976) Die westdeutsche Währungsreform von 1948, in Deutsche Bundesbank (ed) Währung und Wirtschaft in Deutschland 1876-1975, Frankfurt: Knapp, 433-483.

Neumann, Manfred (1998) Geldwertstabilität: Bedrohung und Bewährung, in Deutsche Bundesbank (ed) Fünfzig Jahre Deutsche Mark: Notenbank und Währung in Deutschland seit 1948, München: Beck, 309-346.

Petrov, Vladimir (1967) Money and Conquest, Baltimore: Johns Hopkins Press.

Pollard, Robert (1985) Economic Security and the Origins of the Cold War 1945-1950, New York: Columbia University Press.

Ritschl, Albrecht (2005) Der späte Fluch des Dritten Reichs: Pfadabhängigkeiten in der Entstehung der bundesdeutschen Wirtschaftsordnung, Perspektiven der Wirtschaftspolitik 6, 151-170.

Rundell, Walter (1964) Black Market Money, Baton Rouge: Louisiana State University Press.

Sauermann, Heinz (1950) The Consequences of the Currency Reform in Western Germany, Review of Politics 12, 175-196.

Sauermann, Heinz (1955) Der amerikanische Plan für die deutsche Währungsreform, Zeitschrift für die gesamte Staatswissenschaft 111, 193-203

Sauermann, Heinz (1979) On the Economic and Financial Rehabilitation of Western Germany (1945-1949), Zeitschrift für die gesamte Staatswissenschaft 135, 301-319.

Stern, Klaus (1998) Die Notenbank im Staatsgefüge, in Deutsche Bundesbank (ed) Fünfzig Jahre Deutsche Mark: Notenbank und Währung in Deutschland seit 1948, München: Beck, 141-198.

Tribe, Keith (2001) The 1948 Currency Reform: Structure and Purpose, in Jens Hölscher (ed) 50 Years of the German Mark, Basingstoke: Palgrave, 15-51.

Turner, Ian (1987) Great Britain and the Post-War German Currency Reform, Historical Journal 30, 685-708.

Wandel, Eckhard (1979) Historical Developments Prior to the German Currency Reform of 1948, Zeitschrift für die gesamte Staatswissenschaft 135, 320-331.

Wandel, Eckhard (1980) Die Entstehung der Bank deutscher Länder und die deutsche Währungsreform 1948, Frankfurt: Knapp.