Meinhard Knoche

Ludwig Erhard and the ifo Institute: In the Service of German Reconstruction[1]

Meinhard Knoche
ifo Institute

The ifo Institute, unlike any other German economic research institute, stands in the tradition of Ludwig Erhard, remembered in history as the architect of German reconstruction after the Second World War, as Economics Minister in the first government of the Federal Republic of Germany and then as Federal Chancellor. He was the founder and chairman of the board of the South German Institute for Economic Research *(Süddeutsches Institut für Wirtschaftsforschung)*, which on 24 January 1949 merged with the Information and Research Center for Economic Observation *(Informations- und Forschungsstelle für Wirtschaftsbeobachtung),* which had recently been set up under the auspices of the Bavarian Statistical Office, to form the Institute for Economic Research e.V. Munich *(Institut für Wirtschaftsforschung e.V. München)* – today's ifo Institute. Erhard saw his vocation in leading Germany into a better future and founded 'his' institute as a scientific partner of state institutions in shaping the new economic order. As Director of the Administration of the Bi-zone and Federal Minister of Economics, he established the independent economic policy-advice services in Germany, which has been a characteristic feature of the ifo Institute over the past 70 years.

LUDWIG ERHARD'S PATH TO ECONOMIC RESEARCH

Ludwig Erhard was born on 4 February 1897 in Fürth, the son of businessman Wilhelm Philipp Erhard, who ran a textile shop in Fürth, and his wife Augusta. After attending elementary and secondary school and completing his apprenticeship as a draper in 1916, he seemed destined to move into his father's textile business, but this was not meant to be. Despite a foot severely deformed by polio, Erhard took part in World War I from 1916, initially as a gunner and at the end of the war as a sergeant in the 22nd Royal Bavarian Field Artillery Regiment. He was seriously wounded near Ypres in September 1918 and retired from military service in 1919. His injury required a total of seven operations. Erhard's poor health impeded his original plan of joining his father's business.

His service as a front-line soldier afforded Erhard the opportunity of completing a course of studies at the recently established Commercial College *(Handelshochschule)* in Nuremberg even though his lacked the necessary university-entrance qualifications *(Abitur)*. He finished in 1922 as a business graduate *(Diplom-Kaufmann)* with a thesis on the economic significance of cashless payment transactions. Wilhelm Rieger, Professor of Business Administration and Economic Theory at the Nuremberg Commercial College, was Erhard's primary academic mentor. He persuaded Erhard's father to enable his son to continue his studies in economics and used his close connections with the Frankfurt economist Franz Oppenheimer to help admit Erhard to a study of business administration, economics and sociology at the University of Frankfurt. In Erhard's own words, he was a student "who wanted to learn business administration but was obsessed with a passion for economics". He received his doctorate *(Dr. rer. pol.)* in 1925 under Franz Oppenheimer with a dissertation on the 'Nature and Content of Units of Value' *(Wert und Inhalt der Werteinheit)*.

How Ludwig Erhard supported his young family from 1925 to 1928 is uncertain. His doctorate was no guarantee of employment. His father Wilhelm Erhard's business did not survive German hyper-inflation. He authorized his son Ludwig to file for bankruptcy and retired in 1928. The same year Ludwig Erhard found employment as lecturer at the Nuremberg Commercial College. He also worked at the Institute for the Economic Monitoring of German Finished Goods *(IfWdF –Institut für Wirtschaftsbeobachtung der deutschen Fertigware),* which the economist Wilhelm Vershofen founded in 1925 to conduct industry market research. The IfWdF did pioneering work in this area, largely due to Ludwig Erhard. He was co-founder and editor of the journal *Der Markt der Fertigware* and from 1933 editor-in-chief of the journal *Wirtschaftspolitische Blätter der deutschen Fertigwarenindustrie.* In 1934 the IfWdF was authorized to compile market statistics and conduct market analyses of individual branches of the German consumer goods industry. In the same year, Vershofen also founded the Consumer Research Association *(GfK – Gesellschaft für Konsumforschung)*, whose founding board, in addition to Vershofen, included Ludwig Erhard and Erich Schäfer. The GfK was closely linked to the IfWdF. Erhard soon joined Vershofen and Schäfer in the managing board of the Institute, and under his guidance the IfWdF was so successful that it became an independent foundation in 1938. The IfWdF received commissions from large companies, trade associations and high government offices in Berlin and Bavaria. From 1935 Erhard helped develop and implement seminars on aspects of the consumer economy at the IfWdF. The first guest speaker Erhard invited was his acquain-

[1] This article is largely based on documents that were accessed in 2018, primarily in the Bavarian State Archives and the University Archives of the Ludwig Maximilian University in Munich. Detailed references can be found in Knoche (2018).

tance Carl Goerdeler, who held the office of Reich Price Commissioner that year. One of the focuses of Erhard's work was foreign trade research and consultancy, particularly regarding the economies of Austria, Lorraine, Bohemia and Moravia. In a study entitled an 'Examination of the Structure and Design of Industry in the Adjoining Eastern Territories' for the Main Trusteeship Office for the East (1940), Erhard and his collaborators took a positive stance towards the Polish population, which received criticism from the National Socialist authorities.

In this phase, a proposal by the rector of the Nuremberg Commercial College to appoint Ludwig Erhard as honorary professor was unsuccessful. An external expert, Professor Karl Rößle, spoke out against the appointment because Erhard lacked sufficient publications in the relevant business economics journals. Thereupon the Reich Ministry for Education, Science and National Education rejected Erhard's appointment as honorary professor and recommended that he strive for the venia legendi. Erhard took up this recommendation. His dissertation on 'Overcoming the Economic Crisis through Economic Policy Influence' at the Nuremberg Commercial College was unsuccessful, however. Whether the failure was for quality or ideological reasons is a matter of controversy among Erhard biographers. Erhard himself was convinced that the failure was due to the insurmountable political hurdles he faced during the Nazi era.

Somewhat later a conflict arose in the management of the IfWdF when Vershofen went into retirement and chose his student Erich Schäfer as his successor. Erhard, who viewed himself as potential successor, wrote an unfriendly letter to Erich Schäfer, and the situation escalated when it became public. The administration of the Commercial College undertook legal action against Erhard, and he agreed to leave the IfWdF in October 1942.

AUTUMN 1942: FOUNDATION OF THE INSTITUTE FOR INDUSTRY RESEARCH

As Vice Managing Director of the IfWdF, Ludwig Erhard carried out economic and political advisory tasks that brought him into close contact with representatives of the German economy and in particular via the Reich Group for Industry *(RGI – Reichsgruppe Industrie)*, the umbrella organization of German industry during the Nazi era in which Erhard's brother-in-law Karl Guth was managing director. With the support of well-known RGI businessmen, Ludwig Erhard founded the Institute for Industry Research *(Institut für Industrieforschung)* in Nuremberg in the second half of 1942, which later was to form the nucleus of the ifo Institute. As Erhard later told the military government in Bavaria, after his departure from the IfWdF, the workforce split up: some employees remained at the IfWdF under the direction of Erich Schäffer, others joined the Institute for Industry Research, the institute founded and directed by Ludwig Erhard.

In autumn 1942, Erhard began to examine issues of post-war reconstruction, and was supported in these efforts by leading industrialists in the RGI. On 18 November 1942, at the suggestion of Hermann von Siemens, a German Industry Promotion Association *(Fördergemeinschaft der Deutschen Industrie)* was founded under the umbrella of the RGI. Its aim was to avert dangers to the German economy that would arise 'in the event of a downfall', and as of 20 May 1943 this association agreed to finance the Institute for Industry Research for a period of three years.

The four sections of the work plan that the Institute for Industry Research presented to the RGI dealt exclusively with the post-war order. The third section examined the domestic German economy and which dealt with questions "arising from the conversion of the material and formal order to a peace-time economy and in particular from the necessity of material and financial compensation for war damages". On the basis of this plan, Erhard's institute prepared several studies for the RGI. The most important of these studies was a comprehensive analysis of the steps necessary to restore the German economy to peacetime production. In his March 1944 memorandum, 'War Financing and Debt Consolidation' *(Kriegsfinanzierung und Schuldenkonsolidierung)*, Erhard assumed that Germany would lose the war, which itself was tantamount to high treason. At least in the initial phase, work on this study was subversive, since a Hitler decree had prohibited any planning for a postwar period. Erhard focused on rebuilding the economy after the war and recommended, among other things, a currency reform. At the request of his client, Erhard presented a revised and shortened version of his study in summer 1944, which was discussed with RGI representatives in autumn 1944.

Ludwig Erhard sent a copy of this memorandum to Carl Goerdeler, a member of the German resistance who was executed in Berlin-Plötzensee on 2 February 1945, after the failed Stauffenberg assassination attempt on Hitler. When Erhard sent his study to Goerdeler, the latter was already hiding from the Gestapo. He read the study and, in a memorandum that he wrote at the beginning of August 1944 and sent to members of the resistance, referred to it as follows: "Dr. Erhard of the Institute for German Industry Research in Nuremberg has written a very good study on how to treat these debts, which I essentially agree with. He will advise you well".

LUDWIG ERHARD: HIS PATH INTO POLITICS

The assertion is false that Erhard's study on war financing and debt consolidation written in the last two years of the war as well as Carl Goerdeler's recommendation fell into the hands of the Allies thus making Erhard an 'American discovery' and easing his way into politics. It was Erhard himself who made himself known to the Allies. Immediately after the war, he contacted the military administration, since financing for the Institute for Industry Research had dried up and Erhard needed to generate income for himself and his institute. On the day after American troops marched into his hometown of Fürth (18 April 1945), he introduced himself to the American military authorities as an economist, offering his services as an expert on the consumer goods industry. The military administration commissioned him to draw up a report on the state of industry in Fürth. Erhard seized the opportunity and already in May 1945 presented the US authorities a memorandum with recommendations on the measures needed to restart the German economy. Having fulfilled his initial task to the satisfaction of the military administration, Erhard asked the military commander in Fürth to give him greater responsibilities, at the same time informing him of his connection to Goerdeler and the exchange of publications. Erhard made such a convincing impression that he was appointed Economic Advisor to the Military Government for Middle and Upper Franconia. But even before this came to fruition, the American military governor appointed Erhard, effective 22 October 1945, as Minister for Trade and Commerce (Economics Minister) in the Bavarian State Government, which at the time was led by the Prime Minister Wilhelm Hoegner of the SPD. Since Erhard had no political affiliation, he was named in the cabinet listing as a 'left-leaning democrat'.

Ludwig Erhard's term as Bavarian Minister of Economics was not marked by good fortune. Building on his 1944 study on debt consolidation and war financing, he drafted an additional memorandum in 1945, which dealt with economic reconstruction. In it he questioned the options of the Bavarian government in the reconstruction of Germany. His assertion that the problems could only be solved within a German framework and beyond Germany's borders was perceived as hostile by some Bavarian politicians and contributed to Ludwig Erhard's increasing isolation from Bavarian politics. His activity as Bavarian Minister of Economics ended with the first postwar elections to the Bavarian Parliament on 21 December 1946.

In preparation for his senior political tasks, Erhard exchanged views in Munich with leading economists and finance experts on the urgent economic and financial problems facing German reconstruction. To this end, he had joined the Economics Working Group for Bavaria, founded and led by the renowned Munich economist Adolf Weber (1876–1963), in which Weber's former student and faculty colleague Fritz Terhalle was also active. Adolf Weber had the Chair of Economics and Finance, a chair previously held by Max Weber and Lujo Brentano. After the collapse of the Third Reich, Adolf Weber went public with an economic policy program that he had conceived during the war. As early as June 1945, he included Ludwig Erhard in the Economics Working Group's activities. Erhard was initially involved in the committee on 'Capital and Loans' headed by Weber, in which a 'Plan for the Reorganization of the German Monetary System' was drawn up. On behalf of the Working Group, Erhard presented this plan to the American military administration in Frankfurt in July 1945. Among his other tasks in the Economics Working Group was the leadership of the Committee for Industry, which worked out proposals for industrial reconstruction. Ludwig Erhard also collaborated with Adolf Weber and Fritz Terhalle on monetary policy issues. In July 1947, they presented the Bi-zone Economic Council with a jointly prepared treatise on monetary reform.

His contact to Adolf Weber and Fritz Terhalle also paved the way to Erhard's long-desired honorary professorship. On 2 February 1946, the Economics Faculty of the University of Munich unanimously petitioned the Bavarian government to appoint Ludwig Erhard as honorary professor, and in March 1946 the faculty gave him a contract to teach contemporary economic policy issues. Since basic questions regarding the appointment of leading politicians to honorary professorships needed to be clarified, it was not until 7 November 1947 that the Bavarian Ministry of Culture appointed Erhard honorary professor of the University of Munich. With the title 'Professor Erhard' he had achieved an important personal goal, and he made it part of his official name (Hentschel 1996). Although he withdrew from teaching shortly after his appointment as honorary professor, he remained in close contact with his faculty colleagues Adolf Weber and Fritz Terhalle and continued to integrate the faculty in the work of 'his' economic research institute.

LUDWIG ERHARD AS PIONEER OF EMPIRICAL ECONOMIC RESEARCH IN MUNICH

Soon after his appointment as Bavarian Minister of Economic Affairs, Ludwig Erhard helped found the Institute for Economic Observation and Policy Advice *(Institut für Wirtschaftsbeobachtung und Wirtschaftsberatung)* in Munich, killing two birds with one stone: with this new economic research institute, he filled the gap left by the demise of empirical economic research in Nazi Germany and at the same time he found a new home for his Nuremberg Institute. The statutes of association were completed in mid-1946, and Erhard called the founding members to the first general meeting in the rooms of the Bavarian Ministry of Economics on 10 September 1946. Ludwig Erhard gave the following reasons for establishing a new economic research institute: "since 1933 and to a greater extent during the war, Germany has lost its connection to the economic and technical developments in the world. … In Germany itself … huge problems that threaten the peoples' physical existence … are being accepted almost passively at present, although opportunities for active cooperation and influencing via negotiations exist. The authorities have neither the time nor the organizational and factual prerequisites to systematically work through these problems, even though our fate and future depend on actively and correctly solving them. … A dedicated research organization is needed to bundle these various tasks both in terms of personnel and economic expertise, not to mention the material resources".

The general meeting formally established the Institute for Economic Observation and Policy Advice on the basis of the statutes on 15 July 1946 and appointed the Institute's founding board. In addition to Ludwig Erhard as Chairman of the Executive Board, it was composed of Anton Reithinger, Rolf Waldmann and Gerhard Holthaus as members of the Executive Board, all of whom Erhard had incorporated into the Bavarian Ministry of Economics with managerial functions. The association had its seat in Munich and according to Section 3 of the statutes was to be registered as an association at the Munich district court, which in fact was never done.

According to Section 2 of the statutes of the association, the Institute was to lend research support to the reconstruction of Germany: the purpose of the association is the establishment and maintenance of a research institute working on a scientific basis which collects and evaluates public and private sector economic data as well as data and findings on the technical conditions in the economy required for reconstruction and which communicates its results by means of reporting, consulting and assessment activities to the economic administration and businesses as well as to all persons and bodies interested in a peaceful development of the German economy.

To ensure scientific quality, Ludwig Erhard attached great importance to linking the Institute to the Economics Faculty *(Staatswirtschaftliche Fakultät)* at the University of Munich. In a detailed letter of 13 December 1946 to his cabinet and faculty colleague Fritz Terhalle, Erhard described the close connection of the Institute with the university as 'highly desirable'. In this letter he emphasized the close connection of the new Institute to the Bavarian Ministry of Economics and the bi-zonal economic administrative offices as well as the possibility of involving the faculty in the economic policy advice given to government authorities "which will then primarily make use of the work of this Institute". Erhard also emphasized the positive effects of the cooperation between the university and the Institute with regard to the recruitment and promotion of young academics and the integration of the Institute's economists in teaching activities at the university. At its meetings of 17 January 1947 and 7 February 1947, the Economics Faculty unanimously welcomed Erhard's initiative and expressed its will to strive for close cooperation with his Institute.

In a letter of 21 September 1946, Ludwig Erhard informed the military government of Bavaria of the founding of the Institute for Economic Observation and Policy Advice and the merging of the Institute for Industry Research with the newly founded institute. The incorporation of the experienced staff of the Nuremberg institute enabled the newly founded institute to start work immediately upon its foundation. As early as November 1946, it delivered its first results by initially providing figures on the economic situation in Bavaria and the US zone. Later, it provided information on the other occupation zones and the most important foreign countries, as well as brief overviews of the status and prospects of industrial production in Bavaria. The Institute for Economic Observation and Policy Advice was financed by funds from the private sector.

After leaving the Bavarian Cabinet at the end of 1946, Erhard was now free to work towards building up his institute and publicly promoting the need for economic and monetary reform. He turned the management of the institute over to his ambitious board colleague Anton Reithinger, whereas Erhard himself dealt with more fundamental matters such as the networking of the institute with well-known personalities from business, government and academia. Despite the loss of his ministerial office, Erhard had retained his popularity and his connections to businessmen and politicians. For example, he had found supporters for his economic policy ideas and for the establishment of an economic research institute at the Bavarian Economic Council, an advisory body of the Bavarian State Government made up of important figures from business and industry.

Erhard used his good standing with business leaders to place his institute on a broader footing. Nine months after the founding meeting of the Institute for Economic Observation and Policy Advice, with the active support of the Bavarian Economic Advisory Council, he reorganized it, renaming it the South German Institute for Economic Research *(Süddeutsches Institut für Wirtschaftsforschung).* In legal and actual terms, the 're-founding' decided at the general meeting on 9 June 1947 was nothing but a change of name of the original institute that was not registered in the Register of Associations. There was hardly any change in the structure of the initial association, the planned range of tasks or the operational organization. The most significant conceptual change consisted in the expansion of the radius of action. The initial institute was to primarily serve Bavarian interests; the South German Institute saw as its prime area of responsibility the southern German states of Bavaria, Hesse and Württemberg-Baden, all within the American occupation zone, and its research results were to be applicable to all German states and, from the perspective of the German economy, to the most important foreign countries.

In a public statement at the founding meeting of the South German Institute on 9 June 1947, Ludwig Erhard described his understanding of a modern economic research institute: "its work is fundamentally non-partisan, with strict scientific objectivity, based on economic fundamentals, cosmopolitan, with the aim of promoting both domestic economic welfare and that of all countries with linked economies, thus helping to promote the common welfare of the peoples involved. It does not itself pursue economic policies, handing them over to political parties and their representatives in the governments, but it provides economic policy makers with material that is indispensable for a modern economy".

With the clever move of a 're-founding' with the help of the Bavarian Economic Council, Erhard succeeded in providing his institute with a broader membership base and in gaining leading personalities to support the institute, letting them see themselves as its co-founders. These included Privy Councilor Ludwig Kastl (1878–1969), who was President of the Bavarian Economic Council from 1946 to 1947 and was elected Chairman of the Board of Trustees of the South German Institute. After the National Socialists seized power, Ludwig Kastl was forced out of his office as managing member of the presidency of the Reich Association of German Industry. As a lawyer critical of the regime, Kastl kept a low profile after 1933 as a lawyer in Berlin. Shortly before the end of the Second World War, he was appointed to management functions in business (including the Executive Board of the MAN Group) and became one of Germany's most prominent corporate leaders. In the following years, Ludwig Kastl became the 'grey eminence' that assisted in the transition from the South German Institute to the ifo Institute and helped shape its initial phase.

Ludwig Erhard, Anton Reithinger and Rolf Waldmann remained unsalaried Executive Board members; Gerhard Holthaus left to join the bi-zonal administration. The initial aim of forming three departments at the South German Institute (Economics, Business and Market Economics, Industrial and Process Engineering) exceeded the institute's financial resources. Since economic affairs were of prime importance to Erhard, he postponed the establishment of a department for business economics, which he had wanted to head, and continued to devote his attention to the fundamental questions of reconstruction. To gain public support for a market economy, which many Germans viewed skeptically, as well as understanding for the necessary reforms, Erhard launched an extensive journalistic campaign, especially in the national daily newspaper *Die Neue Zeitung* published by the American authorities. Between September 1946 and March 1948, the newspaper published twelve longer essays on fundamental economic and monetary policy topics written by Erhard. The establishment at the South German Institute of an industrial and process engineering department, which was to be headed by board member Rolf Waldmann, was also postponed, whereupon Waldmann withdrew from the board of the institute.

The work of the institute was thus centered on the Economics Department headed by Anton Reithinger, which comprised six divisions for the domestic economy and one for the monitoring of the international economy and was supported by a small economics archive and a library. For its work, the institute had a staff of a dozen employees, consisting of experienced economists and technical staff, with occasional contributions from freelancers.

The South German Institute's financial difficulties were also due to Erhard's initial reliance on private-sector revenue as the main source of financing. This was because in the initial post-war years there was only a small amount of state funding for the promotion of economic research; in addition, Erhard regarded state funding for non-university research institutions as a gateway to government influence over the orientation of research activities. This, as well as the influence of political parties, Erhard sought to avoid. Erhard's reluctance to accept state funding weakened, however, when in the first few months after the re-founding of the institute it became apparent that the involvement of industry in the new institute had not strengthened its finances to the extent Erhard had hoped.

For this reason, Erhard invited the South German Institute's Board of Trustees to a meeting on 29 September 1947 to discuss the Institute's future and its financing. Senior representatives of the Ministry of Economics and the Ministry of Finance took part in this meeting in addition to important business personalities such as Ludwig Kastl and Ernst von Siemens. Erhard lamented the unwillingness of the institutions represented in the Board of Trustees to participate in the financing of the Institute and insisted that the future financing be clarified. He emphasized the potential of the South German Institute especially in light of his experience with the bi-zonal administration, "if the Institute did not already exist, it would definitely be needed". The participants gave Erhard their full support and unanimously adopted the following resolution: "the attending members of the Board of Trustees unanimously declare that they consider the further development of the South German Institute to be indispensable. Even if we agree on the principle that the financing of the institute must come from the private sector, the Board believes that the funding for the building and initial phase of the institute also requires substantial support from government authorities".

That Ludwig Erhard was destined for a new politically influential function was becoming increasingly clear. In mid-1947, the Bi-zone Economic Council decided to appoint a group of experts called the Special Group for Capital and Loans *(Sonderstelle Geld und Kredit)* to advise the Economic Council on the forthcoming currency reform. The Economic Council appointed Ludwig Erhard as a member of this advisory body, which was made up of renowned experts. In its first meeting on 10 October 1947, Ludwig Erhard was appointed chairman of the Special Group for Capital and Loans.

Despite this new position, Ludwig Erhard continued his efforts at achieving a government subsidy, building on the support he received at the meeting of the South German Institute's Board of Trustees from representatives of the Bavarian State Government. On 27 October 1947, he met with the Bavarian Minister of Economics, Hanns Seidel (CSU), to introduce him to the plans for the South German Institute and to convince him of 'the importance of a quick financing and budget assurance' (of the South German Institute). Hanns Seidel, who had assumed the office of Economics Minister from Rudolf Zorn just over a month before the meeting with Erhard, declared himself willing to make a larger contribution (RM 70,000–80,000) from the funds available to the Economics Ministry for the development of the Institute. In his subsequent letter to Minister Seidel of 3 November 1947, Ludwig Erhard asked the Minister to take the initiative "regardless of the clarification still needed with respect to with the parallel plans of Dr. Wagner in order to avoid further delay".

THE 'PLANS OF DR. WAGNER': COMPETITION FOR GOVERNMENT FUNDING

A struggle behind the scenes had broken out over the scarce government funding for economic research. The 'parallel plans of Dr. Wagner' regarded the creation of a 'Central Archive for European Economics'. The initiators of this project were Ludwig Erhard's successor in the office of the Bavarian Ministry of Economics, Rudolf Zorn (SPD), and Karl Wagner, President of the Bavarian Statistical Office.

After the collapse of the Third Reich, the Bavarian Statistical Office quickly resumed it services of statistical information on a regional basis. The economist and statistician Karl Wagner (1893–1963) headed the Statistical Office as of February 1946, initially on a provisional basis, and as of 1947 as its president. Prior to this, he had worked from 1923 to 1941 at the Reich Statistical Office in Berlin and from 1942 to 1945 at the Bavarian Chamber of Commerce. Wagner was striving to establish an all-German economic monitoring system in the Bavarian Statistical Office which would transcend the borders of Bavaria to provide business and policy-makers with the economic information they needed. One of the experts employed at the Statistical Office in 1947 was Hans Langelütke (1892–1972), who like Wagner had a doctorate in economics and who had years of experience at the Reich Statistical Office and at the Berlin Institute for Economic Research (later DIW). At the Bavarian Statistical Office, Langelütke was department head with the ranking of a senior government official *(Regierungsdirektor)* and responsible for economic statistics.

The activities initiated by Karl Wagner in the field of economic monitoring were outside the statutory responsibilities of the Bavarian Statistical Office. With the planned Central Archive for European Economics, Zorn and Wagner were looking for a way to formally separate economic monitoring from the Bavarian Statistical Office and at the same time ensuring that the Office and they themselves secure influence on economic monitoring and economic policy advice for the government authorities. The foundation of this institution was to be an 'archival central collection point for all socio-economic material' for all of Germany and abroad. With the help of ongoing economic monitoring, the necessary 'factual knowledge' was to be gathered on which research work was to be based. For this activity, a 'research staff of well-trained statisticians and economists' was to be set up within the Central Archive, "which, on the basis of the material it has, is in a position to draft studies and memoranda and to compile material as an aid for economic policy decisions". In addition, Zorn and Wagner wanted to build up the Central Archive as a business cycle research institute. In doing so, they followed the example of Ernst Wagemann, who established the Berlin Institute for Economic Research and headed it as well as the Reich Statistical Office. Their plan was to bring the Central Archive 'into close contact with the Bavarian Statistical Office both in terms of space and personnel'. The Central Archive was to have a semi-official character "without being an actual public agency by being a foundation or association under the president of the Bavarian Statistical Office and being linked to him in a personal union".

The President of the Bavarian Statistical Office, Wagner, sent a petition for the establishment of a central archive to the Bavarian Minister of the Interior, Josef Seifried (SPD), who, in a letter dated 1 July 1947, requested statements of the Minister of Economics (Rudolf Zorn, SPD) and the Minister of Finance (Hans Kraus, CSU) regarding this proposal. Rudolf Zorn immediately approved the proposal without admitting his part in the plan. Not so Finance Minister Hans Kraus: in his reply of 8 September 1947, he acknowledged that "an archival collection of valuable data for economic and social policy and their evaluation by researchers is fundamentally desirable". Nevertheless, Kraus did not support the establishment and state funding of such a central archive, because "there are already several public, private and semi-public institutions that are active in this area". Funding would be conceivable at best if it were possible to combine several of the existing institutions. But even then, the central institution would have to be financed to a significant extent by the circles that benefit from it. Minister Kraus again mentioned the South German Institute as a role model.

In October 1947, after a change of ministers, the Ministry of Economics also changed its position with regard to the Central Archive. It regarded as worthy of support both the present and future activities of the South German Institute as well as plans for a Central Archive. However, the Ministry rejected a parallel funding of two institutions because of too great an overlap in their activities. A major hurdle in coupling the plans was that the President of the Bavarian Statistical Office, Wagner, and the South German Institute board member Reithinger "may not be willing to cooperate for personal reasons". The basic approach approved by Minister Seidel was fleshed out in the second week of November 1947 in a coordination meeting between representatives of the Bavarian ministries involved (Economics, Finance and the Interior). They agreed that only one institute should receive financial support, which was to be independent and supported and promoted by the state, industry (including trade unions) and academia, in addition to cooperating with the Bavarian Statistical Office. The institute should have 'a full-time, salaried leader' supported by an honorary board of directors or a committee of the board of trustees consisting of two representatives each from the two organizations, from business and from academia. The details were to be worked out in a discussion between representatives of the participating organizations, the South German Institute and the Bavarian Statistical Office as well as members of the Faculty of Economics. To put pressure on those involved, the Ministry of Finance decided not to pay the promised amount of RM 50,000 to the South German Institute until the desired meeting had taken place.

The Bavarian Ministry of Economics was now in charge of joining the two organizations in one institute and for providing state funding. The Ministry was of the opinion that "it is no longer a question of founding the institute first and selecting a director, but only of whether the authorities wish to financially support the (South German) Institute". However, the granting of state funds to the South German Institute was only justified "if the influence of the state on the management of the institute is secured", which meant the presence of a representative of the state government in the supervisory body of the institute that was still to be established. Anton Reithinger, South German Institute board member, was the Ministry's preferred candidate for the position of chairman of the board, after he had declared his willingness to 'be employed as full-time director' several days after the coordinating meeting of the three Bavarian ministries.

Instead of the larger meeting proposed by the ministries, a discussion between President Wagner and board member Reithinger took place at the beginning of December 1947. This, however, did not lead to a coupling of the two plans. After Wagner and Zorn realized that they could not eliminate the South German Institute and that the proposed foundation of the Central Archive for European Economics was therefore pointless, they pursued a smaller plan. In talks with representatives of the Bavarian Ministry of Economics in the first quarter of 1948, the idea emerged that the Bavarian Statistical Office should apply for a grant of RM 50,000 for 'scientific research purposes'. This was for the 'establishment of an economic statistical information and export service' with the purpose of making material from the statistical data accessible to as many users as possible. This particularly applied to the short-term economic monitoring, which was a perfect fit for the service portfolio of the South German Institute. Minister Seidel approved the amount of RM 50,000 for the establishment of an economic statistical information and export service for the Bavarian Statistical Office, but made this subject to the proviso that "this should not prejudice the establishment of a special institute at the Statistical Office". It is obvious that the Ministry provided the Bavarian Statistical Office with funding to set up an information and export service in the expectation that it would merge with the South German Institute in the near future.

With the help of the subsidy granted by the Ministry of Economics, the information services of the Bavarian Statistical Office in the area of short-term economic monitoring were expanded under the direction of Hans Langelütke and combined in April 1948 as the 'Information and Research Center for Economic Monitoring' (in the following, 'Information and Research Center'). Immediately after the currency reform on 20 June 1948, it conducted interviews with several hundred businesses in order to assess the impact of the currency changeover on production and investment behavior, thus establishing the ifo tradition of using company surveys for economic monitoring. And on 20 July 1948, the first issue of the periodical *Ifo-Schnelldienst* appeared, which has remained the most important publication of the ifo Institute to this day.

The separation of this information center, staffed with two economists, from the Bavarian Statistical Office began on 29 September 1948. Bavarian Statistical Office President Karl Wagner invited a small circle of supporters to his office on extremely short notice of five days with the purpose of founding a supporting association for the Information and Research Center. The managing board of the association was to consist of a single person – the president of the Bavarian Statistical Office – endowed with virtually all-encompassing responsibilities and powers. The statutes also provided for the establishment of a board of trustees to which at least seven elected persons were to belong in addition to the association's head (Wagner) and his deputy (Langelütke). The former Minister of Economics, Rudolf Zorn, was elected Chairman of the Board of Trustees, and State Secretary Hugo Geiger from the Bavarian Ministry of Economics as his deputy.

What Wagner and Zorn really wanted to achieve with the hasty founding of the association is uncertain. According to a report of the representative of the Bavarian Ministry of Finance to his minister, Wagner justified the establishment of the association by claiming that the personnel used for the Information and Research Center "was to be predominantly at the expense of the budget of the Bavarian Statistical Office, … this should be remedied by the foundation of the association", whereby Wagner hoped that the association could support itself financially, i.e., without state aid. This reasoning is erroneous, since the Information and Research Center could only take up its work thanks to extensive access to the resources of the Bavarian Statistical Office and it would have required very great financing efforts for it to develop into a viable independent institution. Finding sufficient funding for this was illusory, especially since the Bavarian Minister of Finance, Hans Kraus, doubted that the Information and Research Centre "had any right to exist alongside the South German Institute. Obviously, Dr. Wagner's ambition lies behind all this" (Minister Kraus, memo of 20 November 1948).

The real purpose of the founding of the association can be deduced from the leading role played by State Secretary Geiger in the merger of the plans for the institute. At the meeting of the Board of Trustees of the South German Institute on 26 June 1948, he expressed his enthusiasm for the South German Institute's achievements and prospects and assured its basic financing with state funding. When he founded the supporting association of the Information and Research Center, he knew full well that this association had no chance of being supported by Bavarian funds in addition to the South German Institute. The fact that, as a clever politician, he nevertheless was one of the founders of the supporting association and was elected deputy chairman of the board of trustees can only be explained by his having a concrete plan on how the activities of the association could be permanently financed. This is where the State Treaty on joint research funding for non-university research institutions by the German federal states comes into play, which was about to be concluded in the autumn of 1948. It was impossible for the Information and Research Center to become the second Bavarian economic research institute alongside the South German Institute and to be eligible for state funding, but it was possible to merge its activities with those of the South German Institute into the forthcoming joint research funding by the German federal states. It is obvious that State Secretary Geiger had initiated the establishment of the Information and Research Center in order to find a way to save face for Wagner and Zorn in particular, to merge their association with the South German Institute in a timely manner and thus to be able to include both organizations' activities in the joint research funding of the German federal states.

CREATING A 'REPRESENTATIVE INSTITUTE FOR ECONOMIC RESEARCH'

A few weeks after payment of the subsidy for the establishment of the 'Information and Export Service' to the Bavarian Statistical Office, the Ministry of Economics approved the overdue subsidy of RM 50,000 for the South German Institute, which the ministries had made dependent on a clarification of the plans of both institutes, but not only that. On 17 June 1948, the Ministry of Economics granted the South German Institute an additional grant of RM 100,000 for research purposes. Thus, the South German Institute's financial situation was considerably improved before the currency reform took effect on 20 June 1948. On the day before the currency reform, the institute had a credit balance of RM 203,000, which, had it not been for the currency changeover, would have financed the institute for one to two years.

Good progress in terms of the South German Institute's output was also evident by June 1948. Although the institute's development was still hampered by insufficient staffing levels, it had been able to expand its services and consolidate its position in Bavaria and the American occupation zone. In particular, the monthly reports on current global economic, cyclical, financial and labor market policy developments met with great interest in the business community, in government agencies and above all in the press. The number of association members rose to 97 paying members, and a growing number of business leaders and senior members of the ministries were prepared to support the institute and joined the Board of Trustees, which grew to 35 members up to the middle of 1948.

Two events which took place in the second quarter of 1948 changed the framework conditions for the South German Institute's activities and prepared the ground for the later fusion with the Information and Research Center. One event took place on 3 April 1948, when Ludwig Erhard became Director of the Economic Administration of the Bi-zone, which forced him to withdraw from his position as South German Institute Chairman of the Board. Instead of abandoning the institute, in the remaining months of 1948 he intensified his commitment to providing 'his' institute with a secure foundation for the future.

With his appointment as the Bi-zone Director of the Administration of the Economy – a virtual 'economics minister' – Ludwig Erhard gained access to the levers of power. He was well aware that in order to translate his ambitious ideas on the reconstruction of Germany into concrete economic policy he needed a powerful apparatus. Already in the first months of his tenure, he pushed ahead with the restructuring of the economic administration. As he reported on 26 July 1948 at a meeting of the Board of Trustees of the Southern German Institute, the reorganization of the office he headed was aimed at "pursuing a stronger economic policy ... instead of economic administration". This could make it "much smaller, but the quality of work would have to be improved". In this he was guided by the principles he had previously followed as economic researcher and institute director for the support to government agencies provided by economic research. Under his leadership, the three modules of independent consulting for economic and financial policy were established in the Administration of the Economy and subsequently in the Federal Ministry of Economics, as are still successfully practiced today. These are the Ministry's Scientific Advisory Board, the ongoing consultation of the Federal Government by the economic research institutes, in particular in the form of the Joint Economic Forecasts and the German Council of Economic Experts *(Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung)*, which, however, only was set up in 1963 after several years of discussion.

On the day Ludwig Erhard took office in the Administration for Economic Affairs, the Scientific Advisory Board, which had just been founded, presented its first report ('Measures of Consumption Regulation, Management and Price Policy Following the Currency Reform'). In the Erhard era, the Board developed into a respected economic initiator and issued seven expert opinions in the following months before becoming coming attached to the Federal Ministry of Economics after the founding of the Federal Republic of Germany. Even more relevant for Erhard's ongoing work was the support provided by the economic research institutes, because unlike the university professors that comprised the Advisory Board, the institutes were also able to compensate for the deficits in the official statistics and provide the urgently needed economic data. As he explained at the meeting of the Board of Trustees on 28 June 1948, this could make his office "much smaller, but the quality of our work must be improved". Erhard went on to say: "the operation of the ministries is too preoccupied with current issues to be able to carry out real research work. ... In particular the special tasks for which one cannot create a large apparatus in a ministry should be shifted to an institute". He saw this as the future task of the Southern German Institute in particular but also of the other economic research institutes (more on this below).

While Ludwig Erhard emphasized the growing importance of the economic support for the government agencies responsible for economic policy, he was also interested in strengthening empirical economic research in the institutes, and he insisted that also a concentration of the economic research agencies must also take place. With this goal in mind, and at Ludwig Erhard's initiative, the Administration for Economic Affairs began in 1948 to group the German economic research institutes into a single umbrella organization. For this purpose, Erhard appointed Günther Keiser, the head of the planning department at the Administration for Economic Affairs, as coordinator and future board member Eduard Werlé as coordinator at the Southern German Institute.

The second event that strongly influenced the activity of the Southern German Institute was the currency reform of 20 June 1948, which put the Institute – like many other non-university research institutions – under enormous financial pressure. The conversion of the South German Institute's Reichsmark credit balance (RM 203,000) led to a balance of DM 9,363, which had fallen to DM 1,188 by the beginning of July due to current liabilities. Swift assistance was not in sight, as the members of the association and the public authorities themselves were overstrained and unable to help the institute.

The first major decisions on bridging the current financial gap and on the further development of the institute were taken at the meeting of the Board of Trustees on 26 July 1948. The meeting, which lasted several hours and was attended by 25 trustees and guests, including high-ranking representatives of the Bavarian Ministry of Economics, the Ministry of Finance and Adolf Weber for the Economics Faculty, set the course for developing the South German Institute into a 'representative' economic research institute for West Germany. Erhard opened the meeting with the assertion that "he still felt connected to the South German Institute for Economic Research and that he felt strongly about its fate and development. Whatever position he now occupies in economic policy, he still remains strongly committed to economic research. Today more than ever he is convinced of how important it is for public administrations to have economic research at their disposal. ... Between economic research, practical application and the public administration a bridge should be built, and real-world experience and research should be combined so as to stimulate both. The work of the institute should pave the way for a modern approach to the economy and for reality-based economic research".

State Secretary Geiger concurred with all points of Erhard's argument and stressed "that the institute's work to date has been a great success and gives rise to further hopes". The Ministry of Economics will do everything to help the institute. The representative of the Bavarian Ministry of Finance expressed himself in a similar way: the Ministry of Finance is "quite aware of the importance of economic research" and also "wishes to make extensive use of the institute's expertise". The lack of financial support in the current situation he explained by saying that "the state was facing a critical situation", but he announced that he would be able to provide DM 50,000 in operating funds for the fourth quarter of 1948 and the first quarter of 1949.

The discussion led to the unanimous decision, also supported by the representatives of the Bavarian government, 'to maintain and further develop the institute'. It was agreed that a 'leap' was necessary in order for the institute to meet the future challenges and develop into a 'truly workable and representative institute for West Germany'. 'Representative' was from now on the key word for the planned further development of the institute, which was understood in three ways: firstly, in view of the regional extension of its mission and sphere of activity to all West German states (combined with cross-national funding of the Institute); secondly in terms of research content (expansion of the areas of activity to be able to offer to government and business comprehensive research and advisory services from a single source); and thirdly with regard to social and political openness and non-partisanship.

At this meeting Erhard announced a close cooperation between the Bi-zone's Economic Administration, which he headed, and the South German Institute. The latter had 'made such a name for itself in the short time of its existence' that there was no doubt that the institute would be supported by the Bi-zone's Economic Administration. In this connection, it was planned that the institute would send a task force to Frankfurt which, as an economic clearing center, would cooperate directly with the economic policy offices of the Economic Administration. For reasons from which the institute would later benefit considerably, the Frankfurt plans did not come to fruition: the commission appointed by the federal states to prepare the State Treaty for the joint promotion of non-university research institutions assumed responsibility for the cooperation of the Bi-zone Administration with the economic research institutes and halted the implementation of the already far-advanced plans.

Other decisions taken at this meeting of the Board of Trustees had a decisive influence on the further development of the institute. With regard to future financing, State Secretary Geiger made a clear statement that it would continue to be necessary to receive funding from the private sector, but that the basic budget would have to be provided by the state. In order to solve the current liquidity problem, however, the businesses and associations connected with the institute would have to step up in the short term, as the first disbursements of state funds were not expected until the end of 1948 at the earliest. With regard to the future orientation of the South German Institute, it was decided that the institute's headquarters should remain in Munich but that there should be a stronger extension to the entire southern and western German (tri-zonal) area.

Further elemental decisions for the future orientation of the institute related to the speedy activation of the Department of Business Economics, the development of which had been postponed for financial reasons. This met with the approval of the Board of Trustees as did the joint petition of Ludwig Erhard and Adolf Weber to attach great importance to the institute maintaining close ties to scientific research, universities and colleges. This meant above all scientific cooperation with other economic research institutes in Germany, the Economic Working Group for Bavaria coordinated by Adolf Weber and with university institutes, in particular with the Economics Faculty of the University of Munich. The call for a further deepening of scientific cooperation did not only refer to the strengthening of the scientific foundations of the institute but was also aimed at the general 'principle of economy' in dealing with scarce resources. A higher degree of efficiency in economic research was to be achieved both by bundling economic and statistical tasks at individual institutes and by cooperation between the research institutions themselves. The central leitmotif for the further development of the Institute was to make Munich a center of economic research in the Tri-zone by a bundling and more efficient use of the research capacities in economics and economic statistics. The participants at the meeting certainly also had in mind the expansion of the South German Institute to include the Information and Research Center for Economic Observation, even if this was not recorded in the minutes.

In light of the development of the institute, the Board of Trustees agreed that managing director Anton Reithinger should now receive remuneration for this responsible activity. In view of the major changes that had been initiated, the annual general meeting was postponed until autumn 1948. In the following three months, a series of events followed in quick succession. Reithinger devoted his efforts to implementing the decisions of the Board of Trustees until, quite unexpectedly, in the second half of September 1948, he announced his resignation from the board of the South German Institute effective 1 November 1948. He gave no official reason for his sudden resignation. In light of the concurrence with the establishment of a supporting association for the Information and Research Center, it is likely that the Bavarian Ministry of Economics dropped Reithinger in order to satisfy 'Dr. Wagner's ambitions' of becoming chairman of the board of the merged institute after Ludwig Erhard's imminent departure. Reithinger was a pawn who was sacrificed so that the merger of the Information and Research Center with the South German Institute could take place.

At the end of September Anton Reithinger retired with some ill feeling from management and appointed the researcher Eduard Werlé as deputy managing director, but he still attended the meeting of the Board of Trustees on 1 November 1948. At this meeting Reithinger officially retired from the South German Institute Executive Board and was elected to its Board of Trustees. Reithinger's unexpected withdrawal intensified the pressure on Ludwig Erhard to conclude his activities in Munich and prepare the institute for a new era. Erhard put together a package of measures to implement the development of the institute to a 'representative' institute for economic research as had been decided at the meeting of the Board of Trustees on 26 July 1948. The first component of this package consisted in the spatial expansion of the institute's mission to all western zones, which was also to be reflected in the deletion of the word 'South German' from the institute's name, as well as in the expansion of the areas of activity, including in particular the immediate activation of the Department of Business Economics. As department head, Erhard selected Emil Fratz, an economist with a doctorate in business economics and experience in the Institute's work, who had been one of Erhard's closest confidants during his time at the Nuremberg Institute for Economic Observation of German Finished Goods. Eduard Werlé was to continue as head of the institute's Economics Department. Furthermore, the institute was to be extended to include the Information and Research Centre for Economic Observation. The second component of the package concerned the establishment of cooperation with other economic research institutions, which was also discussed at the meeting of the Board of Trustees on 26 July 1948: the establishment of a Munich Research Association, in which the institute was to cooperate with the Economic Working Group for Bavaria headed by Adolf Weber and other non-university institutions based in Munich, the cooperation with the Faculty of Economics of the University of Munich and cooperation with the other German economic research institutes in the Association of German Economic Research Institutions still to be founded. The third component dealt with the future management structure of the institute. The vacant board positions were to be filled by the department heads Emil Fratz and Eduard Werlé. Erhard decided to resign from his position as Chairman of the Board after the upcoming Board of Trustees meeting and was prepared to become a member to the Board of Trustees.

The now vacant position of Chairman of the Board remained vacant in view of the planned merger with the Information and Research Center for Economic Observation. Instead, Ludwig Kastl, who until then had only worked in the background as a trustee, was strengthened in his position as Chairman of the Board of Trustees. Erhard and Kastl agreed to present these plans to the Board of Trustees at the beginning of November and to involve Eduard Werlé in the planning and preparation of the Board of Trustees meeting. The preliminary coordination of this package with those involved was so promising that Ludwig Kastl, in a letter dated 25 October 1948, called an extraordinary meeting of the Board of Trustees on 1 November 1948 in the Small Meeting Room of the Bavarian Ministry of Economics. The reason for the extraordinary meeting of the Board of Trustees, and the only item on the agenda, was the 'necessary reorganization of the institute'. This meeting was both the last meeting of the Board of Trustees chaired by Ludwig Erhard and the very last meeting of this board. The minutes of this meeting have not been preserved, but subsequent developments confirm that the package of measures presented by Ludwig Erhard met with the full approval of the Board of Trustees: Erhard and Reithinger moved from the Executive Board to the Board of Trustees; approval for the activation of the Business Economics Department under the leadership of Emil Fratz was given; and Eduard Werlé and Emil Fratz were elected full-time members of the Executive Board, while the position of chairman of the board was not filled. Also the green light was given to the new name: Institute for Economic Research *(Institut für Wirtschaftsforschung e.V.)* omitting the prefix 'South German'.

The Board of Trustees authorized the Executive Board to advance the merger of the two unregistered associations, the South German Institute for Economic Research and the Information and Research Center for Economic Observation to form the new Institute for Economic Research e.V. The target date for completion was the end of 1948. The chairman of the Board of Trustees, Kastl, appointed the newly elected board member Eduard Werlé as his agent for conducting the merger talks with the representatives of the Information and Research Centre for Economic Observation and the participating Bavarian ministries. On 6 November 1948, the Ministry of Economics proposed to the Ministry of Finance that a subsidy be granted to the institute to eliminate the financing bottlenecks. But the Ministry of Finance played it safe and pressured the merger partners to achieve results: the subsidy was to be "postponed until the planned merger of the Economic Statistics Information and Research Service at the Bavarian Statistical Office with the South German Institute for Economic Research had been completed".

THE HOME STRETCH: A FUSION WITH COMPLICATIONS

The departure of the politically experienced and tenacious founders Ludwig Erhard and Anton Reithinger from the institute's Board seriously weakened the South German Institute in the decisive phase of the merger, but at the same time it simplified communication with the negotiators of the Information and Research Center. As Werlé later reported, an agreement on the planned merger was reached "very quickly with President Wagner, Dr. Zorn and Dr. Langelütke".

Just one month after the meeting of the Board of Trustees on 1 November 1948, the two chairmen of the boards of trustees, Ludwig Kastl and Rudolf Zorn, informed the members of the boards of trustees and members of the South German Institute as well as those of the Information and Research Center of the planned merger and invited them to a joint members' and founding meeting on 18 December 1948. The information provided with the invitation, however, was brief: "in order to achieve a rational use of public and private funds and more efficient economic research through closer cooperation of the existing economic research institutions", those responsible at the South German Institute and the Information and Research Center had agreed to propose to the members of the two associations a merger of the two institutes at the joint general meeting on 18 December 1948. With regard to the management of the new institute, Kastl and Zorn reported that they had agreed to chair the new joint board of trustees. "At the same time, the membership meeting will be asked to confirm the members of the Executive Board of the newly established Institute for Economic Research e.V. Munich, nominated by the previous chairmen of the boards of trustees". Kastl and Zorn had already agreed that Karl Wagner should become chairman of the board, Hans Langelütke his deputy, and Eduard Werlé and Emil Fratz ordinary (full-time) board members, although they had not informed the members of the boards of trustees and the associations of this in the invitation letter. The documents necessary for the decision were only sent to the participants immediately prior to the planned foundation meeting.

The South German Institute's members and Board of Trustees did not agree with key passages of the draft statutes and refused to approve the merger in the meeting of 18 December. The representative of the Bavarian Ministry of Finance reported to his minister: the general meeting on 18 December was "not sufficiently prepared. Neither the planned merger of the two ... associations nor the appointment of members of the board of trustees of the administrative council and the scientific advisory board took place. At the very beginning of the meeting, Privy Councilor Prof. Dr. Weber (South German Institute) described the draft statutes as undemocratic and largely based on the '*Führer*' principle. In particular, he objected to the far-reaching powers of the executive board and insisted on a guarantee that the new institute's work would be strictly neutral and would under no circumstances be placed in the service of an interest group. The recent past has shown that statistics can also be based on ideology. In the discussion, the statutes were also criticized by members of the South German Institute. ... I had the impression that some members of the South German Institute showed some reluctance towards President Dr. Wagner or towards former minister, Dr. Zorn".

Criticism at the founding meeting arose because the Executive Board of the South German Institute had agreed to use the association statutes of the Information and Research Centre for Economic Observation adopted at the end of September 1948 as a blueprint for the statutes of the new institute. It would have amounted to what Karl Wagner and Rudolf Zorn had already pursued in 1947 with their plan to establish a Central Archive for European Economics, i.e., to create in Munich a research institution primarily devoted to economic monitoring over which the Bavarian Statistical Office could exert decisive influence through its institutional and personnel connections. As stated in the draft statutes, the institute should fulfill its tasks "in cooperation with the Bavarian Statistical Office". The Chairman of the Executive Board of the new institute should be the President of the Statistical Office by virtue of his office, who should appoint his own deputy. The original draft of the statutes did not stipulate that the purpose of the institute should be research or that it should cooperate with the University of Munich. This was contrary to the principles that the South German Institute had followed, and it provoked the vehement opposition of Adolf Weber and other participants in the meeting of 18 December 1948, leading to the establishment of a statutory commission. In addition to the two chairmen of the boards of trustees and the men who were to become members of new Institute's the Executive Board, two professors from the Economics Faculty of the University of Munich (Adolf Weber and Fritz Terhalle, the dean of the faculty) as well as one representative each from business and the trade unions participated. At the same time, the trustees and members of the two associations were invited to take part in the discussion of the statutes. Ludwig Erhard and his wayfarer Gerhard Holthaus, who held a leading position in the Bi-zone Administration for Economics led by Erhard, took up the invitation. Both of them suggested a number of changes to the statutes, primarily with regard to the non-partisanship of the new institute and its links to the University of Munich, the acceptance of the new institute by the business world and its supra-regional orientation. The discussion of the statutes lasted until the founding meeting on 24 January 1949. Since it was not possible for Ludwig Erhard to come to Munich on this day, he gave his reaction to the revised statutes drafted by the commission in writing.

Before the founding meeting could take place, the direct transfer of the assets of the South German Institute and the Information and Research Center to the new institute by way of legal succession had to be ensured. In a letter dated 16 December 1948, the Bavarian Ministry of Finance informed the boards of the two institutes that it agreed "that the assets of the two associations ... be transferred to the newly founded Institute for Economic Research e.V. Munich". However, it linked its agreement to both associations' amending their statutes before their dissolution to the effect that "the assets would be transferred to the new institute upon dissolution".

In a letter dated 10 January 1949, Ludwig Kastl, Chairman of the Board of Trustees, invited the members and curators of the South German Institute to three meetings on 24 January 1949 in the Small Meeting Room of the Munich City Hall: (a) for a preliminary discussion, (b) for the founding meeting of the new Institute for Economic Research and (c) for the subsequent general meeting regarding the dissolution of the South German Institute for Economic Research. Rudolf Zorn, Chairman of the Board of Trustees, sent out invitations to the members of the Association and the Board of Trustees of the Information and Research Centre.

At the founding meeting of the new institute on 24 January 1949, there was complete agreement that the statutes were to provide the legal basis for a 'representative economic institute'. In spatial terms, 'representative' was expressed by the fact that the South German Institute, which had been extended to include the Information and Research Centre for Economic Observation, should in future, according to the minutes of the founding meeting, be called the Institute for Economic Research e.V. Munich without the designation 'South German'. The spatial extension of the institute's scope of activity (and financing) was made clear by the fact that representatives of the state governments of Württemberg-Baden and Hesse also took part in the founding meeting. They welcomed this multi-state approach and confirmed their intention to participate in the sponsorship of the institute. Regarding the comprehensive nature of the institute's scientific orientation, the new statutes include a reference that the association is to promote 'economic and social science research'. The originally planned emphasis on cooperation with the Bavarian Statistical Office was removed. The social and political openness and non-partisanship, which was particularly important for Ludwig Erhard, was to be ensured by a close connection and orientation to the Economics Faculty of the University of Munich.

The distribution of tasks and responsibilities between the organs or the new institute was significantly altered vis-à-vis the original draft statutes to strengthen the academic influence on the election of board members, on board decisions and on the scientific orientation of the work of the institute. Although the (non-mandatory) provision of Section 5 that the chairmanship of the board of the new institute should be held by the president of the Bavarian Statistical Office in personal union remained intact, as a corrective the number of board members was increased to a total of five. The fifth seat on the board was reserved for a member of the Research Advisory Board, which meant de facto that a member of the Economics Faculty of the University of Munich would be on the Executive Board of the new institute and would help determine its destiny. The institutional link between the institute and the Economics Faculty of the University of Munich was also expressed in the fact that a Research Advisory Board was anchored in the statutes, the composition of which was decisively influenced by the faculty. In Section 13 Para. 2 of the statutes, it was granted the right to nominate the professors to be included in the Research Advisory Board. The task of the Research Advisory Board was to advise the Board of Trustees and the Executive Board on the definition and implementation of the institute's tasks in its scientific orientation. And the Research Advisory Board, as mentioned, had one of its members on the Executive Board.

After extensive discussion, the General Assembly unanimously approved the statutes of the Institute for Economic Research in Munich. The elections of the members of the Board of Trustees and the Administrative Council, which included representatives of the state governments of Bavaria, Hesse and Württemberg-Baden, as well as the election of the Chairman of the Board of Trustees (Ludwig Kastl) and his deputy (Rudolf Zorn) were also unanimous. In addition, a total of ten members from the public administration and the private sector were appointed to the Research Advisory Board. Ludwig Erhard was elected to both the Board of Trustees and the Research Advisory Board. The Economics Faculty was to submit the list of its proposals of the professors to be included in the Research Advisory Board, with the General Assembly approving the proposals of the Faculty in advance. The final resolution of the founding meeting concerned the election of the members of the board. Karl Wagner (non-salaried Chairman of the Board), Hans Langelütke (non-salaried Deputy Chairman of the Board), Emil Fratz and Eduard Werlé (salaried Board Members) as well as Adolf Weber (non-salaried Board Member and representative of the Research Advisory Board) were elected unanimously.

Following the founding meeting of the institute, the members and curators of the South German Institute and the Information and Research Center met in separate meetings. The general meetings of both associations decided to change their respective statutes, as required by the Ministry of Finance, that the assets of the associations should be transferred to the newly founded association without liquidation in the course of the merger. Subsequently, both general meetings decided unanimously to dissolve the South German Institute and the Information and Research Center for the purpose of the merger on 30 April 1949. The newly founded Institute for Economic Research e.V. Munich became the legal successor of the two dissolved associations and entered into all their rights and obligations.

One week after the founding meeting, the Dean of the Faculty of Economics informed the Institute's Executive Board that the Faculty had carried out the task stipulated in Section 13 (2) of the institute's statutes regarding participation in the election of the Research Advisory Board of the Institute for Economic Research. This marked the completion of the institutional connection of the merged institute with the Faculty Economics of the University of Munich, and the statutes could enter into force.

The two merged associations were dissolved already on 28 February 1949, and not on 30 April 1949 as stated in the resolutions passed by the General Assemblies on 24 January 1949. The liquidation balance sheets of the two dissolved associations showed a small surplus of assets over liabilities. The new association, the Institute for Economic Research e.V. Munich, was entered in the register of associations on 16 March 1949, thus receiving the status of a legal entity.

DYNAMIC START ON 1 MARCH 1949

The earlier dissolution enabled the Institute for Economic Research e.V. Munich to commence its work on 1 March 1949 under the direction of the new Executive Board and to continue the work of the South German Institute and the Information and Research Center. Karl Wagner functioned as Chairman of the Executive Board, without salary, in personal union with his position as President of the Bavarian Statistical Office, without being in charge of the new institute's research. During the start-up phase, this was the responsibility of Adolf Weber. After Weber retired from the Executive Board in 1950, Deputy Chairman Hans Langelütke assumed management of research. Langelütke retained his position as Director at the Bavarian Statistical Office until he replaced Karl Wagner as Chairman of the Executive Board in 1955; Wagner remained President of the Bavarian Statistical Office until 1959.

With the completed merger, the framework conditions of the institute improved abruptly, and it was able to develop dynamically into a 'representative' economic research institute, as called for in the meetings of the Board of Trustees of the South German Institute in July and November 1948. The Bavarian State Government laid the foundations for the basic state funding announced by State Secretary Geiger in July 1948 and, by decision of 9 March 1949, granted a start-up funding of 80,000 deutschmark. Only three weeks later, the legal basis for joint research funding by the German federal states was established: on 31 March 1949, the federal states signed the Königstein 'State Treaty on the Financing of Scientific Research Institutions', which – according to Article 1 (1) of the Treaty – was to serve the 'cultural and economic reconstruction' in West Germany. With this Treaty, the federal states agreed to jointly finance larger research institutions which were not part of a university and which were of trans-regional importance. When this Treaty took effect in 1949, there were 23 of these 'Königstein Institutes', one of which was the Munich Institute for Economic Research.

In the course of 1949, the first grants from the Treaty were disbursed to the host federal states of the funded institutions, so that the Bavarian State Government was able to increase the grants to the new institute for 1949 to a total of 180,000 deutschmark, of which the institute only used 120,000 deutschmark in the year of its foundation. In total, the income in that year amounted to 219,204 deutschmark. However, when the Königstein Treaty took effect, it changed the inclusion of Württemberg-Baden and Hesse in the funding of the Munich Institute as envisioned at the founding meeting. Since these two federal states were already involved in the financing of the Institute via the Königstein Treaty, they withdrew from the funding arrangement.

The size of the institute's workforce immediately after the merger is not known exactly. There are indications that the institute began its work "with about a dozen permanent employees" supported "by an almost equal number of external staff, the majority of whom were employed at the Bavarian Statistical Office" (Marquardt 1979, 211). From the staff of the South German Institute for Economic Research, in addition to the two Executive Board members Werlé and Fratz, eight employees agreed to work for the new Institute "at a reduced salary in accordance with the available funds". Joining the new institute were also at least two employees who had previously worked full-time for the Information and Research Centre for Economic Observation. By the turn of the year 1949/1950, the Institute had expanded its staff to 35 full-time employees. They were supported by 13 research staff from the Bavarian Statistical Office who worked part-time for the new institute.

This expansion of its resources enabled the institute to establish three departments – one for macroeconomics, one for industry sectors and one for business economics – as well as two branch offices in Hamburg and Stuttgart, which were suspended already in 1950 on the recommendation of the Bavarian General Accounting Office. In a short period of time and with significant effort, the industry sectors department developed the business surveys still practiced today by the ifo Institute as a new method of economic and business cycle observation. In November 1949, the first questionnaires were sent out on a trial basis to approximately 200 industrial companies under the name Business Survey *(Konjunkturtest)*.

Since further capacities were needed to expand the business surveys, the Administrative Council at its meeting of 16 December 1949 decided to increase public awareness of the institute with suitable advertising measures in order to attract additional private and public revenue. They criticized including 'Munich' in the official name of the institute "because it misleadingly gave the impression that the institute was mainly concerned with Bavarian issues". To help publicize the institute outside of Bavaria, the Administrative Council proposed suggesting a new name for the institute at the next General Assembly. On 3 February 1950 the Assembly approved the proposal of the Administrative Council to change the association's name to the Ifo Institute for Economic Research *(Ifo-Institut für Wirtschaftsforschung e.V.).* 'Ifo', derived from **I**nformation and **Fo**rschung (research), is easily remembered and has been part of the institute's name ever since.

After the merger, Ludwig Erhard and the ifo Institute went their separate ways, but both made their contributions to the successful reconstruction in West Germany: Ludwig Erhard as the designer and pioneer of the social market economy and father of the German 'economic miracle', the ifo Institute as the provider of the necessary economic analyses and concepts, and as the collector and supplier of economic data that was particularly important for the state and the economy in the post-war period. Even though their paths diverged, it was Ludwig Erhard who helped the ifo Institute achieve an "outstanding position in applied economic research" (Nützenadel 2005, 95), which it has maintained and further developed to this day. More than other economic institutes, it profited from the independent economic policy advice that Erhard had established in the Federal Ministry of Economics (and previously in the Bi-zone Economic Administration). This was achieved in two ways: by participating in the joint analyses of the leading German economic research institutes on the economic situation and by preparing commissioned economic policy reports.

One month after the merger that formed the ifo Institute, Ludwig Erhard's initiative for closer cooperation among the German economic research institutes in their economic policy activities became reality. On the invitation of the Planning and Policy Department of the Administration for Economic Affairs, the heads of the economic research institutes met in Königstein on 25 February 1949 and agreed to establish the Association of German Economic Research Institutes (ARGE – *Arbeitsgemeinschaft deutscher Wirtschaftswissenschaftlicher Forschungsinstitute*). On 15 March 1949 ARGE was formally set up in the legal form of a registered association, whose founding board consisted of the heads of ifo, DIW (Berlin) and IfW (Kiel). The goal of the ARGE Institutes, which is still anchored in its statutes today, is a "coordinating their activities, in particular with regard to dealing with current economic policy issues, and, where necessary and appropriate, engaging in joint efforts". From the outset, their core task was joint economic analyses of the ARGE institutes in the context of a joint report commissioned by the Ministry of Economics (Joint Economic Forecast – *Gemeinschaftsdiagnose*). The first Joint Economic Forecast was drafted in Munich under the aegis of DIW, ifo and RWI, with the participation of IfW and the Institute for Agricultural Market Research *(Institut für landwirtschaftliche Marktforschung)* in Braunschweig and published in July 1950 under the title 'The State of the West German Economy and the World Economy in Mid-1950' *(Die Lage der Westdeutschen Wirtschaft und der Weltwirtschaft um die Jahresmitte 1950).* Since then, although the procedure and composition of the participating institutes have changed several times, the Joint Economic Forecast has been prepared twice a year commissioned by the Federal Ministry of Economics. From the outset, the ifo Institute has been one of the responsible institutes for the Joint Economic Forecast.

The second field of independent economic policy advice, from which the ifo Institute has benefited enormously, is the assessment of economic policy issues by independent research institutions for the Ministry of Economics. Already in the 1950s, the ifo Institute was regarded by the Ministry of Economics (and also by other state institutions) as a valued supplier of such studies, so that many commissioned reports were awarded to the ifo Institute and contract research developed into ifo's core business. In the past two decades, the ifo Institute's academic orientation has been strengthened and its research output significantly expanded. Nevertheless, providing sound economic policy advice to the Ministry of Economics and other national and supranational institutions has remained an important and indispensable element of the ifo Institute, as laid down by Ludwig Erhard over 70 years ago.

REFERENCES

Hentschel, V. (1996), *Ludwig Erhard: Ein Politikerleben,* Olzog, Munich and Landsberg.

Knoche, M. (2018), "Ludwig Erhard, Adolf Weber und die schwierige Geburt des ifo Institutes", *ifo Schnelldienst* 71(13), 14–60.

Marquardt, W. (1979), *30 Jahre Wirtschaftsforschung im Ifo-Institut,* ifo Institute, Munich.

Nützenadel, A. (2005), *Stunde der Ökonomen: Wissenschaft, Politik und Expertenkultur in der Bundesrepublik 1949–1974,* Vandenhoeck & Ruprecht, Göttingen.