



## MONETARY REFORM OF LUDWIG ERHARD IN 1948 AND THE POSSIBILITIES OF APPLYING ITS PRINCIPLES IN MODERN UZBEKISTAN

Eraliev Alisher Abdulhalilovich,  
Lecturer at the Department of «Economics»  
Andijan State Technical Institute  
eralarchil@yahoo.com

### Abstract

The article examines Ludwig Erhard's monetary reform of 1948 in West Germany. The key mechanism: exchanging Reichsmarks for Deutsche Marks at a 10:1 ratio, keeping wages and pensions at a 1:1 ratio, and liberalizing prices. The goal is to determine the applicability of the reform in modern Uzbekistan. Conclusion: Uzbekistan does not need a confiscatory reform, but some of Erhard's principles (currency liberalization, tax cuts, phased abandonment of subsidies) are already being implemented.

**Keywords:** Monetary reform, Ludwig Erhard, Deutsche Mark, Reichsmark, price liberalization, black market, hyperinflation, economic miracle, currency liberalization, subsidies, competition.

### Introduction

In the economic history of post-war Europe there have been many radical transformations, but the 1948 reform in West Germany stands apart among them. It halted the disintegration of monetary circulation and laid the institutional foundation for long-term growth, which later became known as the «German economic miracle». It is important that this was not merely the replacement of one currency with another. The reform was a bundle of measures: exchanging money, preserving the current incomes of the population on a new scale, abolishing price regulation, and returning goods to legal trade.

Interest in this experience in Uzbekistan is explained by the fact that since 2017 the country has been consistently carrying out market reforms, which are often compared with Erhard's philosophy. Hence the natural question: is it possible to reproduce the German scenario under current conditions? As will be shown below, mechanical transfer is not only impossible but also risky, since the historical, institutional, and macroeconomic conditions of the two countries differ too greatly. At the same time, certain principles of Erhard are already visible in Uzbek practice.



The purpose of the article is to compare the German reform of 1948 with the economic transformations in Uzbekistan after 2017 and to assess the extent to which Erhard's principles are applicable today. To do this, four tasks must be solved: to reveal the content of the reform and its immediate results; to determine why literal copying is impossible; to clarify which elements of Erhard's approach are already being implemented in Uzbekistan; and finally, to assess the prospects for their further use.

## **Literature and Methodology**

The work relies on the historical-economic method, which makes it possible to reconstruct the prerequisites, mechanism, and consequences of the reform. The second foundation is a qualitative comparative analysis of two cases — West Germany in 1948 and Uzbekistan during the reforms after 2017. Additionally, an analysis of analytical materials describing the German reform and its possible projections onto the Uzbek context was used.

The object of the study is Erhard's monetary reform as an example of radical stabilization; the subject is the possibilities and limits of applying its principles in Uzbekistan. The parameters selected for comparison are the exchange rate of old and new money, the recalculation of wages, pensions, and rent, price liberalization, the scale of the black market, as well as modern measures of currency, tax, and subsidy policy in Uzbekistan.

The study is built around three questions. What was the essence of the reform and why did it quickly produce results? Why is its direct copying in Uzbekistan impossible or dangerous? Which of its elements are already used in the country and what follows from this for further policy?

The work has an obvious limitation: it relies primarily on qualitative materials rather than a broad statistical base, and the comparison of two countries from different eras inevitably remains to a certain extent conditional. Nevertheless, such an approach makes it possible to see fundamental differences and draw well-founded conclusions about the limits of applicability of historical experience.

## **Results**

### **The Essence of Ludwig Erhard's Reform of 1948**

After World War II, a paradoxical situation developed in West Germany. Formally, people had a lot of old Reichsmarks, but there was practically nothing to buy with them. Shops stood empty, goods were distributed by cards, and real trade moved to the black market. Money lost its connection to commodity backing, and so-called



hidden inflation arose: the money supply was huge, but it did not serve normal commodity circulation.

On the night of June 21, 1948, the old money was abolished and a new German mark — the Deutsche Mark — was introduced. Cash and citizens' savings were exchanged at a rigid rate: 10 old marks for 1 new one. This meant that the population's accumulations formally shrank by a factor of 10. In reality, for 100 Reichsmarks they gave 6.50 Deutsche Marks, which is approximately equal to 15.4:1, or 10:0.65.

How this figure was obtained (the Law on Monetary Reform of 1948 and subsequent regulations)<sup>1</sup>:

- Initially, bank deposits were recalculated at 10:1, that is, 100 RM gave 10 DM.
- Of these 10 DM, half (5 DM) went to a free account, and half was frozen.
- In the autumn of 1948, the frozen part was divided: about 70% was annulled, 20% was transferred to free accounts, and 10% was placed in investment accounts.
- As a result:  $5 + 1 + 0.5 = 6.5$  DM per 100 RM.

This figure relates to savings and deposits. Separately, each resident received a «per capita quota» of 60 DM (40 + 20), exchanged at a 1:1 rate<sup>2</sup>.

Such a step was necessary in order to remove from the economy the excess and devalued money supply that was not backed by goods.

However, at the same time the state introduced a most important social rule: wages, pensions, and rent were recalculated at a 1:1 rate. If a worker received 300 old marks, he continued to receive 300 marks, but now in the new, hard currency. This made it possible to protect the current incomes of citizens and prevent a collapse in the standard of living. Thus, the reform was not only stabilization-oriented but also socially oriented.

The key element was the abolition of state regulation of prices for almost all goods. Ludwig Erhard took a bold step by allowing the market to determine the cost of goods independently. The result was rapid: the black market lost its meaning, since selling legally became more profitable. Already the next day, empty shelves began to fill with food, clothing, and technology. Prices on the real market fell. If on the eve of the reform a loaf of bread on the black market cost an astronomical 16 marks, then after the reform its official price was about 41 pfennigs, that is, less than half a mark. For ordinary citizens, real market prices fell by even more than a factor of 10, while wages remained stable. This allowed people to finally eat and dress normally on their earned money.

<sup>1</sup> Buchheim C. Die Währungsreform 1948 in Westdeutschland // Vierteljahrshefte für Zeitgeschichte. 1988. Jg. 36. H. 2. S. 189–231.

<sup>2</sup> Holtfrerich C.-L. *Monetary Stability and Currency Reform* (studies on the history of the German monetary system).



Thus, Erhard's reform combined three elements: the confiscatory devaluation of excess savings, the preservation of current incomes, and price liberalization. It was this combination that produced the effect later called the German «economic miracle».

Why the Literal Transfer of Erhard's Reform to Uzbekistan Is Impossible. The presented material directly indicates it is impossible to copy the German reform of 1948 in modern Uzbekistan, since today the country has completely different economic conditions. Erhard's reform was created for a war-devastated economy with total commodity shortage, hyperinflation, and a huge black market. Uzbekistan does not have such conditions.

The first reason is the absence of any need for forced exchange of money at a 10:1 rate. In Germany in 1948 there was «hidden inflation»: people had many marks, but there was nothing to buy with them. The state was forced to «burn» 90% of citizens' savings to remove the excess money supply. In Uzbekistan today there is no surplus of «empty» money in citizens' pockets. Sums are backed by real goods and services. If an analogous confiscatory reform were carried out, it would simply destroy the population's accumulations and cause a social explosion. This makes such a step not only economically inexpedient but also politically dangerous.

The second reason is that prices in Uzbekistan are already market-based. Erhard became famous for abolishing state regulation of prices, allowing the market itself to determine the cost of goods. In Uzbekistan this process is practically complete: prices for food, technology, and clothing are formed by the free market. The state controls only a small part of tariffs, for example basic energy resources. Therefore, the main effect of Erhard's reform — price liberalization — has already been largely realized in Uzbekistan. Repeating it in full is not required.

The third reason is the absence of a card system and total shortage. In post-war Germany, goods were issued by cards and coupons. Erhard's reform was needed to return ordinary trade to the shops. In Uzbekistan there is no shortage of goods: shop shelves are full, and the buyer has access to a wide assortment. Consequently, one of the key prerequisites of the German reform is absent.

Thus, the literal transfer of Erhard's reform to Uzbekistan is not only impossible but also dangerous. It could lead to unjustified loss of savings, social tension, and destruction of trust in the financial system. Historical experience should be used not as a template but as a source of principles and lessons.

What Uzbekistan Already Applies from Erhard's Ideas. Despite the impossibility of literal copying, Uzbekistan is already successfully using certain principles of Erhard in its reforms of recent years. The reforms carried out by Uzbekistan's leadership



since 2017 are in many ways similar to Erhard's philosophy, which is called a «socially oriented market economy.»

The first direction is the liberalization of the currency market in 2017. Like Erhard, Uzbekistan abolished the artificial exchange rate and eliminated the «black market» for dollars, making currency purchase free. This is an important step, since multiple exchange rates and currency restrictions create distortions, hamper investment, and generate shadow operations. Liberalization of the currency market increases transparency and trust in the national economy.

The second direction is tax reduction and business support. Erhard believed that private initiative is the engine of the economy. In Uzbekistan, barriers to business are now being actively reduced, company registration is being simplified, and tax benefits are being granted to entrepreneurs. This corresponds to the logic of a socially oriented market economy: the state creates rules but does not replace the entrepreneur.

The third direction is the phased abandonment of subsidies. The transition to market principles in energy, the increase in tariffs for electricity and gas for legal entities while preserving basic limits for the population, is a classic step in Erhard's spirit. It is aimed at ensuring that enterprises learn to save and compete rather than depend on distorting subsidies. At the same time, social protection of the population is preserved through targeted mechanisms and basic limits.

**Table 1 Comparative Table: Germany in 1948 and Uzbekistan after 2017**

| Criterion                   | West Germany, 1948                | Uzbekistan, present                     |
|-----------------------------|-----------------------------------|-----------------------------------------|
| <b>Monetary system</b>      | Old Reichsmarks, excess supply    | Sum, backed by goods and services       |
| <b>Money exchange</b>       | 10 old marks = 1 Deutsche Mark    | Confiscatory exchange not needed        |
| <b>Wages and pensions</b>   | Recalculated 1:1                  | Preserved in national currency          |
| <b>Prices</b>               | State regulation, black market    | Predominantly market-based              |
| <b>Commodity shortage</b>   | Total, ration cards               | Absent, shelves full                    |
| <b>Black market</b>         | Massive                           | Largely eliminated, including currency  |
| <b>Price liberalization</b> | Implemented at once               | Largely completed                       |
| <b>Currency market</b>      | Tight control, reform             | Liberalization since 2017               |
| <b>Business</b>             | Private initiative as the engine  | Reduction of barriers, incentives       |
| <b>Subsidies</b>            | Abolition of distorting subsidies | Phased abandonment, targeted protection |



The table shows that Ludwig Erhard's reform in West Germany in 1948 was a classic example of a one-time «shock» transition from the administrative-command economy of wartime to a market system. The monetary reform, replacing the Reichsmark with the Deutsche Mark, sharply reduced the excess money supply, eliminated the paralysis of the price mechanism, and eliminated the black market, which was a consequence of total shortage. Simultaneous price liberalization made it possible to restore market signals, stimulated supply, and quickly launched private initiative as the main engine of recovery. The abolition of distorting subsidies and tight control of the currency market created conditions for the formation of a stable macroeconomic environment in which entrepreneurial activity became a key factor of the post-war «economic miracle.»

Modern Uzbekistan demonstrates a different type of reform — gradual, evolutionary, based on phased liberalization and institutional strengthening. The monetary system functions in conditions of absent commodity shortage, which excludes the need for confiscatory exchanges. Price and currency market liberalization is carried out consistently, without one-time shocks, which reduces social risks and ensures manageability of the transition. The preservation of wages and pensions in the national currency supports macroeconomic stability, while the reduction of barriers for business and the targeted subsidy system form a favorable environment for the private sector. Unlike post-war Germany, where the key task was restoring a destroyed economy, modern Uzbekistan solves the task of modernization and increasing competitiveness, relying on an already existing market infrastructure and a full assortment of goods on the domestic market.

Thus, the difference between the two models lies in the nature of the initial conditions and the speed of transformation: Germany in 1948 was a sharp turn toward the market under conditions of shortage and destruction, whereas Uzbekistan is a gradual transformation under conditions of stability and surplus goods.

The main lesson of the German reform of 1948 is not that a 10:1 money exchange must necessarily be carried out. Such a conclusion would be superficial and dangerous. The real lesson lies elsewhere: the economy begins to work when money again becomes money, prices reflect the real value of goods, and people can freely buy and sell. Erhard's reform restored the connection between money, goods, and labor. It was this, and not the confiscation of savings itself, that produced the rapid positive effect.

For Uzbekistan this means that the external form of the reform should not be copied. One should focus on its essence: ensuring macroeconomic stability, trust in the



national currency, developing competition, protecting property rights, and consistently reducing administrative barriers. If these conditions are met, the economy can grow without a shock confiscation of savings.

**Why a Confiscatory Reform Would Be Dangerous for Uzbekistan.** If an attempt were made in Uzbekistan to carry out a money exchange at a 10:1 rate, it would lead to catastrophic consequences. First, the population would lose a significant part of its savings. Second, this would undermine trust in the banking system and the state. Third, a social explosion would occur, since unlike Germany in 1948, modern citizens do not have «extra» money that is not backed by anything. Fourth, such a measure would not solve the problem of inflation if it has not monetary but structural causes. Consequently, Uzbekistan does not need a radical monetary reform with confiscation of savings. Moreover, it would contradict the logic of a socially-oriented market economy, which presupposes protection of citizens and gradual improvement of institutions.

**What Can Be Taken from Erhard's Legacy.** From Erhard's legacy, it is useful for Uzbekistan to take several principles. The first is trust in the market where the market can work effectively. The second is protection of competition and reduction of monopoly pressure. The third is transparent rules for business and predictable tax policy. The fourth is targeted social support instead of universal distorting subsidies. The fifth is consistency of reforms, so that citizens and entrepreneurs understand their logic and can adapt.

These principles are already partially implemented in Uzbekistan. Liberalization of the currency market in 2017, tax reduction, business support, and the phased abandonment of subsidies — all these are steps in Erhard's spirit. However, for a sustainable result, further work is needed: reducing inflation, developing competition, improving the quality of institutions, and ensuring macroeconomic stability.

Because of the analysis carried out, several recommendations can be formulated. First, the course toward macroeconomic stability and inflation reduction should be continued. Inflation is a tax on the poor, and reducing it is the most important condition for raising welfare. Second, it is necessary to develop competition and reduce barriers to market entry. The more honest producers there are, the lower prices are and the higher quality is. Third, it is important to preserve the predictability of tax and regulatory policy so that business can plan investments.

Fourth, the abandonment of subsidies should be phased and accompanied by targeted social protection. Erhard's experience shows that price liberalization produces an effect only when the market is filled with goods and people have



incomes. Fifth, it is necessary to strengthen trust in the national currency and the banking system. This includes transparent monetary policy, central bank independence, and protection of depositors.

Finally, sixth, it is important to explain the meaning of reforms to society. Erhard's reform was successful not only because it was economically correct but also because it quickly produced a visible result: goods appeared on the shelves, and prices became affordable. In Uzbekistan too, it is important that citizens see positive changes in everyday life.

The analysis carried out allows the following conclusions to be drawn. Ludwig Erhard's reform of 1948 was a response to a unique historical situation: post-war devastation, hidden inflation, commodity shortage, and a massive black market. Its key elements were the exchange of old money for new at a 10:1 rate, the preservation of wages, pensions, and rent at a 1:1 rate, and the abolition of state price regulations. This combination made it possible to remove the excess money supply, fill the shops with goods, and genuinely lower market prices for citizens.

**The literal transfer of this reform to modern Uzbekistan** is impossible and dangerous. The country has no hidden inflation, total shortage, or card system. Prices are already predominantly market-based, and sums are backed by real goods and services. A confiscatory money exchange at a 10:1 rate would destroy citizens' savings and cause a social explosion. Therefore, Uzbekistan does not need a radical monetary reform with confiscation of savings.

At the same time, certain principles of Erhard are already being successfully applied in Uzbekistan. Liberalization of the currency market in 2017, tax reduction and business support, and the phased abandonment of subsidies while preserving basic limits for the population — all this corresponds to the philosophy of a socially-oriented market economy. The main lesson of Erhard for Uzbekistan consists not in mechanically copying instruments but in following the strategy: less state in business, more freedom for competition, strong social protection, and consistent macroeconomic stability.

Thus, Erhard's reform remains an important historical landmark but not a template. Uzbekistan should continue its own reforms, taking national conditions into account, and use from the German experience above all its spirit — trust in the market, protection of private initiative, and orientation toward the welfare of citizens.



## References

1. Kazansky D. Economic Miracle: Reforms That Pulled Germany Out of a «Deep Pit.» [https://24tv.ua/ru/jekonomicheskoe-chudo-reformy-vytashhivshie-novosti-rossii-i-ukrainy\\_n1872180](https://24tv.ua/ru/jekonomicheskoe-chudo-reformy-vytashhivshie-novosti-rossii-i-ukrainy_n1872180)
2. Wikipedia — the free encyclopedia. [https://ru.wikipedia.org/wiki/Ludwig Erhard's Reforms](https://ru.wikipedia.org/wiki/Ludwig_Erhard's_Reforms)
3. The Economic Transformation of Post-World War II Germany: The Role of American Aid and Key Industrial Players, published in the Scholar Commons repository of the University of South Carolina. [https://scholarcommons.sc.edu/cgi/viewcontent.cgi?article=1324&context=senior\\_theses](https://scholarcommons.sc.edu/cgi/viewcontent.cgi?article=1324&context=senior_theses)
4. Nevsky I.S. The Monetary Reform of 1948 in West Germany: Economic Results and Socio-Political Consequences. <https://cyberleninka.ru/article/n/denezhnaya-reforma-1948-g-v-zapadnoy-germanii-ekonomicheskie-rezultaty-i-sotsialno-politicheskie-posledstviya>
5. Buchheim C. Die Währungsreform 1948 in Westdeutschland // Vierteljahrshefte für Zeitgeschichte. 1988. Jg. 36. H. 2. S. 189–231.
6. Holtfrerich C.-L. Geldwertstabilität und Währungsreform (works on the history of the German monetary system).

