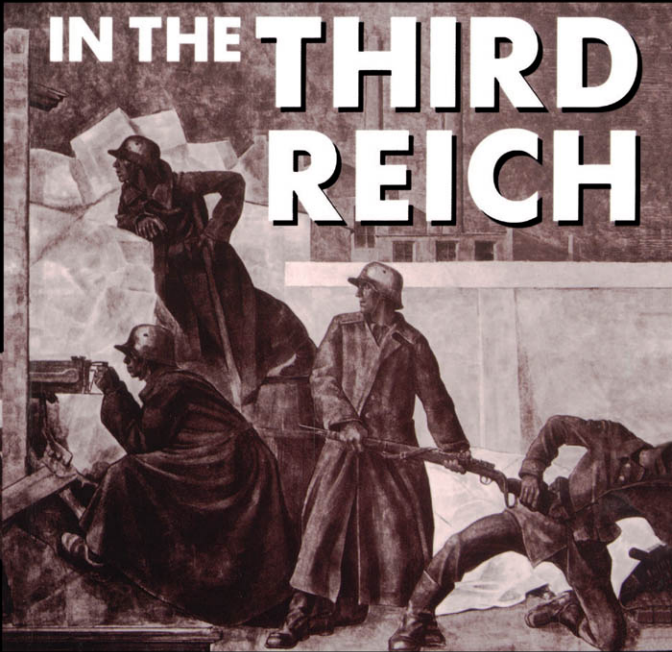


WAR AND ECONOMY

IN THE THIRD REICH



R. J. OVERY

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REICH

R. J. OVERY

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*For Emma, Becky, and Jonathan,
who have grown up with it all*

PREFACE

THE present work is the fruit of twenty years of research and writing on the German economy under Hitler. It covers the period as a whole, from the early recovery in 1932/3 to the final stages of the German war economy. Some of the chapters grew out of conference papers; two of them, on Krupp and on rationalization in the German war economy (Chapters 4 and 11), have not been published before. The rest of the chapters reproduce journal articles. They all reflect a chronological progression in my interests, from asking questions about the role of rearmament and of non-military sectors in the German recovery, to emphasizing the very great efforts made to convert the German economy to war purposes after 1939. Naturally enough over the course of twenty years I have changed my mind about a lot of things, and learned a great deal. I blush at the infelicities of expression and uncritical assumptions of the early pieces. I hope there remains sufficient consistency here to avoid the danger that the conclusions of one chapter cancel out the evidence supplied in another. I have tried in the Introduction to link the different pieces together, and to suggest ways in which the subject has developed during the time the essays were written.

The only changes I have made involve textual inconsistencies or particularly jarring expressions. Otherwise they remain as they were published, and I am very grateful to the publishers and editors involved for permission to reproduce them. I would also like to express my thanks to numerous colleagues and friends who have argued these issues through, or have suggested fresh avenues, or have just plain disagreed. My work is all the richer for that. I would also like to thank the staff of the archives and libraries that I have worked in for their courtesy and helpfulness. I would particularly like to thank the staff, past and present, of the Imperial War Museum, where I first worked on my doctoral thesis in 1970, on records which have long since been restituted to Germany, and where I have continued to work on and off ever since. Finally I would like to thank my daughter, Becky, who typed a large part of the manuscript, and who no doubt wishes, like a great many others, that I would finally rationalize my own work practices and buy a computer.

R.O.

King's College, London
October 1992

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To avoid ambiguity *Milliarden* (US billions) are expressed throughout this book as '000m.

ABBREVIATIONS

BA	Bundesarchiv, Koblenz
BA-MA	Bundesarchiv-Militärarchiv, Freiburg-im-Breisgau
BHO	Berg- und Hüttenwerkgesellschaft OstmbH
BIOS	British Intelligence Objectives Sub-Committee
CIOS	Combined Objectives Sub-Committee
DBFP	<i>Documents on British Foreign Policy</i>
DDV	<i>Der deutsche Volkswirt</i>
DNVP	Deutschnationale Volkspartei (German Nationalist Party)
DVP	Deutsche Volkspartei (German People's Party)
FO	Foreign and Commonwealth Office Library, London; also Foreign Office files at IWM
IMT	International Military Tribunal, <i>Trial of the Major War Criminals</i> , 42 vols. (London, 1949–51)
IWM	Imperial War Museum, London
K-A(L)	Krupp-Archiv (London); copies at Foreign and Commonwealth Office Library, London
KPD	Kommunistische Partei Deutschlands (German Communist Party)
MD	Milch Documents, IWM
Mefo	Metallurgische-Forschungsgesellschaft (a secret state holding company)
MHI	Military History Institute, Carlisle, Pa., USA
NA	National Archives, Washington, DC
NCA	<i>Nazi Conspiracy and Aggression</i> , 8 vols. (Washington, DC, 1946)
OKW	Oberkommando der Wehrmacht (German High Command)
RDI	Reichsverband der Deutschen Industrie (German Employers Association)
RIIA	Royal Institute of International Affairs
SA	Sturmabteilung (Storm-troops)
SAK	Salzgitter Konzernarchiv
SD	Sicherheitsdienst (Security Service)
SPD	Sozialdemokratische Partei Deutschlands (German Social Democratic Party)
SS	Schutzstaffel (Black Shirts, led by Himmler)
TWC	<i>Trials of the War Criminals before the Nuremberg Military Tribunal</i> , 12 vols. (Washington, DC, 1949)
USSBS	United States Strategic Bombing Survey

- VIAG** Vereinigte Industrie-Unternehmungen Aktiengesellschaft (Reich holding company)
- VS** Vereinigte Stahlwerke (United Steel)

Introduction: The Nazi Economy in Peace and War

THE place of the German economy in the preparation and prosecution of war is of central importance in any interpretation of the Third Reich. The relationship between war and economy not only involved economic issues but profoundly affected German politics and German military strategy. This reflected Hitler's own view of the economy as primarily an instrument of power. For him the economy was not simply an arena for generating wealth and technical progress; its *raison d'être* lay in its ability to provide the material springboard for military conquest. Hitler held to a widely shared view that in the dog-eat-dog post-war world, prosperity had to be fought for, securing 'the bread of freedom from the hardship of war'.¹

This instrumental view of the economy allowed Hitler to simplify what were otherwise complicated economic issues. His equation of a strong economy with national revival and military success had obvious implications. It placed a priority on economic revival during the early years of the regime as a precondition for the revival of Germany's international position. It promoted the view, popular among Germany's military élite, that the economy should be treated as a central element in the war capability of the modern state. Future wars, Hitler believed, had to mobilize 'the whole strength of the people'.² Economic policy, in this sense, had to be judged by the criterion of strategic necessity as well as social utility. This made Hitler an enemy of free-market economics, and inclined him to the currently fashionable ideas of closed economic blocs and autarky, and ultimately to the idea of seizing 'living-space' and resources by force.

This rejection of economic liberalism had a number of sources. To any German nationalist in the early 1930s it seemed obvious that Germany's current economic ills owed a great deal to the self-interest of the liberal states that dictated peace terms in 1919, and continued to stack the odds against Germany thereafter. Hitler did not think that Germany would find a purely economic solution to her weak position in the world economy: 'the ultimate decision as to the outcome of the world market will lie in power'.³ Second, there could be no guarantee in a free market economy that the interests of race or state as Hitler defined them would take priority over the interests of businessmen or consumers. After 1933 the role of the

¹ *Hitler's Secret Book*, intro. T. Taylor (New York, 1961), 15.

² *Ibid.* 46.

³ *Ibid.* 99.

state in regulating and directing economic life increased sharply, first in order to encourage economic revival, then to divert economic resources to the growth of German military power. Hitler was a reluctant *dirigiste*, but the logic of his view that the economy, like everything else in German life, had to serve Germany's struggle for existence led, in an unplanned, incremental way, to the establishment of a kind of command economy.

The use of state power to procure the sort of military economy Hitler wanted had important consequences for German politics. The business community, while willing enough to accept state assistance in reviving exports and supplying credit, was in general wary of the trend to economic 'statism' which the speed and scale of rearmament necessitated. Even military leaders were cautious about re-militarization for fear that it would weaken German capitalism or penalize consumers so much that social agitation would result. Faced with the choice between calming these fears or pushing on with rearmament, Hitler chose the latter. As a result the power balance between the party, industry, and armed forces shifted, and Hitler's aim to turn Germany in a short space of time into a military superpower prevailed. It did so at the cost of consumers, as the state forced the diversion of resources to strategic purposes, and, increasingly, at the cost of producers, whose freedom of manoeuvre was effectively removed.

In practice, of course, the issues facing the German economy in the 1930s and 1940s were far from simple. Hitler's capacity to reduce economic problems to a series of loosely defined goals provided a political framework of imperative character, but it could not of itself provide the solution. Nor, until Hitler's dictatorship was more secure, did arguments about economic means and ends subside. There was certainly a consensus in the early 1930s about the necessity for economic recovery, but there was no general agreement about how it might be brought about. There was broad social acceptance of the nationalist agenda—rearmament and an end to reparations—but there were clear differences of opinion concerning the pace and nature of rearmament, and the issue of who should control it. During the war Germany's economic performance was inhibited by prolonged arguments about jurisdiction and responsibility. And throughout the period of the Third Reich conflicts about the character and extent of state control over the economy, even within the Nazi Party itself, influenced the evolution of economic policy, and affected economic performance.

It is this relationship between Hitler's vision of an armed economy and the reality of domestic and international circumstances which forms the substance of what follows. The book is based around four major themes, each one of which has been, and remains, an area of historical controversy. The first is the nature of economic recovery in Germany after

1933, and in particular the issue of how much the revival owed to the early onset of rearmament. The second theme, the relationship between German business and the Nazi regime, is linked to the question of recovery if for no other reason than the commonly held assumption that business confidence revived once capitalists had a government they could work with. The following chapters show that the relationship between German capitalism and the Nazi state cannot be reduced to a simple formula, but was a complex one which changed over time. The relationship was also profoundly affected by the third theme, the nature and consequences of German rearmament in the late 1930s. The history of rearmament involves the question of how far German businessmen were responsible for, or profited from, the economic imperialism and military conquests of the regime; but it has also given rise to more serious arguments about whether Hitler intended to arm for limited or total war, and the extent to which the economic burden of rearming provoked domestic social crisis and an opportunistic and aggressive foreign policy.

The last theme, German economic mobilization in the war, is closely linked to interpretations of rearmament in the 1930s. Any discussion of how extensively Germany mobilized for war after 1939 depends to some extent on prior assumptions about the nature of war preparations, and the ability of the Nazi regime to sustain them at particular levels. The widely held view that the Nazi regime rejected mobilization for 'total war' until compelled by military reverses to accept it in 1942, rests on the implicit assumption that Nazi rule was too fragile to sustain higher levels of sacrifice from the German people. Yet the increase in state control, evident throughout the period, does raise the question whether the Nazi leadership was as sensitive to public pressure as the thesis of 'limited war' suggests, and whether the German economy was as prone to crisis under Hitler as is generally accepted. In this sense, arguments about the character of the military economy broaden out into more general arguments about the nature of the Nazi system of control, and the reception of the regime among the wider German population.

GERMAN ECONOMIC RECOVERY

The problems facing the German economy when Hitler came to power in January 1933 were formidable. Over 8 million people employed in 1929 were jobless three years later. Germany avoided international bankruptcy only by defaulting on debts due and the indulgence of her creditors. Industrial production fell to the levels of the 1890s. German trade, on which almost a quarter of the population relied, was halved between 1929 and 1932. The collapse of incomes contributed a great deal to the

radicalization of the German electorate after 1929 and the rise of the National Socialist movement to a point where it could vie for power with the established parties.

The Nazi leaders had no magic formula to cure the economy. They were economic nationalists. They favoured protective tariffs, foreign debt reduction, and import substitution to remove what they regarded as debilitating dependence on the world economy. They supported calls for work-creation and labour service with no very clear idea about how to fund them. In general Nazi politicians blamed economic decline on political causes—the influence of Marxism on the labour force, the machinations of international Jewry, the vindictiveness of western politicians; and they offered political solutions—the destruction of organized labour, rearmament, ‘biological’ politics. The more radical wing of the movement wanted to transcend capitalism and build a new corporate economic order, but there was no clear agreement about what it should look like.

It is not surprising that under the circumstances the Nazi politicians who came to power in 1933 came to rely on existing economic plans and economic institutions to carry them through the first months in office. The regime was committed to providing ‘Bread and Work’; Hitler knew well enough that the failure to do so would make other goals difficult to achieve, and would sustain the very social and political instability that had brought him to power in the first place. Yet Hitler never lost sight of the general goal. Meeting with his cabinet colleagues on 9 February to discuss work-creation he emphasized that in the long run ‘The future of Germany depends exclusively and alone on rebuilding the armed forces’.⁴ It is certainly possible to conclude from this that economic revival mattered to Hitler only to the extent that it provided the means for military revival, but it is not very plausible. There were compelling political arguments for overcoming unemployment and avoiding social unrest; the propaganda promise to rebuild German society and heal the rifts of class war relied on some evidence of state sponsored re-employment. And if Hitler was not a conventional socialist, it is hard to dismiss all his talk of ‘community’ as mere claptrap.

The difficult thing was to find a mix of policies that would generate re-employment, sustain trade, revive the capital market, and restart investment in industry and agriculture, and would do so without producing fresh pressures on the value of the mark, or the balance of payments. No single economic policy could achieve all this. The rebuilding of the German economy came about, as a Labour Ministry memorandum

⁴ Sitzung des Ausschusses der Reichsregierung für Arbeitsbeschaffung, 9 Feb. 1933, in K.-H. Minuth (ed.), *Akten der Reichskanzlei: Regierung Hitler 1933–1938*, i. 1933 (Boppard am Rhein, 1983), 62.

put it in December 1934, 'through a multitude of interrelated measures'.⁵ How these affected the revival of employment levels is related in Chapter 1 and need not be rehearsed again here. Re-employment on a wide scale stimulated demand and the normal revival of the business cycle. It helped to reduce the hostility of labour following the Nazi destruction of the trade unions and the left-wing political parties. It contributed to a shift in expectations and outlook, as ordinary Germans came to accept that perhaps, after all, Hitler could relaunch the nation as he promised.⁶

At the core of the re-employment strategy lay programmes of state-funded investment for 'work-creation' (*Arbeitsbeschaffung*). Some of this investment was in the form of specific work-creation projects which were labour-intensive. The largest single item in the programme was road and bridge repair and rebuilding. Other funds were used to subsidize house-building and conversion or to stimulate public engineering schemes. It has always been tempting to see these schemes as some form of veiled or 'indirect' rearmament. Hitler's comment at the meeting on 9 February that re-militarization took 'absolute priority' or his comment later in the year that the new motor-roads, the *Reichsautobahnen*, should be developed on 'strategic principles' have been used by historians as prima-facie evidence that work-creation was camouflaged rearmament.⁷

This interpretation is not borne out by the documentary evidence, which demonstrates that the bulk of work-creation funds in the period 1932–4, when the programmes started to be wound up, was spent on civilian projects.⁸ Out of RM 1,500m. made available in the first major work-creation schemes, 18 per cent went to projects (building military installations, airfields, etc.) of a military nature. The bulk of funds went on land-reclamation, and road and bridge repair (following four years of declining municipal spending on maintenance). The Post Office and the railways ran their own work-creation schemes, almost all of which involved maintenance and renewal of their infrastructure, and which offered employment to more than 250,000 workers.⁹ Government subsidies for house-building and house-repair under the work-creation programmes were even more significant, totalling more than RM 2,000m. in 1933/4

⁵ Bundesarchiv, Koblenz (BA), R2/18701, Labour Ministry to Finance Ministry, 5 Dec. 1934, 1.

⁶ I. Kershaw, *The 'Hitler Myth': Image and Reality in the Third Reich* (Oxford, 1987), esp. ch. 2.

⁷ See e.g. H.-E. Volkmann, 'The National Socialist Economy in Preparation for War', in W. Deist *et al.*, *Germany and the Second World War* i. (Oxford, 1990), 222–5.

⁸ M. Wolffsohn, 'Arbeitsbeschaffung und Rüstung in nationalsozialistischen Deutschland: 1933', *Militär-geschichtliche Mitteilungen* 27 (1977), 9–19.

⁹ BA R2/18701, Reichspostminister to Finance Ministry, 4 Aug. 1934, 'betr. Arbeitsbeschaffungsmassnahmen'; Deutsche Reichsbahn Hauptverwaltung to Finance Ministry, 18 Oct. 1934, 'betr. Sonderarbeitsbeschaffungsprogramme der Deutschen Reichsbahn'.

and doing a great deal to eliminate unemployment among building workers.¹⁰ More important all these schemes were run by officials whose primary interest was in re-employment and the refurbishment of public services. When the War Ministry argued for higher allocations in 1933 it found an unsympathetic ear in the Finance Ministry. While it is no doubt true that limited funds were made available, the bulk of spending in 1933 and 1934 on public, employment-creating projects was non-military in character. Work-creation seems to have been just what it said; short-term programmes to create new jobs and kick-start the economy.

Whether work-creation was ever capable on its own of reviving the German economy, is highly questionable. The revival owed something to a wide range of initiatives, particularly in creating a more favourable set of external economic relations through bilateral trade agreements, debt reduction or default, and, under the terms of the 1934 New Plan, controls over imports. Just as important were the efforts made to stabilize and control the domestic capital market and public finances. In the absence of foreign lending, and with the investment-shyness of private creditors, the government assumed a much greater role in initiating new investment or in giving tax concessions and subsidies to encourage others to invest. Both public-works schemes played a part in the revival of investment, but there were plenty of other projects on which the government was prepared to spend money.

An area of special interest was 'motorization'. The efforts of the government to promote the motor industry and encourage road-building and repair are set out in Chapter 2. The sector revived rapidly, stimulating a whole range of ancillary activities. Road-building, both ordinary roads and the new *Autobahnen*, contributed to the recovery of the construction industry, and absorbed a good deal of casual, unskilled labour which was the hardest unemployment to relieve. The accelerated motorization of Germany reflected the relatively slow growth of motor-vehicle traffic in the 1920s. The 1930s saw a period of 'catching-up', encouraged by cheaper cars, tax concessions, and the revival of middle-class incomes.¹¹ But it also reflected the general trend to technical modernization in all industrial economies, something which Hitler himself was keen to promote as a tribute to German technical proficiency and a propaganda triumph for the regime. German industry, and the German engineering community,

¹⁰ BA R2/18701, Labour Ministry to Finance Ministry, 22 Dec. 1934, 'Beitrag der Abteilung Siedlungswerk', 6; Deutsche Bau- und Bodenbank, Berlin, 'Die Entwicklung der deutschen Bauwirtschaft und die Arbeitsbeschaffung im Jahre 1933'.

¹¹ F. Blaich, 'Why Did the Pioneer Fall Behind? Motorisation in German between the Wars' in T. Barker (ed.), *The Economic and Social Effects of the Spread of Motor Vehicles* (London, 1987), 148-64.

welcomed motorization because it promised rapid growth in a vanguard sector with good export prospects.¹²

Of course the 'motorization' of Germany, like work-creation, was not enough on its own to drag the German economy out of recession, though it was clearly a major stimulus to industrial revival and re-employment in the critical early years of the regime. To characterize the expansion of the motor-industry as 'trivial' (as a recent survey of the recovery describes it) seems singularly misplaced for an industry that had become Germany's largest manufacturing employer by 1935, and was by 1938 generating the largest contribution to Germany's manufacturing exports. The road-building programme between 1933 and 1935 consumed almost RM 2,000m., at which point it exceeded expenditure on the German rail network. In the first two years of recovery investment in motor transport and the motor industry matched the early spending on the military.¹³

It is, of course, possible to argue that the road-building and the stimulus to motorization were in fact contributions to the economic rearmament of Germany. No doubt in a very general sense it was recognized that better roads, more experienced drivers, and a larger stock of lorries would be beneficial to an army bent on motorizing itself. It is clear that Hitler was aware from the outset that the new road network was important 'not only on account of motorization, but on grounds of defence', a view that is not acknowledged fully enough in Chapter 2. But it is unrealistic to try to explain a process as complex as motorization through a single cause. Technical modernization of this sort had a momentum of its own; plans to improve Germany's road network predated the Nazi regime by some years. Nor does it seem that the armed forces were all that keen on the new motorways, or very successful in applying the motor vehicle to military needs. The army commander von Fritsch was reported in 1936 to have said that the RM 5,000m. allocated to the *Autobahnen* would have been better spent on refurbishing the railways.¹⁴ Despite the motorization efforts before 1939, the German armed forces remained reliant on rail and horse for the bulk of their transport in the Second World War, particularly on the Eastern Front. The importance of horse transport has long been overlooked. At the beginning of the war German forces had 590,000 horses, by the war's end 1,200,000. During the course of the conflict over 1,200,000 horses were requisitioned in Germany and the occupied

¹² For a recent exploration of these issues see J. Herf, *Reactionary Modernism: Technology, Culture and Politics in Weimar Germany and the Third Reich* (Cambridge, 1984); S. Reich, *The Fruits of Fascism: Postwar Prosperity in Historical Perspective* (London, 1990).

¹³ H. James, *The German Slump: Politics and Economics 1924–1936* (Oxford, 1986), 384; Blaich, 'Motorisation', 154.

¹⁴ *Akten der Reichskanzlei*, i. 307, 332.

territories. For the invasion of the Soviet Union Germany had 3,350 tanks and 650,000 horses.¹⁵

These arguments hinge on defining what exactly is meant by rearmament. It has long been accepted that the production and supply of weapons and military equipment, though formally constituting armament, is less than adequate in describing the processes at work in the rearming of any state in the 1930s. It was generally acknowledged that major war required the extensive mobilization of economic resources through the supply of materials, machinery, and labour from the civilian sectors. In this sense, rearmament went well beyond military production. Historians make a distinction here between *direct* rearmament (military output) and *indirect* rearmament (the supply of raw materials, machinery, factory equipment, infrastructure investment, etc. necessary to sustain military output and military capability). The difficult thing is to decide where to draw the line. In the German case any definition is complicated by the fact that Hitler was committed from the outset to remilitarizing the German state and strengthening the economy in ways which would be strategically useful. On this basis, almost anything done by the government in economic affairs was a net contribution to the broader purpose. Yet this renders a definition of indirect rearmament almost meaningless. Clearly much of what went on in the German economy between 1933 and 1935 had a primarily civilian purpose, and was regarded as such by the officials, producers, and consumers involved. To be conceptually useful, indirect rearmament should describe economic activity which has a clear strategic purpose, and which is consciously perceived by the government and the military to be linked to the capacity to make war.

On these criteria a distinction can be drawn between the work-creation programmes of road and bridge repair, which were intended to offer short-term re-employment and restore crumbling public services, and, say, the plans to refurbish the German railways in 1939 in anticipation of heavy military demands in the 1940s.¹⁶ In the first case the link with future plans to prepare the economy for warmaking was almost non-existent; in the second it was the primary purpose. Even a definition like this leaves a grey area where public spending programmes were deliberately camouflaged to hide some military purpose; or where it proves impossible to distinguish in a set of industrial orders between civilian and military clients. But the nature of the evidence will not support a tidy definition, and it would be surprising if it did.

¹⁵ R. L. DiNardo and A. Bay, 'Horse-Drawn Transport in the German Army', *Journal of Contemporary History*, 23 (1988), 130–9.

¹⁶ Second Meeting of the Reich Defence Council, 23 June 1939, in *Nazi Conspiracy and Aggression*, 10 vols. (Washington, DC, 1946), vi. 718–31, for plans to refurbish the railway system.

Both direct and indirect rearmament played some part in the investment-led recovery in Germany, but it was one element in a cocktail of causes, and was by no means the main ingredient. Many of the policies pursued were intended to provide civilian solutions to civilian problems. Rearmament became economically significant when the recovery was well under way, in 1934/5. In this sense recovery was a cause as much as a consequence of further rearmament.

This conclusion begs a very large question. If Hitler saw the German economy as an instrument in the re-militarization of the state, why was rearmament so slow to get going? Why was money and effort expended on reviving the civilian economy in ways which did not obviously have a long-term strategic significance? There are a number of explanations. In the first place Hitler had interests and motives in economic affairs which ran alongside his general desire for a strong, rearmed Germany. His recognition that re-employment was politically expedient has already been noted. He saw work-creation and public investment serving the propaganda boast of social and material rebuilding of the Reich, and compulsory labour service for young people as an avenue to the development of 'community-mindedness'.¹⁷ A recent study by Avraim Barkai on the early years of recovery emphasizes how important ideological concerns were to the party, as efforts were made to construct a more corporatist, state-led economy.¹⁸ Finally, Hitler liked technical modernization for its own sake; he was keen to build the motorways as a hallmark of the new Nazi age, in which he was to play the role of *Bauherr*, of master-builder.¹⁹

Hitler was also motivated by political prudence. The early programmes of rearmament were disguised in order to avoid complications with powers committed to upholding the Versailles Treaty. Although there was no real secret about the regime's intention to start rearming, it was begun cautiously, to avoid running international risks. There were also domestic dangers. Hitler had a very limited grasp of economic theory, but he knew that inflation was a bad thing. It was not clear at first how military funding could be paid for without running inflationary risks with deficit financing. Until the Reichsbank President, Hjalmar Schacht, came up with the idea of short-term bonds to be redeemed out of future tax revenues as the economy recovered (the so-called Mefo Bills), military spending was not much higher than it had been in the last years of the Weimar Republic. Even then the level of military spending was kept within firm limits partly

¹⁷ Chefbesprechung, 4 Apr. 1933, *Akten der Reichskanzlei*, i. 288–9.

¹⁸ A. Barkai, *Nazi Economics: Ideology, Theory and Policy* (Oxford, 1990), esp. chs. 1, 2.

¹⁹ See esp. J. Thies, 'Hitler's European Building Programme', *Journal of Contemporary History*, 13 (1978); J. D. Shand, 'The Reichsautobahnen: Symbol for the Third Reich', *ibid.* 19 (1984), 189–98.

to avoid any kind of run on the mark, partly because the Finance Ministry found itself having to pay out a great deal on other areas of public subsidy and investment.

In the second place, there was the problem of mediation. The regime relied on the co-operation of the military leaders, state officials, and non-Nazi ministers, and the willingness of the business community to endorse recovery policies. Much of the detailed work of initiating and implementing economic and financial policy was done by the established economic bureaucracy, in many cases simply continuing policies begun under Weimar governments in the recession. At this level Hitler's general exhortations to think of re-militarization as a first priority were heeded very little. The reports on work-creation prepared by the Labour Ministry and the Finance Ministry show that their priorities were re-employment within a stable financial environment.²⁰ The issues confronted by the ministerial apparatus—credit collapse, agricultural depression, trade decline, payments difficulties, high unemployment—were not to be solved by the panacea of rearmament, but on their own terms, through a variety of stimuli both conventional and unconventional. The fact that the general result—a drift towards economic nationalist solutions of controlled trade, import substitution, and debt default—ultimately served the interests of large-scale rearmament in the late 1930s seems on the face of it to have been in some measure fortuitous.

The scope for rearmament was also limited by dependence on the military and the business community. The armed forces were happy enough to have a rearming government at last, but they were anxious to control its pace and nature themselves, and in general they favoured a step-by-step approach rather than a rush for military goods. They certainly wanted the civilian sector to be aware of strategic priorities, but the generals did not want to overload the economy so soon after a period of severe crisis, a view which fitted ill with Hitler's ambitions to head a military superpower. Nor were industrialists as enthusiastic about arms orders and thoughts of war; they had had their fingers burned badly in the Great War and the post-war crisis. A sudden switch to arms was fraught with risks, both international, if other states discriminated against Germany for breaking the Treaty, and domestic, if industry found itself over-committed to heavy investment programmes which would peter out once military revival was over.

For all these reasons it proved difficult to transform the economy to war preparation very quickly or extensively. Circumstances imposed economic and political reality on Hitler. Only when the recovery was an

²⁰ BA R2/18701, Labour Ministry to Finance Ministry, 5 Dec. 1934, 'Arbeitsbeschaffungsmassnahmen', 1–14; Finance Ministry, 'Die Arbeitsbeschaffungsmassnahmen der Reichsregierung 1932 bis 1935', 2–55.

accomplished fact by 1936, and when the Nazi movement was more politically secure and less dependent on the traditional élites, did it prove possible to accelerate rearmament and restructure the industrial economy and work-force in favour of military priorities.

INDUSTRY IN THE THIRD REICH

The role that German businessmen, either collectively or individually, played in the processes of recovery and re-militarization remains the subject of much debate. The traditional view, established in the 1930s, was that Nazism was the tool of monopoly capitalism, which used the movement at a period of acute crisis in the capitalist system to discipline the work-force, boost profits, and conquer markets. Since the state managed to provide all of these things to some degree, the causal connection was not entirely implausible. Yet the fact that it was the state that came to the rescue also prompted the contrary view, that German business was taken captive by the Nazi state. In this interpretation industry was used simply as an instrument to achieve the state's plans for war and conquest regardless of its actual economic interests. The ability of industry to do anything about this was progressively reduced with the rise of the terror state and the planned economy.

Neither interpretation, thanks to a growing interest in the history of individual firms and businessmen, stands up to critical scrutiny.²¹ It has always seemed inherently unlikely that something as incoherent and differentiated as an industrial system could react collectively at a time of acute crisis to push a populist, even anti-capitalist mass movement into power. That is not to say that there were not prominent big businessmen, and a much larger number of smaller businessmen, who supported the Nazi Party and rallied to its call for social and national regeneration (and its promise of tax and interest-rate reduction, and tariff protection). But the problem remains that industry was not a single bloc, with a common political voice or common economic interests. If anything united big business leaders in the recession it was a growing hostility to what was perceived as the self-interest of the political parties and the pro-labour stance of the state, and a desire for a more traditional conservative solution which would restore social order, encourage business initiative, and rebuild Germany's international position. This was the stance taken by Gustav Krupp, whose ambiguous relationship with Nazism is explored in Chapter 4. Krupp's preferred solution was Papen's 'cabinet of barons',

²¹ See the essay by V. Berghahn, 'Big Business in the Third Reich', *European History Quarterly*, 21 (1991), 97–106.

and a 'national-bourgeois' bloc that would avoid extremism of left or right.²²

If business leaders had any general responsibility for the rise of Nazism to power, it was primarily in a negative sense, in their widespread disillusionment with the parliamentary system and their failure to give democracy any effective moral support.²³ When German business leaders largely abandoned the attempt to hold the shaky political centre together in 1932, it opened the door to populism sufficiently wide to give Hitler a share of power. But this was not the same as deliberately hoisting Hitler into office as a tool to repair the damage caused to the capitalist economy by the recession. Indeed, many businessmen seem on the evidence to have been wary of the closet anti-capitalism of the rank-and-file Nazis. When Hitler came to power, prominent businessmen reserved judgement on him, sceptical of his chances of achieving economic revival and worried about the prospects for further social and political instability.²⁴

During the years that followed, Hitler and the Nazi movement were anything but the tools of German big business. But neither was German business rendered entirely powerless through the crude assertion of the 'primacy of politics' over economic interest. To make sense of the ambiguous and complex relationship between the new regime and German industry the historian must differentiate between industries, and even between firms in the same industry. They did not all react in the same way to the regime, nor were they all treated on the same basis. A recent study of the German motor industry has shown how the economic nationalism of the regime brought special treatment and opportunities for German producers at the expense of the American multi-nationals, Opel and Ford.²⁵ German businesses responded to the difficulties and opportunities opened up by the Nazi regime primarily as businesses, building up assets, rewarding shareholders, safeguarding markets; but in doing so they were also forced to compete for political favours, or to adopt defensive tactics of their own. German industry before 1933 was among the most highly organized and cartelized industry in Europe; this organization provided some opportunity to influence economic policy, to contest state initiatives,

²² See esp. H. A. Turner, *German Big Business and the Rise of Hitler* (Oxford, 1985); D. Abraham, *The Collapse of the Weimar Republic* (Princeton, NJ, 1981); J. Gillingham, *Industry and Politics in the Third Reich* (London, 1985); R. Neebe, 'Unternehmerverbände und Gewerkschaften in den Jahren der grossen Krise 1929–1933', *Geschichte und Gesellschaft*, 9 (1983), 316–29.

²³ B. Weisbrod, 'Economic Power and Political Stability Reconsidered: Heavy Industry in Weimar Germany', *Social History*, 4 (1979), 241–63.

²⁴ Turner, *Big Business*, 313–39; P. Hayes, 'Fritz Roessler and Nazism: Observations of a German Industrialist 1930–37', *Central European History*, 20 (1987), 58–79.

²⁵ Reich, *Fruits of Fascism*, 107–30.

or to operate conservative strategies in the face of an unfavourable world market and uncertainties at home, and it made the crude, instrumental view of industry held by Hitler more bearable.²⁶

Nor did the relationship between regime and industry remain constant; the link between the two changed character as the Nazi movement consolidated its position and as Hitler's foreign policy and military ambitions began to dictate the general shape of German public affairs. During the war that relationship changed again as Hitler came to realize that industry had something he wanted, the ability to run the war economy more effectively than the party–military alliance that tried to do so for the first two years of the conflict.

In the early years of the regime economic recovery was a priority. Hitler took the view that industry should be encouraged to help in this process by avoiding anything too revolutionary in economic policy. In an address to party leaders in July 1933, at a time when there was still pressure from within the party to intervene radically in industry, Hitler told them 'the economy must be handled with extraordinary caution'. 'We have the power', he continued, 'to throw out every general director. There are no doubt many who deserve to be chucked out, but we must ask ourselves: can bread be provided for workers like this?'²⁷ In the end Hitler's view prevailed. The regime set out to win co-operation from industry where it needed it. In return it offered cautious re-employment policies and a restored capital market, an end to trade unions, and political stabilization of a kind. The more socialistic elements in the party were quietened, and economic policy was orchestrated by conservatives, and particularly the head of the Reichsbank, Hjalmar Schacht, who believed that prudent collaboration with the Nazis would bring economic and political benefits for German capitalism.

It is easy to see why businessmen found compelling arguments for accepting the regime on these terms. Having experienced the worst recession in Germany's history, they did not want a return to the social instability of the early 1930s. Government grants and public investment helped to revive flagging trade, and there was little to gain from opposing state policies which were directly linked to rising output and profits. Firms were even prepared to accept much higher levels of state economic intervention than hitherto, on the grounds argued by Schacht in defence of the 'New Plan', that world economic circumstances had brought an end

²⁶ See the recent studies by G. Mollin, *Montankonzerne und 'Dritten Reich': Der Gegensatz zwischen Monopolindustrie und Befehlswirtschaft in der deutschen Rüstung und Expansion 1939–1944* (Göttingen, 1988); P. Hayes, *Industry and Ideology: IG Farben in the Nazi Era* (Cambridge, 1987).

²⁷ Reichsstatthalterkonferenz, 6 July 1933, in *Akten der Reichskanzlei*, i. 632.

to economic liberalism and 'a transition from one economic structure to another', in which planning and state regulation had a much larger part to play.²⁸

Yet there were signs of friction during the recovery period as well. Consumer industries recovered much more slowly than heavy industry. Small retail and artisan businesses, which had given a great deal of support to the Nazi Party before 1933, found that the revival of domestic demand was slower than they had hoped, and slower than the overall increase in economic activity. There also existed tension over the other element of the economic nationalist platform, autarky, or self-sufficiency. Krupps's view that autarky did not make economic sense reflected the outlook of a firm that thrived on opening up the world market. Even at IG Farben, the giant chemical firm that eventually benefited considerably from the autarky programme, there were divisions between those directors who favoured export-led revival and a world-market strategy, and those, like Carl Krauch, who wanted a programme of import-substitution and the building of economic 'blocs' to match the protectionism of other large markets.²⁹ In the party and outside there existed influential circles arguing that the old liberal concept of the open world market had disappeared, and should be replaced by exclusive trading zones, even by the conquest of new resources and markets.

The arguments about autarky owed something to the increased expenditure on armaments in 1935/6, which created strong competition between civilian and military priorities for imports of scarce raw materials, and threatened to slow down both the export revival and the upswing in domestic consumer demand. The business community was divided over this issue too. There were firms, in the new aviation industry in particular, whose economic well-being depended on sustained rearmament. But there were other businesses which adopted what one official later called 'a very reserved attitude' to the opportunities opened up by militarization, partly from fear that rearmament would produce international complications, partly from the belief that military spending was not a sufficient basis on which to build a sustainable economic revival.³⁰ During 1936 a number of prominent businessmen urged a shift of priority. Albert Vögler, head of the Vereinigte Stahlwerke, Germany's largest steel combine, argued that 'exports should be ranked above the requirements of the armed forces'. His colleague Ernst Poensgen told Hitler's personal economic adviser, Wilhelm Keppler, that he saw 'the necessity for a reduction in armaments',

²⁸ BA R2/540, speech by Schacht, 'Ziele deutscher Handelspolitik', 11 Dec. 1934, 2.

²⁹ P. Hayes, 'Carl Bosch and Carl Krauch: Chemistry and the Political Economy of Germany 1925-1945', *Journal of Economic History*, 47 (1987), 353-63.

³⁰ National Archives, Washington, DC (NA), RG 243/entry 32, interrogation of Karl Hettlage, 16 June 1945, 2.

and even Schacht, in a speech some months later, expressed the view that civilian consumption 'must in the future stand in the foreground'.³¹

In 1936 the German economy stood at a crossroads. One direction led to a reintegration into the world economy, higher levels of exports, a revival of domestic consumerism, a reduction in state investment. The other led towards self-sufficiency and controlled trade, military production and more state control. The ultimate destination, according to the economic nationalists and imperialists who favoured it, was the building of a 'large economic region' dominated by Germany, and seized by military force if necessary. No doubt there was some middle way between the two, but Hitler by 1936 was no longer in a mood to compromise. During the summer he turned his back on any moderate option and went all out for autarky and rearmament.

The change in direction in 1936 was a critical one, and not just for the economy. It can be compared with Stalin's decision in 1928 to press on with industrial planning and collectivization, or the sharp break in American economic life produced by the New Deal. Like Stalin, Hitler was pressed into the new course by a combination of economic circumstances, international threats, and pressure from within the party. But like Stalin too, Hitler was ideologically predisposed to choose this course when a choice became necessary. The change was signalled by the Second Four Year Plan publicly announced in October, but it was already under way, with close controls over trade and international payments introduced the previous April, and large new military programmes announced in August. The change in personnel was also significant. The new Plan was placed not under Schacht, but under Hermann Göring, a strong man of the party. Göring welcomed autarky because it gave the regime 'greater manoeuvrability and independence' when it came to completing the re-militarization of Germany. He was a champion of rearmament at all costs, and he was sufficiently ambitious and unscrupulous not to let unenthusiastic businessmen stand in the way of achieving the Führer's will.³²

The new course from 1936 had important consequences for German industry. In the short term it produced a political conflict with the most influential leaders of German heavy industry who were opposed to state pressure to expand domestic production of iron ore as part of the self-sufficiency drive. It was recognized by both sides that much more was involved in the conflict. The background and ramifications of the issue are explored in Chapter 3. What was at stake was the continuing ability of

³¹ BA R261/36, Niederschrift des Gutachten-Ausschusses über Exportfragen, 15 May 1936, 12; R261/30, Keppler Tageszettel 5 Oct. 1936; R11/318, Ansprache des Dr Schacht auf dem 7 Allgemeinen Sparkassen- und Kommunalbankentag, 29 Sept. 1937, 17.

³² BA R261/36, Gutachten-Ausschuss, 30 June 1936, 26.

industry to influence state economic policy, and in particular to prevent anything like the 'nationalization' or 'socialization' of industry. Most businessmen remained committed to the principle of *Gewerbefreiheit*, business freedom. The ideal remained a strong, responsible German state giving autonomy to industry while keeping social conflict within acceptable bounds. This did not exclude state assistance, on which many firms relied between 1931 and 1936, but it did exclude state interference with corporate decision-making, or direct state control of industrial production.

In practice the decision to promote self-sufficiency and high arms spending made it necessary to extend state control over the economy and eliminate any real room for independent manoeuvre that German business still enjoyed. It also brought the state into the direct sphere of production. The failure of the Ruhr industrialists to halt the autarky programme was largely due to the willingness of Göring's new economic apparatus to take the task on themselves. In 1937 the creation of the Reichswerke 'Hermann Göring', established by the state to exploit domestic iron ore, set the pattern for the rest of the Third Reich period. When the regime wanted additional industrial capacity or resources for the military economy which the private sector could not provide, it was created (or conquered) by the state. State ownership of public utilities was already an established fact in Germany, but during the Third Reich state ownership expanded into the productive sector, based around the strategic industries, aviation, aluminium, synthetic oil and rubber, chemicals, iron and steel, and army equipment. Government finances for state-owned enterprises rose from RM 4,000m. in 1933 to RM 16,000m. ten years later; the capital assets of state-owned industry doubled during the same period, and the number of state-owned firms topped 500.³³ The Reichswerke alone engrossed assets worth over RM 5,000m., a process that is described in detail in Chapter 5. During the war the regime toyed with nationalizing the coal industry, insurance companies, and the energy-supply industry. Hitler vetoed these attempts on the ground that the private business form should be retained to avoid excessive bureaucratization, and to encourage 'entrepreneurial' leadership qualities, but when it came to a choice between state policy or private interest, the state usually prevailed.³⁴

This process should not be seen in isolation. State intervention and 'planisme' was on the increase in all European economies. Arguments over the nationalization of industry emerged in Italy, France, and Britain in the

³³ BA R7/992, Berichte über den Konzern Reichswerke 'H.G.': 'Schulden der staatlichen Unternehmungen 1933-1943'; NA Microcopy T83, Roll 75, frames 3446065-72, Economics Ministry, 'Der Zuwachs an staatlichen Unternehmungen in Privatrechtsform', n.d. [?mid-1944].

³⁴ BA R2/31681, Bormann to Speer on socializing energy supply, 27 July 1942.

1930s. Historians now debate whether Britain had a 'managed economy' by 1939, the very term—*die gelenkte Wirtschaft*—adopted by German economists in the 1930s to describe the Nazi economy. Nor should this development be seen as a crude 'dualism', state on one side, industry on the other. The Nazi regime after 1936 was determined to transform the economy in ways which would serve the drive for empire and conquest. Nazi officials found and promoted businessmen who were willing to co-operate with their programmes. Some industrialists accepted that the new direction, viewed with expediency, might bring substantial benefits. Structural shifts in German industry, away from the traditional heavy industries of the Ruhr to the new automotive, chemical, and aviation sectors (much of it in central and southern Germany), reduced the regime's dependence on the old industrial élite. A changing pattern of management accompanied this structural change. The large new firms were run by industrial bureaucrats and technicians with a more narrowly functional perception of their responsibilities. Peter Hayes has recently argued that the 'Nazification' of IG Farben was made easier by the bureaucratic mentality of many of those who ran it, and the easy transfer of personnel between the state economic apparatus and that of industry.³⁵ Both the Four Year Plan organization and, later, the wartime economic apparatus recruited from the private managerial sector as well as the party and the career civil service. The outcome was a command economy, governed by military priorities, but run by a coalition of state officials, soldiers, party hacks, and industrial technocrats.

For businessmen who did not share the warlike ambitions of the regime, or who disliked the loss of entrepreneurial freedom and the aggressive extension of state responsibility there were still opportunities to defend the interests of the firm, to expand assets at the expense of Jewish owners or the German taxpayer, or, after 1938, to take a share of those industrial spoils not seized by the Reichswerke as the new European order unfolded. The effect of the change in course in 1936/7 was the fragmentation of any common front industry might have had, and the adoption of an attitude of *sauve qui peut*. Industry was regarded entirely instrumentally by party, state, and military, in terms of its ability to provide the sinews of war. Under the 'primacy of politics' industry reacted opportunistically, searching for secure patron-client relationships with the military-state apparatus, building up assets at the state's expense, taking labour from whatever source the state made available, in the end turning a blind eye to atrocity and exploitation. The business community was characterized by a defensive opportunism in the face of state power. This kept the substance

³⁵ Hayes, *Industry and Ideology*, 379–83.

of German capitalism intact, but at the cost of entrepreneurial independence and unavoidable complicity in the racial and imperialist strategies of the regime's leaders.

REARMAMENT AND FOUR YEAR PLAN

The historical debate about rearmament in the later 1930s, after the new course adopted in 1936 with the Four Year Plan, contains an interesting paradox. Where the arguments about the recovery period insist on giving military spending an exaggerated place, there has been a prevailing tendency to play down the significance of rearmament for the period 1936–9, at just the point when Hitler deliberately embarked on a large-scale programme of direct and indirect rearmament. This view owes a great deal to A. J. P. Taylor's book on the origins of the Second World War which gave wide currency to the work of Burton Klein, an American economist who had worked on the post-war United States Strategic Bombing Survey, and who concluded on the basis of Germany's wartime economic performance that she had been much less thoroughly prepared for war before 1939 than everyone had thought.³⁶ This fitted neatly with Taylor's own conviction that Hitler had limited ambitions in central Europe, and only needed limited forces to achieve them.

Few historians have accepted Taylor's view that Hitler had limited territorial ambitions, and there is a great deal of convincing evidence that points in the opposite direction. But the argument that rearmament was limited in scope fitted with interpretations of the Third Reich that emphasized its weaknesses, the tendency to confused administration, the proliferation of competing power-centres, fear of alienating the working classes and producing insupportable social crisis. The notions of 'polycracy' and 'weak dictatorship' replaced the totalitarian image. It was argued that limited armaments allowed Hitler to offer guns and butter at the same time. The armed forces reacted by producing the novel conception of *Blitzkrieg*, or 'lightning war'—deploying the limited weapons base in short, sharp campaigns which would optimize Germany's military capability while making few demands on the civilian population. In this way Germany would avoid the mistakes of the First World War and the risks of revolution.³⁷

All of these views rested on the assumption that Hitler did deliberately

³⁶ B. H. Klein, *Germany's Economic Preparations for War* (Cambridge, Mass., 1959); id., 'Germany's Preparation for War: A Reexamination', *American Economic Review*, 38 (1948).

³⁷ According to J. K. Galbraith, *A Life in Our Times: Memoirs* (London, 1981), 223, the inspiration for the Blitzkrieg economy argument was the economist Nicholas Kaldor, who outlined the hypothesis at a meeting of Bombing Survey staff in Bavaria. For Kaldor's developed view see 'The German War Economy', *Review of Economic Statistics*, 13 (1946).

restrict Germany's military economy during this period in the face of economic and social pressures, and that Klein's economic analysis was therefore valid. The evidential problems with this assumption are explored in detail in Chapter 8. Neither the military nor the economic version of *Blitzkrieg* have stood the test of time. What has emerged is a picture of the economy much more consistent with the large military plans and the visions of conquest at the core of Hitler's thinking. We have already seen that Hitler saw the economy in military terms, and would have liked the direct and indirect rearmament of Germany to move faster after 1933 than it did. Rather than accept reality and limit his ambitions, the change in 1936 signalled Hitler's determination to press on rapidly with high levels of militarization and indirect, economic rearmament. Hitler's view that war must involve 'the whole strength of the people' matched the armed forces' own arguments for broad-based preparation for war, and was echoed in the views of his subordinates who were charged with carrying the programmes out.

Of course it could be argued that here again Hitler was whistling in the wind, promoting a vision of an armed economy that no one took seriously and which begged economic credibility. In other words that it is not enough to locate the *intention* if the circumstances dictated a different course. But there is a very real difference between the early recovery years and the period of the Four Year Plan. From 1936 onwards Hitler began to concentrate political power more firmly in his own hands and those of trusted colleagues. By 1938 the old élites had lost control of the Foreign Office, the armed forces and the economy, and military strategy and economic policy were dictated by Hitler rather than mediated by the old civil service and ministerial apparatus. And this shift was to a considerable degree dictated by Hitler's very desire to press on with large-scale militarization and active territorial expansion, which he felt was being held up by his more timid conservative allies. After 1936 it became much easier for Hitler to turn intention into political fact. By 1939 Hitler's central role in the determination of German state policy was unchallengeable, and it undermines any image of the 'weak dictator' unable to hold his rambling state together.

In the second place there is the overwhelming evidence that Hitler's intentions had very real practical effects, both in the expansion of the armed forces and weapons production, and in the 'indirect' development of the economy for war. What is significant about the new course after 1936 was the regime's recognition that military capability and economic restructuring went hand in hand. The Four Year Plan and rearmament were regarded as ranked the same (*gleichrängig*).³⁸ Hitler recognized that

³⁸ BA R26IV/5, Vierjahresplan Sitzung 31, 14 Oct. 1938, 2: 'The Four Year Plan belongs with rearmament; it is of equivalent rank with it.'

to be able to make Germany a serious military power, capable of sustaining war with the great powers and conquering 'living-space', it was necessary to make her free from the threat of blockade by building up the domestic production of strategic materials and foodstuffs, and by seizing or integrating the economic resources of central and eastern Europe into a 'greater economic region', very like Japan's 'Co-Prosperity Sphere', which would provide the economic springboard for German imperialism. Rather than indulge the German consumer, the regime controlled imports in favour of strategically necessary goods, kept taxes high, and discriminated against the revival of consumer industries.

The scale and nature of these practical efforts are set out in Chapter 6 and do not need to be reproduced here. But two observations are worth making. First, there still exists considerable uncertainty about what constitutes a high level of direct military spending. By 1938/9 Germany devoted 15 per cent of her GNP to military expenditure, in 1939 23 per cent. There should be no doubt that these are historically high levels of peacetime spending. The European NATO powers at the height of the Cold War devoted between 3 and 7 per cent of GNP to direct military budgets.³⁹ In 1939 only Stalin's planned economy devoted a higher proportion. Before the First World War, at the time of the first great arms race, German military spending was only 3 per cent of GNP, and 24 per cent of government expenditure. In 1938/9 52 pfennigs of every mark the government spent went on the military budget.⁴⁰ To be sure, not all of this was spent on weapons. The military budget was greatly inflated by the urgent building of the Westwall fortifications in 1938–9, and by the mobilization expenses for the *Anschluss*, the crisis over the Sudetenland, and the occupation of Prague in March 1939. But whether the money was spent on weapons or cement, the military budget diverted resources from the civilian economy.

Second, the argument that rearmament was limited in scale ignores the growing significance of 'indirect rearmament' after 1936. The formal military budget greatly understates the degree to which the German economy was committed to re-militarization in the late 1930s. By looking at the production of finished weapons alone, the impression can be given that Germany had only achieved by 1939 'armament in breadth' (*Breitrüstung*), that is a limited quantity of battlefield equipment designed for a short campaign. The alternative, what German strategists called 'armament in depth' (*Tiefrüstung*), relies on evidence that the economic underpinning for sustained warmaking—the machinery, basic raw materials, trained labour, armaments capacity, etc.—is also in

³⁹ G. Kennedy, *The Economics of Defence* (London, 1975), 79.

⁴⁰ NA Microcopy T178, Roll 15, Finance Ministry, 'Statistische Übersichten zu den Reichshaushaltsrechnungen 1938 bis 1943', Nov. 1944, frame 3671912.

preparation. This was exactly what the programme of autarky and state investment under the Four Year Plan was supposed to achieve, providing the 'productive foundation' on which 'the additional demands of new armaments programmes could be borne'. According to a wartime report on the work of the Four Year Plan since 1936, its inception was based on Hitler's realization that 'to achieve the goal of total mobilization of all economic resources' it was necessary to begin 'a thoroughgoing rebuilding of the present economic structure'.⁴¹

Indirect rearmament between 1936 and 1939 was in many ways more important than the direct production of military equipment because it was designed to expand the productive economy and trained labour force for the very much larger military programmes ordered by Hitler for the 1940s. It also involved the provision domestically of scarce raw materials essential to future warmaking—synthetic fuel production, synthetic rubber and textiles, aluminium production, domestic sources of iron ore, expanded chemical output to meet the demands for explosives production. The claims that all this made on the German economy were enormous. Between 1936 and 1939 two-thirds of all industrial investment went into war and war-related sectors. The whole industrial economy was distorted in favour of engineering, industrial raw materials, and heavy industrial equipment. The labour market, too, suffered a similar distortion, with shortages in consumer industries and agriculture. By 1939 a quarter of the industrial work-force laboured on orders for the armed forces, but a great many more worked on constructing the new industrial capacity, or on the raw-material programmes of the Four Year Plan, or the building of the Westwall fortifications, or the strategic refurbishment of the railways. The great increase in activity brought more women into the heavy industrial and armaments work-force. Between 1938 and 1941 the number of women employed in chemicals increased by 67 per cent, in the metals industries by 59 per cent, and so on. At Siemens, a major supplier of electrical equipment, the female labour force grew from 10,000 in 1937 to 17,000 in 1939.⁴²

This broader conception of war preparation was everywhere in evidence after 1936. The regime was aware of the need to safeguard food supplies, in order to avoid another blockade like the one which had such severe consequences between 1914 and 1918. The Four Year Plan actively promoted the technical improvement of agriculture and the expansion of domestic output, and it promoted the use of immigrant labour to replace German workers who moved to the more lucrative jobs in industry. The

⁴¹ BA R26I/18, Ergebnisse der Vierjahresplan-Arbeit, Stand Frühjahr 1942, 2, 49.

⁴² Military History Institute, Carlisle, Pa. (MHI), Military Intelligence Reports, Reel IX, 'Annual Economic Review, Germany', 22 Mar. 1941, 12–14; D. Winkler, *Frauenarbeit im Dritten Reich* (Hamburg, 1977), 197.

Plan also encouraged large-scale retraining of labour, in skills more necessary for the war effort. A total of 1.2 million workers passed through these programmes before 1939. A systematic industrial index was undertaken by the Economics Ministry, detailing civilian industries suitable for conversion to military production in case of war. Though there existed no central planning agency co-ordinating the indirect preparations for war, the relationship between the different elements seems to have been well understood. The late 1930s saw an increasingly coherent effort to create in a short space of time the economic conditions necessary to sustain large-scale military forces and a strategy of full-scale economic mobilization.

It was also recognized that Germany could not rely on her own resources alone. After 1936 the idea of a larger, German-dominated economic region, fashionable with economic nationalists during the slump, became more widely accepted in party and government circles. Germany's economic diplomacy became geared to increasing Germany's financial and trading presence in eastern and central Europe.⁴³ By 1939 Germany had secure agreements with Romania, Yugoslavia, Hungary, Slovakia, and, in August, with the USSR to supply food and raw materials on favourable terms. But Hitler wanted physically to control the richer industrial areas of the former German and Austrian empires; and first Austria itself, then the Sudetenland, then Bohemia and, in September 1939, Silesia were brought under direct German rule, and their labour force, raw materials, heavy industry (and gold and foreign currency reserves) added to the economic resource base. Of course there were other elements at work in explaining German territorial expansion—Hitler's obsessive Pan-Germanism, the opportunities opening up in the international arena with the decline of British and French influence, pressure from within the party for a more radical course in foreign policy—but all the captured areas were rich in resources and relatively easy to integrate into the German industrial economy (see Chapters 6 and 11). All of these things, the great increase in direct military spending, the indirect preparation of the economic substructure, the engrossing of the resources of central and eastern Europe, indicate something quite distinct from the idea of limited, 'shop-window' rearmament, for short smash-and-grab wars.

It is sometimes argued that the costs of military build-up on this scale proved insupportable, that Hitler once again found himself the victim of

⁴³ B.-J. Wendt, *Grossdeutschland: Autarkiepolitik und Kriegsvorbereitung des Hitler-Regimes* (Munich, 1987), esp. ch. 4; E. Teichert, *Autarkie und Grossraumwirtschaft in Deutschland 1930–1939* (Munich, 1984); D. Kaiser, *Economic Diplomacy and the Origins of the Second World War: Germany, Britain, France and Eastern Europe 1930–1939* (Princeton, NJ, 1980), esp. chs. 6, 9; Volkmann, 'National Socialist Economy', 309–15, 323–60.

economic reality. There is no doubt that the adjustment to a state-dominated, rapidly militarizing economy did produce problems in resource allocation and the provisioning of the civilian population. The short world recession of 1938 also hit the German economy in its efforts to boost exports to earn essential imports for the rearmament effort. A recent study has suggested that the critical point in the German trade and payments situation came early in 1938, before Germany seized the gold and foreign exchange resources of Austria.⁴⁴ The domestic economy also saw a very slow rate of productivity growth, partly a result of government efforts to get people re-employed as quickly as possible, partly a product of the growing dependence of many firms on state orders, which removed any real incentive to reduce costs or chase foreign competitors. But these were the kind of difficulties faced by all the rearming states in the 1930s—balance-of-payments problems, domestic arguments about budget priorities, a wary industrial response, considerable waste and muddle in the early stages of rearmament. The issue they all faced was how to respond to these difficulties.

In the German case there exists considerable disagreement about the response. It has been argued that the regime deliberately restricted rearmament in order to avoid the domestic consequences of demanding too much of the German civilian population and over-straining an economy in the throes of a delicate recovery. This view, as we have seen, does not take sufficient account of the very large scale of direct and indirect rearmament achieved by 1939, nor of the intentions of the regime's leaders. There is a second, and related, argument which accepts that Germany was arming heavily for war, but suggests that the effort to supply both arms and consumer goods created critical strains which forced Hitler to launch a European war in 1939 to stave off impending social and economic disaster. There are echoes here of the thesis that Germany provoked war in 1914 to preserve the Bismarckian system in the face of popular politics. But this view carries the danger of overstating the nature of the crisis—the strains of rearmament bear no comparison with the very real crisis of 1929–32—and exaggerating the degree of dissent evident in 1939. Some detailed criticisms of both arguments are set out in Chapter 7.⁴⁵ Recent research has come to place much more emphasis on the success of the Nazi state in controlling dissent, and winning acquiescence, even among working-class populations hostile to Nazism in 1932. A combination of effective propaganda, full employment, and terror created

⁴⁴ A. Ritschl, 'Die deutsche Zahlungsbilanz 1936–41 und das Problem des Devisenmangels vor Kriegsbeginn', *Vierteljahrshefte für Zeitgeschichte*, 39 (1991), 103–22.

⁴⁵ See too the debate in *Past and Present*, 122 (1989), 200–40.

for the regime a firmer foundation than it had enjoyed at any time since 1933.⁴⁶

This was not a simple or frictionless process. The demands of rearmament led to ever greater claims of the state over the economy, and to much higher levels of state planning than had been thought necessary. Evidence of inefficiency produced state-sponsored rationalization drives, with mixed results.⁴⁷ Labour shortages were tackled by encouraging female employment and recruiting foreign workers in Italy, Poland, Yugoslavia, etc.⁴⁸ The financial pressures were met by rigid price and wage controls, more careful assessment of public expenditure, and virtual compulsion to get savings banks and other deposit-holders to buy government bonds to fund further spending. The shortages of domestic material resources prompted the trade and military offensive into central Europe. Yet despite all these pressures, the pace of rearmament and economic reconstruction went on in 1939. There is little evidence to suggest that Hitler deliberately limited his military plans, or that the problems they generated pushed him to gamble on war at all costs.

Both these views rest on the central assumption that Hitler wanted a general European war in 1939 and that war preparations, limited or otherwise, were geared to this intention. Yet the outbreak of a general European war in 1939 seems to have been a result of miscalculation on Hitler's part. He wanted to wage his major war three or four years later, when the economy and armed forces were ready. There is no doubt, of course, about his intention to have a local war in 1939 to destroy Poland, once it became clear that the Polish government would not agree to become a virtual satellite of the Reich. Hitler's planning involved a great risk, but a combination of what looked like favourable international circumstances, British and French hesitancy over Danzig, and intelligence sources which indicated western military unpreparedness, persuaded him that the risk was worth taking. His conviction that the western states would not seriously intervene to save Poland was based not on mere wishful thinking, but on what Hitler thought was a reasonable calculation

⁴⁶ See the discussion in I. Kershaw, *Popular Opinion and Political Dissent in the Third Reich* (Oxford, 1983); D. Peukert, *Inside Nazi Germany: Conformity, Opposition and Racism in Everyday Life* (London, 1987); on the working class see U. Herbert, 'Arbeitschaft im "Dritten Reich": Zwischenbilanz und offene Fragen', *Geschichte und Gesellschaft*, 15 (1989), 320–60.

⁴⁷ R. Hachtmann, *Industriearbeit im 'Dritten Reich': Untersuchungen zu den Lohn- und Arbeitsbedingungen in Deutschland 1933–1945* (Göttingen, 1989), 71–7; P. Kirchberg, 'Typisierung in der deutschen Kraftfahrzeugindustrie', *Jahrbuch für Wirtschaftsgeschichte*, 8 (1969), 117–42.

⁴⁸ U. Herbert, *Fremdarbeiter: Politik und Praxis des 'Ausländer-Einsatzes' in der Kriegswirtschaft des Dritten Reiches* (Bonn, 1985), 53–9. In 1937 there were 229,000 foreign workers in Germany, by 1939 398,000.

of western strengths and weaknesses. Nor, it should be said, is there any evidence to suggest that the local war with Poland was part of a strategy of jingoistic diversion, to keep the German working classes from revolt. The Polish campaign was the product of a concerted German drive into eastern Europe. The timing was determined by international and military factors rather than domestic structural pressures.

The thesis of miscalculation is evident from the diaries and memoirs of the time. The recent discovery in Moscow of the missing entries of the Goebbels diary have confirmed the picture. On 21 August the news of the imminent Nazi–Soviet Pact was greeted by Goebbels as ‘perfect’, since it made the prospect of general war much less likely: ‘now we can sleep more easily’. For the next few days Hitler sought to detach Britain from Poland to make doubly sure that the war could be localized. The British leadership gave Hitler enough evidence that they were trying to find a negotiated settlement that he ordered the invasion of Poland on 31 August. ‘The Führer’, Goebbels wrote, ‘does not believe England will intervene.’ Even when Britain and France declared war three days later, Hitler told Goebbels that ‘there will be only a phoney war in the west’.⁴⁹ Goebbels himself, like Göring and the army leaders, thought that there was a greater risk than Hitler said, but the belief that the war could be localized became a conviction. The coming of general European war left Hitler, according to his press chief, Otto Dietrich, ‘stunned’.⁵⁰

When war came in September the German economy was not yet ready. The ‘armament in depth’ was a number of years from completion (see Chapter 6). The large capital projects, oil production, chemicals, the refurbishment of the railways network, were far from complete; the plans for weapons, particularly in the air and the naval rearmament programme, were far from realization. More significant for the argument that Hitler wanted a European war in 1939, there was no preparation for a Western campaign, no ‘Schlieffen Plan’. Elaborate plans were made for the conquest of Poland but the unexpected conflict in the west left Hitler and the military chiefs at a loss until von Manstein produced his suggestion for a campaign through the Ardennes forest at the weak hinge of the Anglo-French defensive front. For the next year the economy was weakened by arguments over whether to complete the industrial restructuring or to concentrate on more weapons, while German forces remained short of the tanks, vehicles, bombs, and shells that were to have been provided several years later. Many of the problems and pressures faced by the German war effort were the result, rather than the cause, of the premature outbreak of a large-scale European war.

⁴⁹ *Sunday Times*, 12 July 1992, 2: 3.

⁵⁰ O. Dietrich, *The Hitler I Knew* (London, 1955), 44.

THE GERMAN WAR ECONOMY

It has long been the convention to divide the history of the German war economy into two distinct phases. During the first, from September 1939 to January 1942, it is argued that the German war effort was deliberately restricted to keep up high levels of civilian consumption; the German armed forces had to make do with current stocks of equipment designed to support short wars of conquest which had to be won in a single military blow. The second phase, from 1942 to 1945, was one of gradual transition to total war, in which the economy was finally converted to war as fully as possible and the civilian consumer forced to accept real economic sacrifices. This shift gave Germany the economic strength to keep going for three years against the combined weight of the three Allied powers.⁵¹

Like the arguments surrounding the pre-war rearmament effort, this picture of the German war economy rests a great deal on the findings of the US Strategic Bombing Survey. The evidence discovered by the survey showed a low level of armaments production between 1939 and 1942, with high surviving levels of consumer goods production, followed by a sharp increase in output of military equipment from 1942 onwards even in the face of heavy bombing. The survey quickly drew an obvious conclusion, that the German economy must have been mobilized to only a limited degree until the failure in the Soviet Union forced a switch away from consumer goods to military output. This explanatory framework, and the limited statistical evidence that supported it, formed the basis of the *Blitzkrieg* version of the German war effort.⁵²

As a source the Bombing Survey must be treated with great caution. In the first place American officials approached the issue in the knowledge that bombing had not been as effective as expected. The German economy had expanded output considerably even when the bombing reached a peak in 1944–5. The discovery that weapons output was relatively low in 1939–41 provided the explanation they were looking for: Hitler had not, after all, armed Germany to the teeth before launching war, and there was plenty of spare industrial capacity to use when bombing started. This explained the apparent paradox of increased bombing and increased German output.⁵³ Secondly, the survey was carried out under difficult circumstances in a short space of time. Its brief was to report on the effects of bombing, material and moral. Its views on the overall performance of

⁵¹ Most recently F. Blaich, *Wirtschaft und Rüstung im 'Dritten Reich'* (Düsseldorf, 1987), 33–55; for a contrary view see R. J. Overy, 'Mobilization for Total War in Germany 1939–1941', *English Historical Review*, 103 (1988), 613–39.

⁵² United States Strategic Bombing Survey (USSBS), *Overall Report (European War)*, Sept. 1945, 1–2.

⁵³ Galbraith, *Memoirs*, 222–7.