

Economic Policy in Nazi Germany: 1933-1945

Introduction

The twelve year of Nazi rule have often been framed exhaustively in terms of the Second World War¹ and the Holocaust.² Another area, which has often received somewhat less attention, is the precise workings of the Nazi economy. Some scholars have considered the structure of the Nazi war economy, and how a large share of economic production went to the build-up of military fighting capacity.³ But there has not been much of a discussion about how the Nazi leaders have framed their economic policy, and with what consistency they carried out their dictatorial economic regime. In this paper, I will present some views by scholars on Nazi economic policy, outline the economic conditions of Weimar Germany that enabled the Nazis to take political power, the ideological views of the Nazi leadership on how to run the economy, and the application of Nazi economic policy during the pre-war period (1933-39) and the war period (1939-45). I find that the economic policy of Nazi Germany was dominated by the Nazis' desire for the conquest of 'Lebensraum' (living space) for Germanic people through maximum military production and war effort on the one hand, and state control and supervision on the other hand.

Among scholars there are principally two views in explaining the economic policies of the Nazi regime. One is what I would call the political-determinist argument, and the other is what I would call the economic-determinist argument. The political-determinist argument, which is favored by some liberal theorists⁴, claims that the Nazi regime essentially dictated economic policies according to its whims. The totalitarian state expands to all areas of social and economic life. The expansion of military production at the expense of privately-led consumption points to the supremacy of central state planning. The expansion of the German 'Lebensraum' is simply another example of state-dictated interests, which have no room in an otherwise liberal-capitalist state, where peace and commerce is the general condition. Another political-determinist argument would be to point to the Nazi pursuit of anti-semitic and racist policy objectives that absolutely has no economic relevance, but was used by the Nazis to galvanize popular support among the domestic German people.⁵ In the economic-determinist explanation, which is popular among Marxist theorists⁶, capitalist interests that seek for opportunities for profit and economic growth were essential pillars of Nazi policy-making. The Nazis certainly had racially focused policies in mind, but they were also following the dictates of private business, which

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- 1 Richard Bessel, *Nazism and War* (New York: Random House, 2004); Christian Leitz, *Nazi Foreign Policy, 1933-1941: The Road to Global War* (London: Routledge, 2004); Donald D. Wall, *Nazi Germany and World War II* (Belmont, CA: Thomson-Wadsworth, 2003); Gerald L. Weinberg, *Germany, Hitler, and World War II: Essays in Modern German and World History* (New York: Cambridge University Press, 1995)
 - 2 Linda Jacobs Altman, *The Holocaust, Hitler and Nazi Germany* (Berkeley Heights, NJ: Enslow, 1999); Ted Gottfried, *Nazi Germany: The Face of Tyranny* (Brookfield, CT: Twenty-First Century Books, 2000); Ronnie S. Landau, *The Nazi Holocaust: Its History and Making* (New York: I.B. Tauris, 2006); Peter Longerich, *Holocaust: The Nazi Persecution and Murder of the Jews* (New York: Oxford University Press, 2010).
 - 3 Nicholas Kaldor, "The German War Economy", *Review of Economic Studies* 13, No. 1 (1945/6): 33-52; Adam Tooze, *The Wages of Destruction: The Making and Breaking of the Nazi Economy* (London: Penguin Books, 2007).
 - 4 Especially Friedrich Hayek, *Road to Serfdom* (Chicago: Chicago University Press, 1944)
 - 5 Götz Aly, *Hitler's Volksstaat: Raub, Rassenkrieg und nationaler Sozialismus* (Frankfurt a.M.:S. Fischer, 2005).
 - 6 Franz L. Neumann, *Behemoth: The Structure and Practice of National Socialism* (UNZ, 1942).
<http://www.unz.org/Pub/NeumannFranz-1942>; Paul M. Sweezy, *Theory of Capitalist Development* (New York: Monthly Review Press, 1956 [1942]).

was encouraged to make a profit during the rearmament policy. While a consumer-led economy may have been more beneficial to the industrialists in the long run, in the short run they needed to sell a lot of products in the present, which was difficult during the Great Depression and under the auspices of the austere late-Weimar government. State-directed rearmament was a welcome opportunity for industrialists to gain revenues. Even the conquest of 'Lebensraum' served the interest of German industrialists, who needed the raw materials of Eastern Europe for continued capital accumulation. Generally, the Marxist response to liberals would be that whether there was state or private-led enterprise is ultimately irrelevant given the inherent necessity of more capital accumulation.

In my account of Nazi economic history, I can find evidence for both the political-determinist and the economic-determinist explanations. The Nazis did carry out state-led policies that in many ways bypassed traditional market mechanisms. The Nazis imposed price controls whenever needed, and set ad hoc plans for production priorities, most of which benefited the armament industry. During the war, the Nazis also carried out not only genocidal campaign against what they considered to be racially 'inferior' groups, but also plunder and theft from the territories which they occupied. In some cases, the immediate needs of industrialists were even bypassed, because the Nazis had imposed limitations to dividend payments to shareholders, and they also imposed restrictions to capital movements, which hinders international trade and the most optimal (i.e. profitable) allocation of capital. In some rare cases even, the Nazi regime removed some industrial leaders, who interfered with the regime's production priorities⁷ These were certainly examples of where the political interests of the Nazi regime overrode the contentions of private industry. On the other hand, the economic-determinists are right to argue that while the Nazi regime had political elements that were peculiar to a fascist-totalitarian regime, there were plenty of opportunities for the industrialists to benefit from Nazi economic policies. The most important element during the early days of the Nazi regime was the fight against unemployment followed by rearmament. During this rearmament period, the industrialists received many orders, which had not been forthcoming under the Weimar government. During the early period of rearmament, industrialists were able to orient their production around the cost-plus basis, where the firm tells the state, who orders the equipment, how much it wants to charge, and add between 3% to 6% in additional profits. Most importantly, the Nazi regime had no interest in overthrowing the private property of industrialists. During the early period of the Nazi Party in the early-1920s, some Nazi party members had proposed some radical solutions, such as profit-sharing between workers and capitalists or control of production by the workers, but they were quickly abandoned by Hitler and other Nazi leaders, who thought that it was wise not to oppose industrialists and who also thought that they needed industrialists' support to gain power and carry out the rearmament plans.

The Weimar Era Economy: 1919-1933

Before the Great Depression (1919-1929)

After the end of World War I, Weimar Germany's economy was struggling severely. During much of the inter-war years the German economy failed to grow as much as they did in the period pre-1914 or after 1950.⁸ With the end of the WW I, Germany had lost territories to Poland and France, which contained three-quarters of her iron ore, one-third of her coal; 90% of the German merchant fleet was confiscated, and all German overseas assets (16 billion marks) were forfeited. Germany had just been defeated from the war, and was forced to pay enormous reparations to the French and the British. The

7 Examples are Franz Josef Bopp from BMW, Willy Messerschmitt and Ernst Heinkel from the aircraft industry. See Peter Hayes, "Corporate Freedom of Action in Nazi Germany", Lecture at the German Historical Institute, Washington D.C., October 16, 2008, p. 30. http://www.ghi-dc.org/files/publications/bulletin/bu045/bu45_029.pdf

8 R.J. Overy, *The Nazi Economic Recovery*, 2nd edition (Cambridge, UK: Cambridge University Press, 1996), p.2

total reparations bill came up to 132 billion gold marks.⁹ Reparations were paid in large part with the help of foreign investors, who had been lured by the high-interest rates that Germany offered to investors.¹⁰ Reparations were regulated under the treaties of the 'London Schedule of Payments' (May 1921 to August 1922), the Dawes Plan (1924-29) and the Young Plan (1929-32). The cost of the direct budgetary burden of the reparations between 1920-23 are estimated at 5.5% of the national income.¹¹ During the inter-war period, the German farm producers were unable to compete with more efficient farmers in other parts of Europe.¹² Craftsmen were also out-competed, leading to the displacement of many craft workers.¹³ While many industries were modernized, raising output and productivity, millions of workers were left unemployed.¹⁴ In order to cushion the high unemployment and low demand, the German government invested in road-building, electrification and municipal services, but at the cost of more foreign loans and a greater exposure to shifts in the global economy¹⁵, such as during the Great Depression.

The first years of Weimar Germany had been plagued by enormous inflation. During the hyperinflation period in July 1923, average daily wholesale prices increased by 12%.¹⁶ In August of 1923, in order to reduce inflation the Reichsbank (central bank) stopped financing the budget deficits of the state, and issued rentenmarks that exchanged 4.2 rentenmarks for one US dollar.¹⁷ The government used special enabling legislation to balance the budget by laying off one-fourth of the public-sector workforce, reducing unemployment compensation, and by accelerating the due payment dates for revenue collection. Emergency decrees relaxed the eight-hour work day regulation to give employers more leeway to increase hours, strengthened the wage-arbitration machinery to defend collective labor contracts, and imposed a stingy re-evaluation of the state debt.¹⁸ With the stabilization of the currency, there was a short time period of economic stabilization and some growth. But by the end of the 1920s, foreign lending fell, the balance of payment situation deteriorated for Germany, while economic growth fell sharply due to a fall in consumption demand. With the onset of the great financial crash in 1929, enormous amounts of capital left Germany, producing an enormous liquidity crisis. During the depression between 1929 and 1932, prices fell sharply, while unemployment and business failures increased, and government spending fell faster than the national income. Short and long-term lending fell, interest rates increased, imports of raw materials, industrial investment and employment decreased.¹⁹

Nazi Economic Ideology

It was in this political and economic context of the Great Depression that the Nazis began to congregate. What follows is a brief account of the rise of the Nazis as a first marginal and then central political force, their economic ideology, and their takeover of power. The National Socialist German Worker's Party (NSDAP) was founded by the German nationalist Anton Drexler in March 1918. The

9 Ibid., p.6.

10 Stephen A. Schuker, *American 'Reparations' to Germany* (Princeton, NJ: Princeton University Press, 1988).

11 Theo Balderston, *Economics and Politics in the Weimar Republic* (Cambridge, UK: Cambridge University Press, 2002), pp.14-15.

12 Overy, *The Nazi Economic Recovery*, p.7

13 Ibid., p.8

14 Joseph Stancliffe Davis, *The World Between the Wars* (Baltimore, ML: Johns Hopkins University Press, 1975), p.265

15 Rene Erbe, *Die nationalsozialistische Wirtschaftspolitik 1933-9 im Lichte der modernen Theorie* (Zürich: Polygraphischer Verlag, 1958), p.54.

16 Balderston, *Economics and Politics*, p.36.

17 Ibid., p.59.

18 Carl-Ludwig Holtfrerich, *The German Inflation 1914-1923: Causes and Effects in International Perspective* (Berlin: De Gruyter, 1986).

19 Overy, *The Nazi Economic Recovery*, p.13.

party was deeply opposed to Bolshevism, Jews, monarchism, international capitalism, and the Versailles treaty.²⁰ Adolf Hitler had joined the party in 1919²¹, and became its chairman in 1921²² Hitler and the Nazis had tried to come to power violently by staging a coup against the government (“Beer Hall Putsch”) in 1923.²³ The coup was a failure, and Hitler had been condemned in court for treason, serving a one year prison sentence.²⁴ It was in jail that he wrote his book “Mein Kampf”.²⁵ The Nazis were banned in Bavaria, where the attempted coup took place, but Hitler continued his campaign upon release from prison, and vowed to take power through the democratic process.²⁶

Hitler's economic ideology was dominated by two leading elements, namely his racial anti-Semitism and the imperialism provided by the conquest of 'Lebensraum'.²⁷ Hitler also argued that the economy is of secondary importance relative to the idealistic goals of the state.²⁸ In the words of historian Henry Turner, the Nazi movement “feels an independent national economy to be necessary, but it does not consider it a primary factor that creates a strong state; on the contrary: only the strong nationalist state can protect such an economy and grant it freedom of existence and development.”²⁹ In his book, *Mein Kampf*, Hitler writes

*“The State is not an assembly of commercial parties in a certain prescribed space for the fulfillment of economic tasks, but the organization of a community of physically and mentally equal human beings for the better possibility of the furtherance of their species as well as for the fulfillment of the goal of their existence assigned to them by Providence. This, and nothing else, is the purpose and the meaning of a State. Economy is, therefore, only one of the many auxiliary means necessary for reaching this goal. But it is never the cause or the purpose of a State, provided the latter is not based from the start on a foundation that is wrong because it is unnatural.”*³⁰

In other words, the economy has to be subservient to the needs of the state, and the need of the state is the military conquest of foreign territories. Hitler and the Nazis emphasized the role of the expansion of the 'Lebensraum' for Germans. The goal was not only to re-conquer the territories that were lost by the Germans since the Versailles treaty, but also to conquer and colonize the whole of Europe (especially Eastern Europe).³¹ Hitler argued that territorial expansion was necessary, because the German people

20 Robert Spector, *World Without Civilization: Mass Murder and the Holocaust, History and Analysis* (Lanham, MD: University of American Press, 2004), p.137.

21 John Toland, *Adolf Hitler: The Definitive Biography* (New York: Bantam Doubleday Dell Publishing Group, 2008), p.131.

22 Ian Kershaw, *Hitler: A Biography* (New York: W.W. Norton, 2008), p.83.

23 Ibid., p.126

24 Ibid., p.239

25 Alan Bullock, *Hitler: A Study in Tyranny* (London: Penguin Books, 1962[1952]), p.121

26 Kershaw, *Hitler*; pp.158-62. More detailed information on the rise of Hitler, and his background is provided in William L. Shirer, *The Rise and Fall of the Third Reich: A History of Nazi Germany* (Ballantine Publishing Group, 1960), pp.1-101. Available online: <http://ajaytao2010.files.wordpress.com/2012/08/rise-and-fall-of-the-third-reich-william-shirer-pdf.pdf>

27 Avraham Barkai, *Nazi Economics: Ideology, Theory and Policy* (New Haven, CT: Yale University Press, 1990): p.21; Eberhard Jäckel, *Hitler's Weltanschauung* (Tübingen, Germany: R. Wunderlich Verlag, 1969); Henry A. Turner, Jr. “Hitler's Einstellung zu Wirtschaft und Gesellschaft”, *Geschichte und Gesellschaft* 2(1976): pp.89-117.

28 Turner, “Hitler's Einstellung”, pp.90-91.

29 Henry A. Turner, Jr., “Hitler's Secret Pamphlet for Industrialists,” *Journal of Modern History* 40, No.3 (1968): p.362.

30 Adolf Hitler, *Mein Kampf* (New York: Reynal & Hitchcock, 1941), pp.195-96.

http://archive.org/stream/meinkampf035176mbp/meinkampf035176mbp_djvu.txt

31 Gerhard L. Weinberg, *The Foreign Policy of Hitler's Germany Diplomatic Revolution in Europe 1933-1936* (Chicago, IL: University of Chicago Press, 1970), pp.166-68.

faced overpopulation in their given territory with their limited resources.³² The assumption was that since the Germans were a superior (Aryan) race, they were entitled to displace people deemed of an inferior race³³ (especially the Slavic people of Eastern Europe). The extra living space also allowed Germans to abandon experiments in world industry and world trade³⁴, which Hitler deemed to be harmful to long-term German interests. In Hitler's own words,

*“Without consideration of traditions and prejudices, Germany must find the courage to gather our people and their strength for an advance along the road that will lead this people from its present restricted living space to new land and soil, and hence also free it from the danger of vanishing from the earth or of serving others as a slave nation. The National Socialist Movement must strive to eliminate the disproportion between our population and our area—viewing this latter as a source of food as well as a basis for power politics—between our historical past and the hopelessness of our present impotence.”*³⁵

Adolf Hitler's economic views were in large part influenced by the economist Gottfried Feder³⁶, who had forcefully railed against capitalism and Jews. In the 25 point program adopted in 1920, the Nazis under the leadership of Feder formulated several economic demands, such as the abolition of all incomes unearned by work, the ruthless confiscation of all war profits, the nationalization of all businesses that were formed in corporations, profit sharing in large enterprises, insurance for the old age and suitable land reform.³⁷ This program was modified in later years. Feder's anti-capitalism made him lose power and influence in the Nazi regime, because the industrialists had strongly opposed him. Once in power, Hitler realized that he could only gain the industrialists' support for his policies if he abandoned Feder's anti-capitalism. After a short tenure as under-secretary in the economics ministry during the first two years of the Nazi regime, he was recalled from office and spent the last few years in private life.³⁸

Hitler's own personal views on the economy was a contradictory mixture of socialism and the protection of private property. In a speech Hitler says that “We are socialists, we are enemies of today's capitalistic economic system”.³⁹ In a later speech, he argued that “I absolutely insist on protecting private property...we must encourage private initiative.”⁴⁰ Hitler was so concerned about receiving support from industrialists that he had insisted that his advisers keep silent on questions concerning the economic order.⁴¹ Hitler's inconsistent economic views are undergirded by his consistent anti-semitism, because he associated ethnic Jews with both spreading communism and capitalism, and anything that is

32 Stephen J. Lee, *Europe: 1890-1945* (London: Routledge, 2003), p.237.

33 Shelley Branowski. *Nazi Empire: German Colonialism and Imperialism from Bismarck to Hitler* (Cambridge, UK: Cambridge University Press, 2011), p.141.

34 Gerhard L. Weinberg, ed., *Hitler's Zweites Buch: Ein Dokument aus dem Jahre 1928* (Stuttgart: Deutsche Verlagsanstalt, 1961), p.163.

35 Adolf Hitler, *Mein Kampf* (Boston, Houghton Mifflin, 1971), p.646.

36 Barkai, *Nazi Economics*, p.23. Though it must be noted that Feder was not an economist, but an engineer by training (ibid., p.25).

37 Gottfried Feder, “Twenty-Five Points: Political Platform of the Original NSDAP”, <http://www.stormfront.org/posterity/ns/25pts.html>. Also consider Stephen J. Lee, *Weimar and Nazi Germany* (Oxford, UK: Harcourt Heinemann, 1996), p.28.

38 Robert S. Wistrich, *Who's Who in Nazi Germany* (New York:Routledge, 2002), p.60.

39 Hitler's Speech, “Doubleday Speech” on May 1, 1927. Cited in John Toland, *Adolf Hitler* (New York: Garden City, 1976), p.224.

40 Private statement made by Hitler on March 24, 1942. Cited in Norman Cameron and R.H. Stevens (trans.), *Hitler's Secret Conversations* (New York: Farrar, Straus and Young Inc., 1953), p.294.

41 Institut für Zeitgeschichte, Munich, Aufzeichnungen Otto Wagener, pp.652-61.

promoted by Jews had to be rejected by the Nazis.⁴² Hitler was overall not very serious with socialist principles, because he did believe in private property, though only under strict state supervision.⁴³

After the Great Depression, as the Nazi's role in the political sphere had increased, a party-internal department, the Wirtschaftspolitische Abteilung (WPA, Department for Economic Policy), was founded in 1930 to formulate the party's economic policies.⁴⁴ The Nazi economic advisers had drafted a document on March 5, 1931 called 'Wirtschaftspolitische Grundanschauungen und Ziele der NSDAP' (Basic economic principles and objectives of the NSDAP), which strongly distinguished between the German domestic economy (Volkswirtschaft) on the one hand, and the world economy (Weltwirtschaft) and private economy (Privatwirtschaft) on the other hand. The goal of the Nazis is to subject all spheres of the economy to the interest of the German people, i.e. the 'Volkswirtschaft'. The state had the responsibility to fulfill the functions of the body of the people (Volkskörper), and the state bears the power of the people. The goal of the state is to provide for the economic self-sufficiency of the German people by conquest of new 'Lebensraum'. The document affirms private property under state supervision, and 'fair' wages and 'fair' interest rates.⁴⁵ In 1932, one of Hitler's economic advisers and head of the WPA, Otto Wagener, published a brochure for the Nazis, in which some more extreme positions of the party were moderated. For example, profit-sharing with workers was later replaced by the statement that low prices and fair wages were the best way for workers to share in company profits.⁴⁶

Despite the fact that various Nazi leaders and officials have laid out some details on economic policies, the inconsistency and permanent shifts in economic strategy reveal that the Nazis did not have a clear economic philosophy. It was neither mercantilist, nor liberal, nor socialist. Its overall goal had been the creation of a strong war machinery with which to conquer large parts of Europe, and the establishment of a German empire.⁴⁷

The Great Depression and the End of Weimar (1929-1933)

All these Nazi positions would have proved irrelevant if the Nazis had never gained political power, and if the Great Depression would not have occurred. In 1928, the Nazis were a fringe political movement in Germany, receiving barely 2.6% of the national vote in that year. But as the economy moved into free fall in 1929 with unemployment approaching 30%, the populist appeals of the Nazis started to pay off. In March 1930, the Nazis received 19.2% of the vote, and in July 1934, 38.4% of the vote (cf. Figure 1). The political priorities of the ruling Catholic Center party under the leadership of chancellor, Heinrich Brüning, made the economic crisis of failing businesses and rising unemployment worse due to his strict application of austerity policies intended to raise investor confidence. His hope was that if he could balance the budget through cutbacks in social spending programs in bad economic times, investors would be reassured to continue to invest in Germany and enable economic recovery.⁴⁸

42 Joseph W. Bendersky, *A History of Nazi Germany: 1919-1945* (Lanham, MD: Rowman & Littlefield, 2000), p.159.

43 Eduard Calic, *Ohne Maske: Hitler-Breiting Geheimgespräche*, 1931 (Frankfurt a.M., 1968), p.37.

44 Barkai, *Nazi Economics*, p.28.

45 *Ibid.*, pp.34-37.

46 Otto Wagener, *Das Wirtschaftsprogramm der NSDAP* (Munich, 1932).

47 Also argued by Neumann, *Behemoth*, p.187. In the words of Avraham Barkai (*Nazi Economics*, p.243), "Nazi ideology was not a unified and consistent conceptual system that rates comparison with coherent schools of thought like liberalism or Marxism; it was a mixture of archaic resentments and irrational longings that germinated in the soil of a late industrial revolution and a social revolution that perished in infancy."

48 J. Bradford DeLong, XV: "Nazis and Soviets", in *Slouching Towards Utopia? The Economic History of the Twentieth Century* (University of California at Berkeley, 1997).

http://web.archive.org/web/20080511190923/http://econ161.berkeley.edu/TCEH/Slouch_Purge15.html

Brüning also tried to strike a balance between powerful business leaders and large landholders, who were not uniform in their views about open trade or protectionism, but agreed that wage costs had to fall, and government austerity would enable it.⁴⁹ Besides, the German government was restrained by its commitment to the Versailles treaty, which prevented interventionist economic policies to stimulate the economy.⁵⁰



Figure 1: German Unemployment and Nazi Vote Share (in %).
Source: DeLong, "Nazis and Soviets" (footnote 48).

Brüning's plan failed, because the continued application of austerity policies raised the budget deficit, while reducing economic output. Brüning's budget balance program was opposed in the Reichstag, and he dissolved the Reichstag to call for new elections for September 14, 1930. The Nazis gained 107 seats, but Brüning continued with more fiscal retrenchment. Brüning also tried to keep the tie to the gold standard, which was financed by the reduction of government spending by one third from 1928 to 1932. In 1931, with speculative attacks waged against the German reichsmark, the gold standard could no longer be maintained and was finally abandoned. In December 1931, Brüning ordered the reduction of fixed prices by 10%, and a 15% cut to wages. As living

standards continued to deteriorate and unemployment continued to increase, the Nazis were campaigning fairly aggressively, blaming the crisis on Jews, international financiers and capitalists, the Treaty of Versailles, and the Social Democrats who had supported it.⁵¹ In May 1932, Brüning had to resign due to a political conflict with agricultural interests.⁵² He was replaced by Franz von Papen, who took office precisely when unemployment stopped rising. In the Lausanne conference of June 1932, Papen was able to have the reparations payment suspended, which had been a particular drain on the German treasury. He even put in place a public works scheme at a cost of 1.5 billion reichsmark. Papen's successor in November 1932, Kurt von Schleicher, added another package worth 500 million reichsmark⁵³, but it was too late. In two elections on July 31, 1932, and November 6, 1932 (the last free elections in Weimar), the NSDAP received a plurality of the votes with 37.4% and 33.1% respectively.⁵⁴ Through clever political maneuvering, Hitler used these favorable results to secure his chancellorship on January 30, 1933, because Papen had thought that with the Nazis in power their popularity would eventually wane. The centrists and conservatives were also afraid of the communist party as an alternative, which had campaigned on redistributing wealth.⁵⁵ Therefore, the political

49 Overy, *Nazi Economic Recovery*, p.21.

50 Ibid., p.19.

51 DeLong, "Nazis and Soviets." For a full assessment of Heinrich Brüning's policies, consider William L. Patch, *Heinrich Brüning and the Dissolution of the Weimar Republic* (Cambridge, UK: Cambridge University Press, 1998).

52 Alexander Gerschenkron, *Bread and Democracy in Germany* (Ithaca, NY: Cornell University Press, 1989), p.151.

53 C. W. Guillebaud, *The Economic Recovery in Germany from 1933 to the Incorporation of Austria in March 1938* (London: Macmillan, 1939).

54 Deutscher Bundestag, "Elections in Weimar Republic", Historical Exhibition.

http://www.bundestag.de/htdocs_e/artandhistory/history/factsheets/elections_weimar_republic.pdf

55 Roderick Stackelberg and Sally A. Winkle, *The Nazi Germany Sourcebook: An Anthology of Texts* (London: Routledge,

centrists backed the Nazi-led coalition government.⁵⁶

Nazi Pre-War Economy:1933-1939

The Beginning of Nazi Rule (1933-1936)

With Hitler's appointment to reichschancellor, the Nazis could make their mark felt. Only two months after his appointment, with the German parliament set ablaze in flames, Hitler granted himself all dictatorial power with the enabling law, which passed the Reichstag with the support of the moderate-conservative Centrist Party.⁵⁷ The already fledgling opposition consisting of Social Democrats and Communists were prohibited, their offices were destroyed, and their leadership was imprisoned.⁵⁸ By the summer of 1933, all governmental powers were concentrated in Hitler's hands (ibid. 152). The Weimar republic was effectively abolished. With the death of reichspräsident Paul von Hindenburg in August 2, 1934, all obstacles to Hitler's power were removed, because the function of the chancellor and the presidency were merged.⁵⁹ Hitler's first intention upon joining office was to create jobs, but when he came to power he focused on rearmament as main objective.⁶⁰ There was no doubt that rearmament was a central goal of Hitler's policy. In a private meeting only three days after his appointment as reichschancellor, Hitler said,

*The building up of the armed forces is the most important precondition for achievement of [the conquest and settlement of Lebensraum], reconquest of political power. Compulsive military service must be reinstalled... How should political power, once gained, be utilized? Now there is yet nothing to say. Perhaps capture of new export outlets, perhaps even better, the conquest of a new Lebensraum in the east and its ruthless Germanization. What is certain is that the economic situations can be changed only by political power and struggle.*⁶¹

In his first year in office, Hitler appointed Hjalmar Schacht as president of the reichsbank (central bank), and in 1934 as minister of economics.⁶² Under Schacht's auspices, the consequences of the Great Depression were fought by Keynesian deficit spending policies⁶³ in the form of large public works programs. Under the "Reinhardt Program" of June 1933, infrastructure development financed by tax reductions, public investments in waterways, railroads, highways and construction industry were carried out.⁶⁴ The unemployment rate was reduced significantly during the first years of the Nazi regime. By the late-1930s, Germany had full employment at relatively stable prices.⁶⁵ Prices were no

2002), p.XXV. <http://www.nazi.org.uk/military%20pdfs5/The%20Nazi%20Germany%20Sourcebook.pdf>

56 Neil Tonge, *The Rise of the Nazis* (New York: Rosen Publishing Group, 2009), pp.30-32.

57 Robert Gellately, *Backing Hitler: Consent and Coercion in Nazi Germany* (New York: Oxford University Press), p.13.

58 Alan Bullock, *Hitler: A Study in Tyranny* (New York: Harper Collins, 1991), p.151.

59 Richard Overy, *The Dictators: Hitler's Germany, Stalin's Russia*. (London: W.W. Norton, 1967).

60 David Gordon, "Nazi Economic Policy" *Ludwig von Mises Institute*, January 2, 2009. <http://mises.org/daily/3274>

61 Notes of Generalleutnant Curt Liebmann, in Thilo Vogelsang, "Neue Dokumente zur Geschichte der Reichswehr, 1930-1933." *Vierteljahreshefte für Zeitgeschichte* 2, No. 4 (1954): p.434.

62 DeLong, "Nazis and Soviets."

63 Scholars like Overy (*The Nazi Economic Recovery*, p.50) would argue that Nazi economic policies were not really Keynesian, because rather than keeping interest rates down, Schacht kept it high; rather than encouraging consumption and reducing saving, Schacht promoted the opposite; rather than allowing prices and wages to fluctuate, Schacht controlled it; and rather than allowing the private sector to run the economy after initial investments, Schacht controlled the production process completely. Also cf. John Maynard Keynes, *The Means to Prosperity* (London: Macmillan, 1933).

64 Hans-Joachim Braun, *The German Economy in the Twentieth Century* (London: Routledge, 1990), pp.83-4.

65 John Kenneth Galbraith, *The Age of Uncertainty* (Boston: Houghton Mifflin, 1977), p.214

longer regulated by the market, but by political directive.⁶⁶ Economic growth was almost exclusively based on public investment and spending policies, because the scope for export-led growth amid global depression, and domestic consumer demand amid relatively stagnant incomes was small. The investment share as proportion of the national income increased from 5.3% in 1934 to 15.7% in 1938.⁶⁷ In an effort to guarantee continued investments in a military build-up, the Nazi regime had also passed a law in 1934 that restricted dividend payout to shareholders to 6%. Any additional payout had to be channeled to the purchase of German government bonds.⁶⁸ Total production during the first years of the Nazi rule had doubled between 1932 and 1938. Strong increases included capital goods, pig-iron, machinery, and chemicals. Consumer goods, textiles, and household furniture saw relatively smaller increases (cf. Table 1), which was in line with the regime's priority for armament over consumer products. Public expenditures in rearmament increased from a paltry 3% of the total in 1928 to 46.4% of all investments in 1938 (cf. Table 2).

Table 1: Relative growth of producer and consumer goods in Germany 1929-38 (1928=100)

	1929	1932	1938
Total production	110.9	58.7	124.7
Capital Goods	103.2	45.7	135.9
Consumer goods	98.5	78.1	107.8
Pig-iron	113.8	33.4	157.3
Machinery	103.8	40.7	147.7
Chemicals	91.8	50.9	127
Textiles	92.4	79.2	107.5
Household furniture	104.2	69.6	113.6

Source: Kuczynski, *Germany*, p.352.⁶⁹

Table 2: Public Expenditure in Germany by Category 1928-38 (in billions of reichsmark)

	1928	1932	1933	1934	1935	1936	1937	1938
Total expenditure	23.2	17.1	18.4	21.6	21.9	23.6	26.9	37.1
Construction (% of Total)	2.7 (11.6%)	0.9 (5.3%)	1.7 (9.2%)	3.5 (16.2%)	4.9 (22.4%)	5.4 (22.9%)	6.1 (22.7%)	7.9 (21.3%)
Rearmament (% of Total)	0.7 (3%)	0.7 (4.1%)	1.8 (9.8%)	3 (13.9%)	5.4 (24.7%)	10.2 (43.2%)	10.9 (40.5%)	17.2 (46.4%)
Transportation (%)	2.6 (11.2%)	0.8 (4.7%)	1.3 (7.1%)	1.8 (8.3%)	2.1 (9.6%)	2.4 (10.2%)	2.7 (10%)	3.8 (10.2%)

66 Richard Gaettens, *Geschichte der Inflationen :Vom Altertum bis zum Gegenwart* (München, Germany: Battenberg, 1987), p. 279-298.

67 Overy, *The Nazi Economic Recovery*, p.34.

68 Neumann, *Behemoth*, p.259.

69 Jürgen Kuczynski, *Germany: Economic and Labour Conditions under Fascism* (New York: International Publishers, 1945).

of Total)								
Work creation (% of Total)	-	0.2 (1.2%)	1.5 (8.2%)	2.5 (11.6%)	0.8 (3.7%)	-	-	-

Source: Overy, *The Nazi Economic Recovery*, p.48

Following well in line with the economic directives that were formulated in the early 1930s, the Nazis implemented economic policies that did not harm the interests of big business. Hitler wanted no economic experiments with regard to changing property relationships, and instead destroyed trade unions in May 1933 and froze wage rates to meet business needs.⁷⁰ Legislation banned union intervention in the negotiation of wages in individual firms.⁷¹ Wages were deliberately kept low to help businesses make investments⁷², which became crucial with regard to the growing needs of military war production. Unit labor costs did not reach the 1929-31 level throughout the 1930s.⁷³ These economic policies began to work, as unemployment fell by two million between March 1933 and March 1934. By 1935 GNP levels had reached 1928 level.⁷⁴ The number of unemployed people had dropped from 6 million people in 1933 to 302,000 in 1939.⁷⁵ Schacht put foreign trade and payments abroad under strict supervision, imports could only be brought in with a license, capital could not move abroad freely, and foreign earnings in Germany had to be spent in Germany. This measure reduced foreign lending and foreign trade, but it handed more policy-making tools to Germany.⁷⁶ Germany effectively implemented a policy of import substitution⁷⁷, in which finished products that were hitherto imported were produced by Germany itself. Bilateral agreements with 25 countries allowed a limited amount of imports of essential raw materials.⁷⁸

The Nazis controlled the growth of private consumption through a freezing of wages. Private consumption had been restrained by all means.⁷⁹ Corresponding increases in productivity were made available to industry and the state to promote more investments, especially in preparation for war.⁸⁰ The Nazis prioritized the reduction of unemployment and the armament of the country over higher wages. The share of the national income going to wages declined from 64% in 1932 to 59% in 1936.⁸¹ The Nazi propaganda argued that current shortages were necessary sacrifices for future prosperity.⁸² Major

70 Overy, *The Nazi Economic Recovery*, p.25.

71 Gesetz zur Ordnung der nationalen Arbeit (AOG), January 20, 1934, RGB1. I, p.45.

72 Ibid., p.49.

73 E.Henry Phelps-Brown, *A Century of Pay* (London: Macmillan, 1968), p.438.

74 Overy, *The Nazi Economic Recovery*, p.23

75 History Learning Site, "The Nazis and the German Economy."

http://www.historylearningsite.co.uk/nazis_and_the_german_economy.htm. Though there are several limitations to the unemployment figures: women were not counted as unemployed, and unemployed workers faced the choice of either taking the government job or end up in a concentration camp, Jews were excluded from German citizenship and also disappeared from government statistics. The large-scale conscription of young men into the army also alleviated unemployment.

76 Overy, *The Nazi Economic Recovery*, p.26

77 Ibid., p.49.

78 Larry Neal, "The Economics and Finance of Bilateral Clearing Agreements: Germany 1934-8", *Economic History Review* 32, No. 3 (1979): pp.391-92.

79 Barkai, *Nazi Economics*, p.153

80 Overy, *The Nazi Economic Recovery*, p.31

81 *Völkischer Beobachter*, June 14, 1936.

82 R.J. Overy, *War and Economy in the Third Reich* (New York: Oxford University Press, 1994), p.219

civilian areas of growth and investment were construction⁸³ and automobiles.⁸⁴ Most industries came under the control and supervision of the Nazi government. Industries consolidated in state-supported cartels, and agriculture was organized by the Reich Food Estate. Small businesses received supervision from the Chamber of Handicraft. And movements in the capital markets required state approval.⁸⁵ Another key element of Nazi policy was the so-called 'Aryanization' of Jewish property, which was the systematic confiscation of Jewish-owned property by the German authorities, forcing many Jews to lose their jobs and businesses.⁸⁶ Another pillar of Nazi economic policies was to gain self-sufficiency in food stuffs and agricultural production. But this objective was only partially reached. Domestic produce as share of total produce increased from 68% in 1927-28 to 80% in 1933-34 and to 83% in 1938-39. But during the 1933-34 period, Germany still had to import 90% of its vegetable fats, 20% of its animal fats, 85% of its fiber crops and 90% of the wool.⁸⁷

All these expansionary policies came at a cost of rising indebtedness of the state. While government income increased from 7.8 billion reichsmark in 1933 to 28.8 billion reichsmark in 1939, government spending had increased from 8.1 billion reichsmark to 31.8 billion reichsmark in 1939. In 1939, government debt stood at 27.4 billion reichsmark (cf. Table 3).⁸⁸ While some tax cuts were implemented to spur business production, the government did raise taxes, and maintained the overall high tax rates of the Brüning government.⁸⁹

Table 3: Budget of the Reich (in billions of reichsmark): 1933-1939

	1933/34	1934-35	1935/36	1936/37	1937/38	1938/39
Total expenses	8.1	10.4	12.8	15.8	20.1	31.8
Military expenses (% of total expenses)	1.9 (23.5%)	1.9 (18.3%)	4 (31.3%)	5.8 (36.7%)	8.2 (40.7%)	18.4 (57.9%)
Total income	7.8	10	12.8	16	20.1	28.8
Budget Balance	-0.3	-0.4	0	0.2	0	-3
Old debt	4.2	4	3.8	3.7	3.5	3.4
New debt	7.6	8.5	10.6	12.4	15.6	27.4

Source: Ludwig von Mises Institute, "Inflation in Nazi Germany".

http://wiki.mises.org/wiki/Inflation_in_Nazi_Germany#Budget_of_the_Reich

A War Economy in Peace Time (1936-1939)

Despite this poor fiscal situation, the Nazi administration, nonetheless, poured 90% of all additional

83 K.E. Poole, *German Financial Policies 1932-1939* (Cambridge, MA: Harvard University Press, 1939), pp. 210-11.

84 Richard J. Overy, "Unemployment in the Third Reich", *Business History* 29, No.3 (1987):253-281.

85 Overy, *The Nazi Economic Recovery*, p.50.

86 Friedrich-Wilhelm Henning, *Handbuch der Wirtschafts- und Sozialgeschichte Deutschland*, Band 3, II (Paderborn, Germany:Schöningh, 2013): pp.225-231.

87 Hans E. Priester, *Das deutsche Wirtschaftswunder* (Amsterdam, 1936), p.93

88 History Learning Site, "The Nazis and the German Economy."

89 Barkai, *Nazi Economics*, pp.184-85.

government expenditure on rearmament and war preparations,⁹⁰ and became a “war economy in peace time.”⁹¹ On March 16, 1935, a general military draft was introduced, and a plan was set up to create 36 army divisions.⁹² The decisive shift toward full-scale militarization occurred on August 1936, with Hitler's confidential memorandum, which demanded the armed forces and the economy to be prepared for war within four years.⁹³ Hitler very clearly demanded the expansion of the 'Lebensraum' through an expansionary war. The countries that were targeted, including Poland and Russia, would never voluntarily cede land to Germany, which required the use of force by Germany, according to Hitler's reasoning. From an economic point of view, the preparations for war practically meant that more resources should flow not toward consumption goods to raise the overall standard of living of the Germans, but to military production in order to be ready for the war.⁹⁴ Hitler also made it clear that the private sector had to submit to the direct order of the economics ministry in order to fulfill his armament goal.⁹⁵ In order to prevent a negative fallout of trade blockades resulting from war, Hitler also thought it was crucially important to build up domestic production and quickly conquer central and eastern Europe to take advantage of their raw materials.⁹⁶

The minister of economy, Schacht, was opposed to Hitler's declaration, because he thought that threatening neighboring countries would have negative consequences on German exports and, therefore, the German economy.⁹⁷ Schacht thought that Hitler's plans for autarky were economically too costly, and it was difficult to accomplish. By 1939, Germany was still importing 33% of its raw material from other countries.⁹⁸ Furthermore, Schacht had feared that an overt emphasis on military production could potentially lead to food shortages and popular unrest, perhaps even leading to communism.⁹⁹ Hitler remained relentless in his pursuit for war. In September 1936, Hitler handed the mandate to Herman Göring to carry out the rearmament plan, and Göring increasingly sidelined Schacht. Schacht resigned as minister of economics in November 1937,¹⁰⁰ and remained in Hitler's cabinet as minister without portfolio until 1943. Göring succeeded him, but was later replaced by Walther Funk, a Göring loyalist, who carried out the directives of the Four-Year Plan. In January 1939, Schacht also resigned as president of the Reichbank, which was taken over by Funk.¹⁰¹ Göring himself received Hitler's trust, because he was willing to pursue the rearmament plans regardless of its economic consequences.¹⁰² In order to facilitate quick rearmament, Göring also founded a state-run company called 'Reichswerke Hermann Göring' in the summer of 1937, which exploited German and foreign iron ore for war production.¹⁰³ With the military conquest of other states across Europe (i.e. Austria, Czechoslovakia, Poland and the Soviet Union) and the acquisition of allies (Hungary,

90 Barkai, *Nazi Economics*, pp. 217

91 Erbe, *Die nationalsozialistische Wirtschaftspolitik*, p.163.

92 Henning, *Handbuch*, p.232.

93 Wilhelm Treue, “Hitler's Denkschrift zum Vierjahresplan 1936.” *Vierteljahreshefte zur Zeitgeschichte* 3, No. 2 (1955): pp.184-210. http://www.ifz-muenchen.de/heftarchiv/1955_2.pdf

94 Ibid., p.197

95 Ibid., p.199

96 Overy, *War and Economy*, p.20

97 Nürnberg Dok. 1301-PS (IMT Internationales Militärgerichtshof, XXVII, 1947), p.122.

98 Matthew S. Seligmann, John Davison and John McDonald, *Daily Life in Hitler's Germany* (New York: St. Martin's Press, 2003), p.129

99 Phipps Papers, Churchill College, Cambridge, 1/15 Letter from Sir Eric Phipps to Sir Samuel Hoare, November 7, 1935, p.2; Letter from Phipps to Hoare, December 5, 1935, p.3.

100 Barkai, *Nazi Economics*, p.225.

101 Ibid., p.226

102 Overy, *War and Economy*, p.96. Though during the last days of the Nazi regime, Hitler had turned against Göring, because Hitler had thought that Göring wanted to betray him, when Göring as second-in-command sent out a letter to Hitler asking the latter to cede power to the former (read Shirer, *The Rise and Fall of the Third Reich*, pp.1000-04).

103 Ibid., p.145

Romania), the Göring Reichswerk integrated the industry of other countries into its domains.¹⁰⁴ Among others, the private firms Thyssen, Siemens and Krupp were similarly important for German rearmament purposes.¹⁰⁵

The immediate challenge that the Nazi war planners had to confront was a labor shortage. The lowering of the unemployment rate during the early years of the regime has created a lack of workers in the armament industry, where most of the labor demand was concentrated. Though the Nazis were very much opposed to wage increases that would detract from continued accumulation for investment, they had to grant wage increases for the most productive and skilled workers in order to hire enough of them. A major obstacle to labor access was the Nazi policy of returning women to their “natural roles”, i.e. housekeeping. Prohibition against wage increases was postponed until 1938. And thereafter labor shortages were resolved by increased offering of fringe benefits, improved working conditions, aid in housekeeping for workers, permanent use of company vehicles and higher wages for over time.¹⁰⁶ Labor shortages were also very acute in the agricultural industry, where between 1933 and 1939, the number of employed laborers fell from 9.3 million to 9 million, or from 28.9% to 25.9% of the total workforce.¹⁰⁷ In order to counter that form of labor shortage, the regime recruited students at harvest time, and enrolled girls for a year of duty in agriculture after graduating from high school. The 'Labor Service' a pre-military training was recruited during harvest time. Peasants received state support for mechanizing production and purchasing fertilizers and pesticides to raise agricultural output.¹⁰⁸

Nazi War Economy: 1939-1945

When the war broke out in September 1939, consumption for the general population was somewhat restricted to further promote the war effort, though the rations were only slightly smaller than the previous average consumption.¹⁰⁹ But despite these restrictions, German consumption was less restricted than during World War I.¹¹⁰ The difference between the two wars was that because the Germans had occupied great territories in Europe during World War II, they were able to plunder the people in those occupied territories.¹¹¹ With the beginning of the war, the government also declared full-scale mobilization, putting all the nation's resources at the service of war.¹¹² Rapid military successes thanks to the 'Blitzkrieg' (lightning war) in Poland, France, the Netherlands, Denmark and Norway gave Hitler the justification that a long-term infrastructure for war production was not necessary, and that the existing infrastructure was sufficient for war victory.¹¹³ The Nazi leadership was also emboldened by the seizure of strategically important stocks of raw material, such as mineral ores, from

104 Ibid., pp.144-174.

105 Ibid., p.140. Also consider Harold James, *Krupp: A History of the Legendary German Firm* (Princeton, NJ: Princeton University Press, 2012); Jeffrey R. Fear, *Organizing Control: August Thyssen and the Construction of German Corporate Management* (Cambridge, MA: Harvard University Press, 2005). Siemens did not produce tanks and guns, but it did produce telephones, telegraphs, radios, military floodlights, airplane engines and U-boat electrical equipments, which were all useful for German rearmament purposes. Consider S. Jonathan Wiesen, *West German Industry and the Challenge from the Nazi Past* (Chapel Hill, NC: University of North Carolina Press, 2001), p.29

106 Barkai, *Nazi Economics*, p.229

107 Dietmar Petzina, Werner Abelshausen, and Anselm Faust, *Sozialgeschichtliches Arbeitsbuch III: Materialien zur Statistik des Deutschen Reiches 1914-1945* (Munich: C.H. Beck, 1978), p.55.

108 Barkai, *Nazi Economics*, p.231.

109 Hermann Kellenbenz, *Deutsche Wirtschaftsgeschichte II* (Munich: C.H. Beck, 1981), p.458.

110 Though R.J. Overy (*War and Economy*, p.261) makes the argument that the impact of war on German consumption was very considerable even at the beginning of the war.

111 Barkai, *Nazi Economics*, p.234. German plundering of occupied territories is explained in detail in Götz Aly, *Hitler's Volksstaat* (op.cit.).

112 Overy, *War and Economy*, p.203

113 Alan S. Milward, *The German Economy at War* (London: Athlone Press, 1965), p.30.

occupied countries. 355,000 tons of non-iron metals and 272,000 tons of Polish and French iron ore, along with aircraft, fuel and chemical products for the armament industry fell into the hands of the German war machinery.¹¹⁴ With the help of Swedish iron ore (Sweden was not attacked by Germany), the Nazis were able to raise steel production by 26% between 1939 and 1940.¹¹⁵ The Nazis also made sure that the occupied countries paid taxes to the German war effort. France paid 20 million reichsmark per day. Germany's war expenses were assessed between 685 to 850 billion reichsmark out of which only 25% came from German taxpayers.¹¹⁶ Vichy France also benefited German war efforts, because the French colonies supplied the Germans with goods.¹¹⁷ When Germany had invaded Austria, gold, securities and foreign exchange worth a total of 1.4 billion reichsmark were transferred to Germany.¹¹⁸

There was a great amount of flexibility in Nazi war planning. After the successful conquest of France in June 1940, armament production decreased. During the Battle of Britain, the German war planners directed production toward aircraft and shipping. In 1941, in preparation for the Barbarossa campaign in the Soviet Union, production was shifted to tanks, guns, ammunition, and infantry equipment.¹¹⁹ Hitler's strategic interest was the conquest of Lebensraum in eastern Europe, and the plundering of its resources. In a strategy paper called "Green Map" ("Grüne Mapped"), the Nazis demanded that at the cost of hunger deaths of millions of people in the Soviet Union, huge areas of the Soviet Union should be "cleared" ("ausräumen") and deindustrialized; the fertile Central Black Earth region (in Central Russia) should be used for the food supply of Germany and its troops; and the raw material rich region of Eastern Ukraine and the Caucasus should be exploited for German military production.¹²⁰

The tide of war turned in the winter of 1941, when the German invasion of the Soviet Union came to a halt, and the Blitzkrieg strategy became a failure. In December 1941, Hitler declared war on the United States, which was a significantly superior adversary.¹²¹ A comparison of the combat munitions production reveals that while Germany and its Japanese ally may have enjoyed a small advantage at the beginning of the war, Germany was completely overwhelmed in absolute production, especially by the United States (cf. Table 4).¹²²

Table 4: Volume of Combat Munitions Production, 1935-44 (in billions of US\$, US 1944 munitions prices)

	1935-39	1940	1941	1942	1943	1944
USA	0.3	1.5	4.5	20	38	42
Canada	0	0	0.5	1	1.5	1.5
UK	0.5	3.5	6.5	9	11	11
USSR	1.6	5	8.5	11.5	14	16

114 Kellenbenz, *Deutsche Wirtschaftsgeschichte*, p.460.

115 Barkai, *Nazi Economics*, p.235.

116 Kellenbenz, *Deutsche Wirtschaftsgeschichte*, p.462

117 Berthold Puchert, "Deutschlands Außenhandel im Zweiten Weltkrieg" in *Krieg und Wirtschaft: Studien zur deutschen Wirtschaftsgeschichte 1939-1945*, ed. Dietrich Eichholtz (Berlin: Metropal, 1999), p.268

118 Bundesarchiv (BArch), R 26 IV/4 and 5.

119 Barkai, *Nazi Economics*, p.235. German and Swedish trade policy is also discussed in Sven-Olof Olsson, *German Coal and Swedish Fuel, 1939-1945* (Gothenburg: Institute of Economic History of Gothenburg University, 1975).

120 Karl-Heinz Roth, "Neuordnung und wirtschaftliche Nachkriegsplanungen", in *Krieg und Wirtschaft: Studien zur deutschen Wirtschaftsgeschichte 1939-1945*, ed. Dietrich Eichholtz (Berlin: Metropal, 1999), pp.205-06

121 Ibid.

122 Mark Harrison, "Resource Mobilization for World War II: The U.S.A., U.K., U.S.S.R., and Germany, 1938-1945", *Economic History Review*, 41, No. 2 (1988): pp.171-192.

Germany	2.4	6	6	8.5	13.5	17
Japan	0.4	1	2	3	4.5	6

Source: Harrison, "Resource Mobilization for World War II", p.172 (Footnote 122)

As the war continued to drag on, the budgetary situation of Germany became more precarious. Military expenditures controlled three-quarter of the total government budget for most of the war years. While government revenues increases one and a half times during the war period, expenditures increased by more than three times during the war. This led to an increase of the total debt from 47.9 to 379.8 billion reichsmark (cf. Table 5). During the war, the Nazi government increased tax revenues and savings not as a result of a growth in the economy, but as a result of substituting for consumption. More taxes were extracted out of people's savings to finance the ongoing war rather than to augment consumption.¹²³ Restrictions in clothing, food and retail consumption that were diverted to war efforts increased from 14 billion reichsmark in 1939 to 31 billion reichsmark in 1941.¹²⁴

Table 5: Budget of the Reich (in billions of reichsmark): 1939-1945

	1939/40	1940-41	1941/42	1942/43	1943/44	1944/45
Total expenses	52.1	78	101.9	128.6	153	171.3
Military expenses (percentage of total expenses)	32.3 (62%)	58.1 (74.5%)	75.6 (74.2%)	96.9 (75.3%)	117.9 (77.1%)	128.4 (75%)
Total income	39.5	57.6	75	91.6	96.2	89.7
Budget Balance	-12.6	-20.4	-26.9	-37	-56.8	-81.6
Total Debt	47.9	86	137.7	195.6	273.4	379.8

Source: Ludwig von Mises Institute, "Inflation in Nazi Germany".

http://wiki.mises.org/wiki/Inflation_in_Nazi_Germany#World_War_II.2C_1939-1945

There were two important planners for the Nazis during the war. Fritz Todt, who led an independent armament and munitions production department, and Albert Speer, who succeeded Todt after his death in February 1942. Their task was to reorganize the organizational principles of German war production, to raise efficiency and improve the coordination of mobilization. Until the end of 1941, German enterprises operated on a cost-plus basis, where the producers proposed arbitrary cost calculations and added 3 to 6% in profits in addition. Afterward, Todt replaced this system with a method of fixed prices, which is determined by the government department. The goal was to reduce waste and improve efficiency in production and internal administration. Speer advocated for the economies of scale, by having much of arms production happen in large factories, which had the side effect of making German armament production more sensitive to Allied bombing raids.¹²⁵ The administration also carried out rationalization to raise efficiency. This meant the imposition of tighter control over important physical

123 Overy, *War and Economy*, p.274

124 Bundesarchiv (BArchiv), R7 XVI/28, Statistics on National Income

125 Barkai, p.237; Albert Speer, *Inside the Third Reich* (London: Avon Books, 1971), p.292.

resources (raw material, factory equipment, and labor), and common production standards across German industry.¹²⁶ The loss of territory in the Donets basin (eastern Ukraine) in 1943, and the loss of Krivoy Rih (central Ukraine) in 1944, posed the greatest economic loss for the German war machinery.¹²⁷ Maximum arms production was reached in July 1944, though tanks, weapons and ships continued to increase until December 1944.¹²⁸ It declined thereafter.

War production relied on enormous amounts of labor, which was initially scarce due to the fact that 13 million German men were drafted into the Wehrmacht to serve in the war. Hitler appointed Fritz Sauckel to become the plenipotentiary for labor allocation. Sauckel's task was to round up prisoners of war and workers from the occupied territories as well as prisoners in concentration camps, and put them into armament factories.¹²⁹ The number of forced laborers increased from 4.1 million in 1942 to 7.1 million workers in May 1944.¹³⁰ This does not take into account the labor that was part of the independent economic empire of the SS (Schutzstaffel), which operated about 150 firms in all spheres of production, using an abundant supply of concentration camp workers.¹³¹ But with the foreign armies advancing quickly in 1944, Sauckel faced an enormous loss in the number of forced laborers that could be pulled into the factories. Out of the planned 4 million additional workers, only 1.4 million workers could be pulled into production.¹³² The all-out war effort increased the share of industrial labor devoted to the armed forces from 21.9% in 1939 to 61% in 1943.¹³³ In the last years of the war, the Nazis imposed work on Sunday, lengthened the work week to 72 hours, and deployed women in administration and transportation. Older workers were increasingly drafted to work. Even physically disabled people, and very young and very old people were drafted into the military.¹³⁴ The war and the Nazi regime ended with the suicide of Adolf Hitler, the conquest of Berlin by Soviet forces, and the unconditional surrender signed by Hitler's successor, admiral Karl Dönitz, on May 8, 1945. Hitler's last note, capturing the essence of his economic ideology, written shortly before his suicide on April 30, 1945, read,

*“The efforts and sacrifices of the German people in this war have been so great that I cannot believe that they have been in vain. The aim must still be to win territory in the East for the German people.”*¹³⁵

Conclusion

This paper has tried to examine the content, structure and ideology of Nazi economic policies. In my inquiry, a few guiding themes have emerged: though the Nazis did not have a consistent economic ideology, such as is provided under Marxism or Liberalism, they had a guiding dogma, which was the conquest of new 'Lebensraum' in Eastern Europe with the use of aggressive military force and a

126 Overy, *War and Economy*, p.356

127 Dietrich Eichholtz, *Die deutsche Kriegswirtschaft 1944/45: Eine Bilanz*”, in *Krieg und Wirtschaft: Studien zur deutschen Wirtschaftsgeschichte 1939-1945*, ed. Dietrich Eichholtz (Berlin: Metropol, 1999), p.325

128 Ibid., p.327

129 Barkai, *Nazi Economics*, pp.237-39

130 Bernhard R. Kroener, “Soldaten der Arbeit: Menschenpotential und Menschenmangel in Wehrmacht und Kriegswirtschaft”, in *Krieg und Wirtschaft: Studien zur deutschen Wirtschaftsgeschichte 1939-1945*, ed. Dietrich Eichholtz (Berlin: Metropol, 1999), p.120.

131 Barkai, *Nazi Economics*, pp.239-40. SS' use of forced labor is discussed in Michael Thad Allen, *The SS, Slave Labor, and the Concentration Camps* (Chapel Hill, NC: University of North Carolina Press, 2002).

132 Kroener, *Soldaten der Arbeit*, p.123

133 Imperial War Museum, London (IWM) FD 3056/49, “Statistical Material on the German Manpower Position during the War Period 1939-1944”, FIAT EF/LM/1, July 31, 1945, Table 7.

134 Ibid. p.124

135 Quoted in Shirer, *Rise and Fall of the Third Reich*, p.1014

relentless war economy that would achieve such objective. This conquest would supposedly advance the interests of the thousand year empire led by the German people. The lack of consistency in specific policy details gave the war planners some flexibility to adjust policies to the required conditions. Hitler certainly was very impatient in his pursuit of foreign conquest¹³⁶, and had since his enthronement in 1933, and at least since the announcement of his Four-Year plan in 1936, insisted on the quick militarization of Germany in order to attain quick victories on the battlefield. From an economic viewpoint, this relentless pursuit for war had come at the cost of consumers' ability to consume (and the enormous loss of life). Most of the economic surplus was invested into military production, of which Hjalmar Schacht had warned against. In the end, Nazi warfare proved to be suicidal.

The source of Nazi legitimacy can in large parts be traced back to the unique features of Weimar Germany and the conditions of the Great Depression, where rising unemployment, continuing reparation payments and latent antisemitism were successfully exploited by the Nazis for their own political purposes. Once in power, the Nazis carried out policies that did alleviate unemployment, though at the cost of growing arms expenditures and in anticipation of a war that would pull the continent toward the verge of self-destruction.

The question for the contemporary reader is whether the economic history of Nazi Germany has any practical relevance in the twenty-first century. I would venture to say that while it has become difficult to conceptualize a total war in the current period, the rise of many fascist and neo-fascist groups in Europe in recent years shows that seemingly outdated, racist, nationalist and ethno-centric policy positions remain well and alive, especially in the context of neoliberal policies of welfare state retrenchment, austerity policies amid state fiscal budget crises, and growing immigration and refugee waves into Europe.¹³⁷ The enormous austerity policies that the people of Europe are currently subjecting themselves to bears a remarkable similarity with Brüning's policy of internal deflation in the early-1930s, which was accompanied by the growing popular support for the hitherto marginal Nazi party. Today, the once insignificant fascist Golden Dawn party in Greece has become a serious political faction in a country that is sinking into economic and social chaos. Many of its party members are known for carrying out violence and hate crimes against immigrants, political opponents and ethnic minorities.¹³⁸ Right-wing populist parties in Austria now carry more than 30% of the national vote.¹³⁹ Jobbik, a right-wing, nationalist party in Hungary, rose from oblivion into a potent political force with 17% of the national vote.¹⁴⁰ Interest in Nazi economic history is a useful reminder for the lessons of the past. In the words of Albert Einstein, "Insanity is doing the same thing over and over again, but

136 Also argued by Henry Kissinger, *Diplomacy* (New York: Simon and Schuster, 1994), p.364.

137 The social science literature on the rise of right wing extremism in Europe is fairly extensive. Hans-Georg Betz, "The New Politics of Resentment: Radical Right-Wing Populist Parties in Western Europe", *Comparative Politics*, 25, No. 4 (1993): pp.413-27; Duane Swank, and Hans-Georg Betz, "Globalization, the Welfare State and Right-Wing Populism in Western Europe", *Socio-Economic Review* 1 (2003): pp.215-45; Elisabeth Ivarsflaten, "What Unites Right-Wing Populists in Western Europe?: Re-Examining Grievance Mobilization Models in Seven Successful Cases", *Comparative Political Studies* 41, No. 1 (2007): pp.3-23; Daniel Oesch, "Explaining Workers' Support for Right-Wing Populist Parties in Western Europe: Evidence from Austria, Belgium, France, Norway, and Switzerland", *International Political Science Review* 29, No. 3 (2008): pp.349-373.

138 Manfred Ertel, "Like 1930s Germany: Greek Far Right Gains Ground", *Spiegel International*, April 18, 2013. <http://www.spiegel.de/international/europe/neo-nazis-and-right-wing-extremists-gaining-support-in-greece-a-894596.html>. The Greek unemployment rate was 27.6% in July 2013. "Greek Unemployment Rises to 27.6 pct in July." *Reuters*, October 10, 2013. <http://www.reuters.com/article/2013/10/10/greece-unemployment-idUSEMS1O3SOJ20131010>

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140 Paul Hokenos, "Inside Hungary's anti-Semitic Right-Wing", *Global Post*, June 1, 2010. <http://www.globalpost.com/dispatch/europe/100528/hungary-jobbik-far-right-party>

expecting different results.”