

# The Nazi Economy

## Success or Failure?

*The massive economic distress in Germany during the Slump helped the Nazis to power in 1933. Yet Hitler was always clear that he needed a strong economy to support his military projects. How far did he succeed in building one?*

**T**he recovery of Germany's shattered economy after the Slump of 1929-32 was the central issue for public and politicians in the middle years of the 1930s. The Slump played a large part in creating the conditions that brought Hitler to power in the first place. Nazi leaders knew that their electoral promises to create 'Bread and Work' would at some point have to be redeemed.

This was not an easy issue for the Nazi regime in 1933. The economy was still deep in crisis. Over eight million people who had been employed in 1929 were without work. (The conventional figure of six million unemployed in 1933 is derived from the official register — but by 1932 many had dropped off the register, or had failed to register in the first place.) Agricultural prices collapsed, leaving peasants impoverished and in debt; artisan income was halved; even for those in employment, the Slump brought short-time working and temporary lay-offs. Investor confidence was at rock-bottom. The value of trade was half that in 1929 and German capitalism appeared to be in terminal decline.

### Economic revival

Hitler had no special recipe for the German economy when he came to power. There was no package of Nazi policies developed and ready to bring about revival. Those few Nazis who did think about economic questions had a whole range of radical solutions — social control of industry, redistribution of wealth, attacks on 'unproductive' finance capitalism — which Hitler was extremely hesitant to introduce, because of the effect they would have on the German business community. It is sometimes argued that Hitler went for the easy option — rearmament. Large quantities of military spending

would somehow solve the problem and drag Germany out of recession. Very few historians now take that argument seriously, if only for one rather obvious reason. Rearmament might certainly have helped certain sections of German heavy industry, but it would have done little to solve the major structural problems facing Germany: the balance of payments, the banking and finance structure, and low agricultural investment. Indeed, so wide-ranging were the economic difficulties facing Germany in 1933 that it was

*Hermann Goering was put in charge of the Four-Year Plan.*

inherently unlikely there would be a single cause of economic revival.

Recovery rested in the end on a package of economic reforms and policies. Rearmament was certainly part of that package, but in the first two years of revival it was a relatively limited part. There were three critical factors. First, the new government insisted on adopting a strategy of economic nationalism in its relations with other states. In the 1920s Germany had been held hostage to large loans from overseas, which had contributed to the crisis in 1929 when other countries asked for their loans to be returned. After

1933 Hitler and his economic advisers were determined to reduce Germany's dependence on the world economy. They rejected the idea of paying any more reparations. They defaulted on many of their debts, both commercial and inter-governmental, by simply refusing to pay them or by reaching special agreements with their creditors to postpone payment far into the future. They introduced a series of regulations to control the flow of goods, and of foreign currency, in and out of Germany. Indeed, under the New Plan of September 1934, German trade was closely supervised by the state. In this way Germany was able to build economic revival from its own resources and to reduce its dependence on others.

Second, the government made strenuous efforts to stabilise the German credit structure. During the recession one of the most damaging results had been the drying up of credit. Banks were reluctant to lend or investors to invest. Industrialists and farmers could not get money to buy next year's raw materials or seed. The state intervened to take over much of the banking system and to control the capital market. It reduced interest rates. It produced a strategy for consolidating the debts of local provinces and municipalities and it insisted for the

foreseeable future that the government should exercise strict controls over the issuing of private share capital.

## Economic management

But where was the money to come from, to put back into farming and industry? If it was not going to come from abroad, it had to come from domestic sources — and here was the third factor behind recovery. For the first three or four years of the Third Reich the most important source of new investment and new demand in the economy was the state itself, not private enterprise. The revival after 1933 was not the result of a consumer boom nor of export-led growth; it was primarily the result of an enormous increase in the level of state spending. Rearmament was one area of state spending, but it was only one. The state also undertook a wide range of major projects in infrastructure investment: railways, telecommunications, roads and housing. It also stimulated a large-scale building programme, from Hitler's

high-quality, high-technology weaponry is very misleading. Weapons constituted only about 10% of the military budget, even as late as 1936. Not until the later 1930s did rearmament really constitute a large proportion of government spending — over 50% in 1939.

Hitler depended for this economic revival on the cooperation of two groups. First, much of the day-to-day technically complex operation of these policies was carried out by officials in the Ministry of Finance and the Ministry of Economics, not by the Nazi Party. Second, the business community, particularly large-scale business, was offered various tax concessions, and was able to employ workers on relatively low pay because the government tied wages to the level of the recession. Business was also encouraged by the regime to adopt strategies of re-employment and was given subsidies for doing so. There was a clear marriage of convenience between the German business community and the state. Both had something to gain from the revival of German industry.

extensive remilitarisation of Germany. He recognised that a strong economy was a prerequisite for a large-scale military build-up. He was determined to utilise the economy for his wider military and strategic purposes. In 1936 there was a prolonged debate between German ministers, generals and party leaders about what direction the economy should take. In the late summer Hitler decided to bring the economy more closely under the supervision of party leaders, because he feared that the generals and businessmen, left to themselves, would produce only a modest level of rearmament and be inclined to boost domestic living standards.

## The Four-Year Plan

The result was the famous Four-Year Plan, launched in October 1936 at the Nuremberg rally. The Four-Year Plan was a signal from Hitler of two things. First, the economy was going to be brought more closely under state supervision by party appointees. Hermann Goering, one of his right-hand men, was made head of the Four-Year Plan, which in itself was an important political statement. Second, Hitler was turning his back on the world economy, to build up a siege economy in Germany, with the aim of establishing a firm foundation of domestic production — essential for waging war in the future. At the end of the Four-Year Plan memorandum, Goering was instructed to prepare both the economy and the armed forces for war in four years. To Hitler these were mutually dependent. A strong economy was the pre-condition for strong armed forces and a substantial war effort.

It was not until 1938 that the political conflict generated by this change in strategy was finally resolved. Not only did Goering then effectively become economic dictator in Germany, but in February 1938 Hitler himself became supreme commander of the armed forces and was able to bring both economic and military policy much more firmly under his control. During that three or four year period before the outbreak of war, the German economy experienced one of the few sustained bursts of economic growth that it had had since 1914. Germany's national product grew by almost a third more than it had reached in 1929. And almost all that additional product went to the build-up of Germany's new military forces. In particular, it was spent on a vast investment programme in German heavy industry and engineering, designed to provide a foundation for Germany's future war effort.

As a result, two-thirds of the industrial investment in Germany between 1936 and 1939 went directly into preparation for war — such sectors as the chemical industry, aluminium, aviation and electrical engineering. Indeed, by 1939 over a quarter of Germany's industrial workforce was working on orders for the armed forces, apart from all those workers who were busy building new chemical plants and aluminium works, which were seen as complementary to the development of weapons

	1928	1932	1933	1934	1935	1936	1937
Gross National Product (billion Reichmarks)	89.5	57.6	59.1	66.5	74.4	82.6	93.2
Registered Unemployed (millions)	1.4	5.6	4.8	2.7	2.2	1.6	0.9
State Investment (billion Reichmarks)	6.6	2.2	2.5	4.6	6.4	8.1	8.4
State Expenditure (national and local, billion Reichmarks)	23.2	17.1	18.4	21.6	21.9	23.6	26.9
Industrial Production (1928=100)	100	58	66	83	96	107	117
Real Earnings (average of 1925-9=100)	106	91	87	88	91	93	96

Table 1 Statistics on the German economic recovery

grand new Chancellery, to the famous *Autobahnen*, the motorways, begun in 1934.

Some of this was financed by government deficit, though one should be careful not to exaggerate it. Government deficit for the first few years of the regime was relatively modest and was designed to be paid back out of future tax revenues. Some of it was financed by relatively high levels of taxation, particularly taxation on the German business community. The idea was that, by boosting the economy, profits would grow and businessmen would be less resentful of higher taxes.

The government succeeded by 1936-37 both in restoring relatively high levels of employment and domestic investment, and in stabilising Germany's trade with the outside world. Until then rearmament was modest in scale. Indeed, much of the rearmament expenditure during this period was not spent on industrial and technical development, but on simply building up the administrative apparatus and infrastructure of the armed forces. Airfield construction, for example, was an important element in the first three or four years. The idea that rearmament spending meant large quantities of industrial orders for

## Guns or butter?

To what use should this recovery be put? By 1936 it was clear that the German economy was at a crossroads. Important elements in the business community and in German politics thought that the opportunity had now come to embark on a consumer boom at home, to produce increased living standards, and to expand German trade abroad. Having stabilised the economy, many businessmen had no thought of war or war preparation at all — the last thing they wanted was a repeat of 1914. Most of them wanted a period of stabilisation and consolidation. Even Gustav Krupp, of the famous Krupp works, who benefited perhaps more than any single individual from the expansion of German military spending, publicly denounced the policy of unlimited rearmament in 1936 and called for further expansion of German trade and civilian consumption. His was not the only voice. A number of prominent businessmen encouraged the government to move towards the peaceful implementation of German economic power.

Hitler viewed the economic revival differently. He had always intended it to underpin the

*The militarisation of labour: Hitler salutes a Labour Service contingent at the Nuremberg Rally, 1936.*

industries. Rearmament dominated Germany's economy between 1936 and 1939; it is difficult to argue in this period that Germany was programmed for anything except the very largest preparation for war.

The significant comparison is not perhaps between Germany and Britain and France, but between Germany and Stalin's Russia, where the economy was also dominated increasingly by large-scale preparation for war. Indeed, it was the threat from Stalin's Russia that Hitler referred to in the Four-Year Plan memorandum. Hitler was aware that the huge industrial development of the Soviet Union in the 1930s had a direct military purpose. By 1940 the two most heavily armed states in the world were the Soviet Union and Germany. It is surely no accident that the major conflict of the Second World War was between those two states after 1941.

**Outbreak of war**

When war broke out in 1939 it was not the war that Hitler had expected. He planned a localised war against Poland, for which he required only limited resources. The programmes which he had set in train under the Four-Year Plan were designed to create a military superpower by the mid-1940s, when Germany could confront the Soviet Union, in particular, with some prospect of winning. We need to remember that Hitler's priority was to win the next war, not to half-risk losing it. All the time Hitler stressed that the critical purpose was to avoid what had happened in 1914-18, to make sure that next time Germany would be thoroughly prepared economically and

psychologically for an extreme effort.

Nevertheless, in 1939 he suddenly found himself at war with Britain and France. He immediately activated economic decrees calling on the highest level of mobilisation of the German economy. In December 1939, after consultation with the armed forces, he set down production programmes for weapons, submarines, aircraft and explosives, which were very much higher than programmes achieved even at the end of the First World War. These programmes were so large, that many industrialists and officials thought that they were not remotely realisable. There is no sense here of a strategy of limited war. Once he was engaged in total war, Hitler was determined that the German economy should stretch its resources to the fullest.

By the summer of 1941 almost two-thirds of Germany's industrial workforce was engaged in war-related activities and the figure even by 1944, at the height of the war, was not much greater. German consumption of civilian products declined by more than 20% between 1939

and 1941, a steeper decline than in Britain, from a base that was already considerably lower.

**Failures of economic mobilisation**

Paradoxically, however, the problem Germany faced in 1941 was a relatively modest level of weapons output. If we were to pick out two factors in particular to explain the poor performance of Germany's armaments economy, the first would be the failure to establish any kind of central agency for economic affairs during the early stages of the war. Germany lacked Cabinet government, so there was no key group which met regularly to discuss these issues. Instead, all offices responsible for some aspect of economic activity — the Economics Ministry, the Finance Ministry, the Four-Year Plan, the armed forces' own economics offices — all went their own way, poorly informed of what others were doing and unwilling to surrender what power they possessed. The

	1939	1940	1941	1942	1943
All Industry	21.9	50.2	54.5	56.7	61.0
Raw materials	21.0	58.2	63.2	59.3	67.9
Manufacturing	28.6	62.3	68.8	70.4	72.1
Construction	31.5	57.6	53.8	45.2	46.2
Consumer goods	12.2	26.2	27.8	31.7	38.3
Index (1939=100)	100	229	249	256	278

*Table 2 Industrial labour force working on military contracts 1939-43 (% of all workers)*

result was an extraordinary confusion of administrative responsibility and endless arguments over production priorities and resource allocation.

The second factor was the dominant position enjoyed by the armed forces themselves when it came to issues of war production. There were echoes here of the First World War. In that war German industrialists had been allowed to run war production for the first couple of years and had done so poorly that the military took over in 1916. In 1939 the military were determined not to make the same mistake. Right from the start they smothered German industry with engineering officers, who oversaw every stage of production from design and development right through to inspection. They insisted that industry should incorporate all the latest tactical requirements of the armed forces and continually make improvements to equipment. The result was that German industrialists found it almost impossible to embark on large-scale production of weapons.

This tension was never really resolved until the spring of 1941, when Hitler enquired about aircraft and tanks for the invasion of the Soviet Union. When it was discovered that Germany hardly had any more tanks and aircraft to attack Russia than she had had to attack Poland two years before, Hitler was astonished. In May he set up an inquiry and soon discovered the cause of the problem: too many people in charge of the economy and excessive military intervention in industrial production.

### **Speer's reforms**

The significance of the appointment of Albert Speer in February 1942 as armaments minister was that Hitler chose someone from his own entourage, who could bypass the Four-Year Plan, the Economics Ministry and the armed forces. By appointing Speer he made it absolutely clear that responsibility for the war effort was now going to

*Contrary to previous estimates, it is now believed that bombing of German cities may have reduced potential war production by 50%.*

### **Albert Speer, Armaments Minister, watches tank manoeuvres in the Eastern battle zone.**

be in the hands of a civilian and not the German army or the Four-Year Plan office (still being run by Goering). Hitler asked Speer to introduce a complete rationalisation of the German war economy in order to increase the quantity of weapons produced from the same resources.

What Speer achieved was quite remarkable. In two years he managed to increase German weapons production more than threefold, while the quantity of resources, manpower and raw materials assigned to war production increased surprisingly little.

This was achieved in a number of ways. In March 1942 Speer set up an organisation called Central Planning, of which he was the real director, and from April 1942 he was able to control the distribution and allocation of raw materials, industrial equipment and of components. Speer insisted that military personnel should be excluded from supervising German factories and he recruited industrialists and engineers, people who knew about production, to staff his ministry and to bring about a thorough-going rationalisation of industrial practices. This enabled him to reorganise factories, to improve productivity levels and to establish systems of distribution which made optimum use of resources.

In 1941, for example, for every 100,000 tons of steel allocated to the armed forces they received

only 10,000 tons of finished weapons. In 1944, however, from every 100,000 tons they received 40,000 tons of finished weapons, a fourfold increase. Where did the other 30,000 tons go in 1941? Much of the answer lies in extraordinarily wasteful factory practices, excessive scrapping and inadequate machining and processing. All of this was overcome during the following two years by the rigorous application of modern methods of mass production.

### **Effects of bombing**

The one thing that stymied this effort to transform the German economy was the onset in 1943 of bombing on a large scale. It is not fashionable to argue that bombing had very much effect on the German economy in the later stages of the war; but more and more evidence is being accumulated, from case studies of particular industries and particular cities, demonstrating clearly that bombing had a much greater effect on Germany's economic performance during this period than was once thought. The best recent estimate is that bombing probably reduced Germany's potential war production in 1944 by as much as 50%. Of course, German production continued to expand; but heavy bombing imposed a strict ceiling on the ability of the economy to expand any further.

With Speer's reforms and Hitler's backing, the German economy was clearly capable of the level of output achieved by the Soviet Union or the United States. Because of the bombing, however, it was restricted by 1944 to a level of production not much higher than that of Britain or Japan. This was a substantial disparity. Throughout the war Germany consistently produced more steel than the Soviet Union and had access to more than four times as much steel as Great Britain; yet Germany failed to produce as many aircraft, tanks or artillery pieces as the Soviet Union and indeed, until 1943-44, barely produced as many as Britain. Germany had great economic and technical potential, but it was squandered in the early part of the war through inefficient management of resources, and restricted in the later part by the impact of heavier and heavier bombing.

Hitler's vision of a powerful militarised economy clearly failed the test of war. Recovery from the Stump had been real enough. But at the point where that recovery might have been used to improve living standards and expand trade (the chief aim of the 'economic miracle' of the 1950s), Hitler chose to divert economic development towards massive militarisation in a short-term gamble that he could create a new political and economic order out of the ruins of the one which failed in 1929. In 1946 Germany was once again plunged into poverty and economic stagnation — where Hitler found it in 1933.

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