

The Nazi Economy – was it geared to war?

Controversy has raged about Hitler's military and economic preparations for war. Did he intend a world war or a series of short conflicts?

Richard Overy argues that Hitler drew the lesson from 1914-18 not that a major war should be avoided but that Germany should prepare more systematically so that, this time, she would win.

In June 1937 the American military attaché in Berlin wrote back to Washington: 'The entire economic life of the German nation is being organised on a war economy basis'.

The character of German preparations was, in his view, determined by the idea of 'total war'. Germany had learned the lessons of defeat in 1918: only 'complete control of the national economy' could ensure victory in the wars of the future.¹

Since the war, considerable doubt has been thrown on this interpretation of the German economy under Hitler. In 1959 the economist Burton Klein, who had worked on the United States Strategic Bombing Survey team in 1945, published a book on German war preparations which attempted to demolish the myth of massive German rearmament. Using the Survey's conclusions, Klein argued that the military effort was modest in the 1930s, and continued to be so during the first two years of war as the regime attempted to provide both guns and butter. A.J.P. Taylor found in Klein's work

support for his idea that Hitler only wanted to launch small opportunistic wars to revise the Versailles Settlement. Taylor believed that he, like so many who had lived through the 1930s, had been tricked by Hitler, who was only 'pretending to prepare for a great war'.²

These two differing judgements on the German economy under Hitler are impossible to reconcile. The assumption is that German war preparations were a sham, and that those who, like the American military attaché, described an economy made hostage to war preparation were deceived by a facade of propaganda and shop-window armaments. Who was right? Were German war preparations pretence or reality?

Rearmament: the First Phase

Hitler made it clear from the outset of the regime that he wanted Germany to become a major military power again, and that in the long run the economic revival of the country was vital to its military revival. Military expenditure, how-

ever, remained relatively modest between 1932/3 and 1935/6, constituting no more than 1.3 per cent of Germany's national product. Even by 1936 German forces would have found it difficult to fight any neighbouring state.

There were many reasons for the relatively low level of remilitarisation after 1933. The top priority was economic recovery, which the regime saw as the key to political stabilisation and social peace after the chaos of the slump. Rearmament was not an answer to recovery. The structural problems facing the German economy in 1933 – an impoverished rural sector, declining trade, balance-of-payments difficulties and a credit system on the brink of collapse – would have been exacerbated by high levels of military spending rather than cured. When rearmament reached higher levels in 1936 it began to impose new strains on the recovered economy.

The international situation had also to be taken into account. Hitler's government was aware of the hostility of other powers

to German rearmament and was wary of inviting intervention if the disarmament clauses of the Versailles Treaty were torn up too conspicuously. It was not until May 1935 that the regime dared publicly to announce German rearmament.

Finally, the armed forces themselves were anxious to rebuild German military power cautiously, step-by-step, so that they could control its pace and character themselves. The first priority here was to rebuild the infrastructure of military life – barracks, airfields, training schools – that had been shut down or destroyed during the period of enforced disarmament. The first air force production programmes were largely devoted to building trainer aircraft. Between 1934 and 1938 some 58 per cent of aircraft production was made up of trainer aircraft and only 18 per cent of combat 'planes. Tank production was slow to get going and the programme for naval ship-building laid down in March 1934 had achieved little before the late 1930s. Remilitarisation on any scale took time to achieve because Germany began in 1933 from a very low base.

The Four Year Plan

The real turning point in the development of both the German economy and the German military build-up came in 1936 with the announcement of the Second Four-Year Plan in October (the First Plan, launched in 1933, was concerned with the battle against unemployment). The Plan ushered in a quite different phase of military expansion based upon the restructuring of the economy to meet the probable needs of war.

The immediate source of the Plan was a memorandum on German strategy written by Hitler in August 1936. In it Hitler sketched out his view that the world system was reaching a moment of acute crisis, in which European civilisation, led by Germany, would find itself locked in a titanic struggle with Bolshevism and world Jewry. War he regarded as both inevitable and necessary. The conclusions that he drew from this analysis were to have profound consequences for the German economy. There was no hint of limited rearmament.



German troops on 10 March 1936 entering Freiburg in the Rhineland, which the Treaty of Versailles had insisted should be permanently demilitarised. At this stage the German armed forces were not prepared for war: Hitler had given orders for a hasty retreat if there were opposition from the French.

Instead he underlined the following passage: 'The extent of the military development of our resources cannot be too large, nor its pace too swift.' Hitler argued that preparation for the great war ahead required not only 'military rearmament' but also 'economic rearmament and mobilisation... in the same tempo.'

The view that war preparation was at root an economic phenomenon as much as a military one had a long pedigree. It grew out of the experience of the First World War when the German economy failed to provide an adequate base for supplying both weapons and goods for the home front. Hitler was one of many who believed that this failure had produced social unrest and the 'stab in the back' for the German army when the government sued for an armistice in 1918. In the 1920s the military worked on the assumption that any future war between great states would be what General Erich Ludendorff called 'total war', mobilising to the full the economic resources of the

nation in order to ensure victory.

The army developed in the 1920s the idea of an economy geared to defence requirements (*Wehrwirtschaft*) which they hoped to introduce after 1933 when rearmament was begun. The 'defence-based economy' derived its central features from the 1914-18 war. The object was to ensure a balanced mobilisation of the whole economy in order to ensure a smooth conversion to war production. This meant preparing detailed economic mobilisation plans in peacetime; it meant the development of industrial and raw material sectors essential to the waging of war; it required the production of substitute products for those likely to be cut off by blockade; and it meant the training of the workforce in skills that could be transferred to war work when required. The danger of social unrest was to be solved by ensuring an adequate food basis and effective wartime rationing, neither of which had been achieved between 1914 and 1918.

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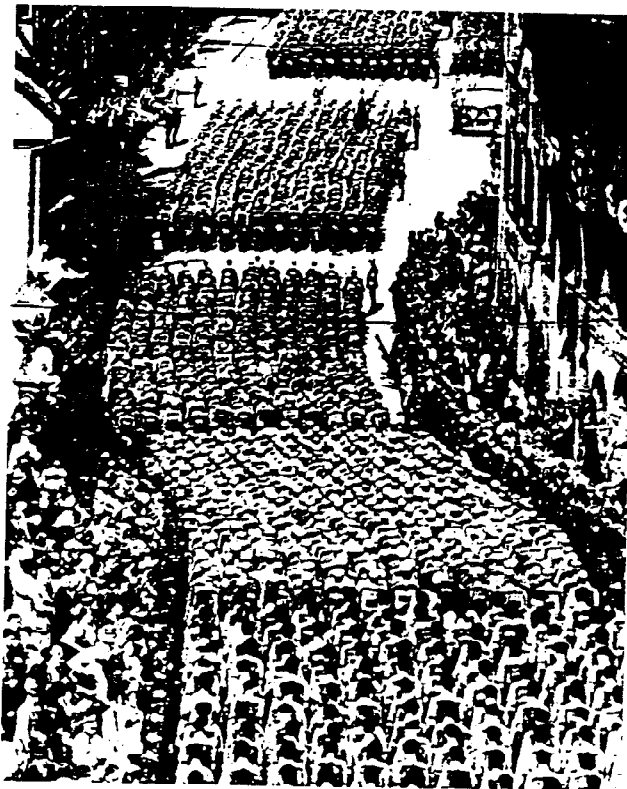
Instead he underlined the following passage: "The extent of the military development of our resources cannot be too large, nor its pace too swift."

The defence-based economy could not be secured without treating the economy as a whole. 'In times of danger,' wrote Colonel Georg Thomas, head of the armed forces economics office, 'food supply; industry; commerce, raw material supply; external trade, finance, transport and the tasks of the Labour Ministry must form a unity.' It was war preparation in this broader sense that Hitler set in motion in 1936.

The instrument for converting the economy to a basis for defence was the Four-Year Plan organisation. Set up under the Commander-in-Chief of the German Air Force, Hermann Goering, the officers of the Plan began at once to trespass widely on all areas of economic activity deemed to be relevant to war preparation, in addition to developing existing plans to expand military production. At the core of the Plan was a strategy of import-substitution, or autarky, designed to free Germany from the threat of blockade. Hitler was aware that the blockade had damaged Germany's war effort between 1914 and 1918, and he could see the recent efforts to impose League of Nations sanctions on Italy for her invasion of Abyssinia. His answer was to rely on domestic production of vital war materials, or, where this was not possible, to secure them in eastern or south-eastern Europe, safe from interference by other powers.

The Plan, however, embraced more than autarky. There was also an agrarian programme to raise domestic yields and

to guarantee a so-called *Existenzminimum* for the population if war broke out. There were further programmes to raise domestic output of machine-tools and chemicals. Labour re-training programmes put more than 1.3 million Germans through



The massed ranks of German troops at the 1938 Nuremberg rally.

schemes designed to develop war-related skills. In order to cope with the financial implications of war preparation a Price Commissioner was appointed under the auspices of the Plan organisation whose job it was to put a freeze on prices wherever possible. The money for the large new industrial projects came partly from taxes, but mostly from loans taken up more or less compulsorily by the country's savings banks.

Rearmament: the Second Phase

The phase of *Wehrwirtschaft* after 1936 achieved a remarkable transformation of the economy in a relatively short time. Between 1936 and 1939 almost two-thirds of industrial investment in Germany went on schemes sponsored by the Four-Year Plan. These included the build-up of domestic iron-ore supplies at

Salzgitter around the state-run *Reichswerke 'Hermann Goering'*, the expansion of capacity for domestic aluminium production (for aircraft) from 172,000 tons in 1933 to 434,000 tons in 1939, the establishment of industries almost from scratch for syn-

thetic fuel oil and synthetic rubber. These were very large capital projects, expensive in terms of manpower and materials, and between them they skewed the German domestic economy away from consumer goods and exports.

The effect of a diversion of resources on this scale can be demonstrated in many ways. In 1938 the German economy was almost 40 per cent larger than it had been in 1928, at the peak of the previous boom, yet consumer expenditure per head grew by only 4 per cent over the same period and exports declined by 57 per cent. In other words almost all the additional growth in the economy was diverted to state spending, and most of that went on remilitarisation and economic preparations for war. The level of defence spending by the late 1930s, which Klein regarded as modest measured against the later performance of the war economy, was in fact very high in relation to

conventional peacetime spending. In 1938/9 the military budget took up 52 per cent of state spending and 17 per cent of the national product. In 1913, during the pre-war arms race, the German government spent only 24 per cent of a much smaller budget on defence, while military spending as a whole reached approximately 3 per cent of the national product, a level typical of major states late in the twentieth century as well.

The figures on direct defence spending, on which Klein and Taylor based their arguments, failed to take account of the wider economic preparations for war, the 'economic rearmament' Hitler spoke of in 1936. The two together made substantially higher claims on the German economy, so much so that one German economist, who worked on Hitler's headquarters staff, wrote in 1940 that since

OPPOSITE: Goering, who was made plenipotentiary for the Four-Year Plan in 1936, insisted that Germany must put Guns before Butter: 'Guns will make us powerful,' he declared in a radio broadcast; 'butter will only make us fat.' In this photograph John Heartfield satirises a similar statement. Heartfield (1891-1968), whose original name was Helmut Herzfeld, fled from Germany after Hitler came to power.



A recruiting poster for the Waffen SS, the Nazi elite corps.

1937 the German economy had faced 'excessive demands...already in peacetime' on 'reserves essential for war'.⁵ None of this suggests an economy geared to low levels of output and limited war.

Hitler's commitment to excessive levels of war preparation stemmed from his desire to turn Germany into a military and economic superpower before the rest of the world caught up. In 1938 and 1939 he authorised new military production programmes which were intended to achieve the superpower status he wanted. These included an explosives plan introduced in July 1938 which was to dwarf the production levels of the First World War, a quintupling of the size of the air force, and the plan for a large battlefleet which Hitler personally approved in January 1939. These figures were exceptional levels of output in peacetime. They were supposed to match the programmes of raw material and machinery production set up by the Four Year Plan two years before. In almost all cases Hitler expected them to be completed during the early to mid-1940s.

1939: Ready for War?

The creation of a defence-based economy was easier said than done. The restructuring of an entire economy, particularly one as large and developed as Germany's, was an extraordinary ambition. By 1939 much of the programme set up in 1936 was under way, some of it completed. Hitler had said four years, but this was only an indicative timetable, like the First Four Year Plan, not a firm plan complete with schedules and deadlines. Most of the large capital projects could not be completed much before 1942, and the large

arms programmes followed on from their completion. In 1939 the German economy was not yet ready for a major war.

It was the relatively low level of weapons' production in 1939 that had persuaded Klein and Taylor that Hitler had pretended to prepare for a great war. The figures deceived them. Germany was, of course, much more heavily armed in 1939 than in 1936, and was capable, as it turned out, of defeating Poland and France and expelling Britain from Europe in 1939 and 1940. But the large programmes of war production were not yet complete, some barely started. The effort to produce an economy sensitive to the needs of war diverted resources and time from weapons' production. The German economy was caught in 1939 midway through the transformation anticipated in Hitler's earlier memorandum.

There were also problems generated by the programme of economic rearmament itself. The transformation required the intervention of the state in all areas of economic activity. The 'managed economy' (*gelenkte Wirtschaft*) that emerged in Germany in the late 1930s introduced layer upon layer of economic bureaucracy which stifled initiatives from industry and science and created a slow and cumbersome apparatus of control without any clear central authority.

Second, relations between civilian and military authorities were strained by the transfer of responsibility for *Wehrwirtschaft* from the armed forces to Goering's largely civilian administration. Colonel Thomas complained regularly that the Four-Year Plan failed to do everything that the armed forces wanted, while the military authorities made things difficult for the Four-Year Plan by imposing their own priorities on the arms industry – unnecessarily high standards of workmanship (which discouraged mass-production methods), constant technical refinements (which made forward planning of production almost impossible), and a refusal to integrate the production requirements of the three services (and thus avoid duplication of effort). The outcome was expensive and slow-moving production programmes.

The German economy in 1939 thus presented something of a paradox. No

W. Deist, *The Wehrmacht and German Rearmament* (London, 1981)

B.A. Carroll, *Design for Total War: Arms and Economics in the Third Reich* (The Hague, 1968)

R.J. Overy, *War and Economy in the Third Reich* (Oxford, 1994)

B.H. Klein, *Germany's Economic Preparations for War* (Harvard, 1959)

other country had developed such a sophisticated and wide-ranging conception of economic preparation for war. Yet the conception proved too difficult to turn quickly and effectively into practice. In this sense both Klein and the American military attaché were right. Germany was being organised on a 'war economy basis' but the output of weapons in 1939 was well below what such an organisation might have been capable of producing. To anyone living in Germany in the late 1930s the evidence of a widespread militarisation was inescapable, but, as Hitler ruefully reflected some years later, it had been 'mismanaged'.⁶

Notes

- 1 Report of the Military Attaché, Berlin, June 18 1937, p. 2, US Army War College, Military Intelligence collection, Reel XX.
- 2 A.J.P. Taylor, 'Second Thoughts' in *Origins of the Second World War* (London, 1963 edition), p. 18.
- 3 J. Noakes and G. Pridham (eds), *Nazism 1919-1945: a documentary reader*, 2: *State, Economy and Society* (Exeter, 1984) pp. 282-3.
- 4 G. Thomas, 'Die Verantwortung in der Wehrwirtschaft' [Responsibility in the defence-based economy], *Der deutsche Volkswirt*, 10 (1936), p. 1321.
- 5 Dr. Tomberg, 'Deutschlands Wehrwirtschaftspotential bei Kriegsausbruch' [Germany's defence economy potential at the outbreak of war], Feb. 26 1940, p. 2, National Archives, Washington, microfilm T77, Roll 80, frame 803162.
- 6 A. Speer, *Inside the Third Reich* (London, 1970), p. 202.