

Short Notes

On the Nazi Economy

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How did it come to the economic rise of Nazi Germany in the early 1930s? Is it legitimated to talk of an early 'Wirtschaftswunder'? Did Hitler initiate it and how was it financed? These short notes are about to put some light on those issues.

The War Economy Indeed, the plain figures indicate a skyrocketing German economy: Industrial Production Index P , the official unemployment U and employment E numbers, and the corresponding unemployment rate r , national income I and gross domestic product D are listed in the following table¹:

	indust. prod. P	num. unemployed U mn	num. employed E mn	unempl. rate r %	nat. income I RM bn	GDP D RM bn
1928	100					
1929					71	
1932	59	5.6		29.9	41	72
(1/1933)		6.0				
1933	66	4.8	18.5	25.9	43	
1934		2.7			49	
1935	96	2.2			55	
1936	107	1.6			62	101
1937		0.9			70	
1938		0.4			78	
1939		0.2	24.4	0.5		

How did it come to this? And, to what degree does Hitler in particular and 'national socialism' in general account for that? As early as in February 1933 Hitler made plainly clear what he headed for: "The next five years must be devoted to the restoration of the defense capacity ('Wiederwehrhaftmachung') of the German

¹ BARKAI 1988, p. 232 (D) and p. 237 (I). BENZ 2000, p. 97 (U). SCHNEIDER 1999, p. 273. (P), p. 282 (U) and p. 284 (U , E , r).

people. (...) This idea must always and everywhere placed in the foreground”². The military superpower Germany could then head for ‘living space’ (‘Lebensraum’) in the East and ruthlessly ‘Germanize’ it³.

Straight away, the Nazi regime unleashed a giant investment program in war preparation. The following table lists the military investments M , the corresponding share s on the domestic products and share p on public spending⁴.

	militairy investment M RM bn	domestic product s %	public spending p %
1932	0.6		
1933	0.7	1.2 - 3.3	6.9
1934	4.2	2.9 - 7.8	28.8
1935	5.5	5.4 - 9.3	33.1
1936	10.3	7.0 - 15.7	47.0
1937	11.0	8.8 - 15.0	47.0
1938	17.2	17.0 - 21.0	55.0
1939	11.9		
	60.0		

Armament became economically significant from 1934/35 onwards, and, given the fact that unemployment is a ‘slow’ indicator, contributed to job creation starting around 1935/36⁵. Latest 1936 Nazi Germany was a pure war economy⁶. And in this way the boom is indeed caused by NS politics.

But already in 1933 unemployment dropped sharply, and Hitler’s propaganda hailed the (‘civil’) national socialist work creation programs. In February 1933 Hitler had promised to reduce unemployment within the next 4 years⁷ and now was ahead of schedule. But recent research casts some doubts on the effectiveness of the ‘civil’ measures introduced by the NS regime. The Nazi regime put aside 1933-1936 about RM 5.5 bn for ‘civil’ job creation which got injected into the economy via state sponsored projects, loans or grants⁸ (But one has to bear in mind that this RM 5.5 bn compares as 10% to the straight military investments!).

²Hitler on 8/2/1933 to cabinet colleagues. In KERSHAW 1998, p. 444.

³”Erweiterung des Lebensraums im Osten und dessen rücksichtslose Germanisierung” (Hitler to Reichswehr commanders on 3/2/1933. In SCHNEIDER 1999, p. 257).

⁴BARKAI 1988, p. 240 table 20 (M), p. 240 table 21(a) (s), and p. 241 table 22 (p). The ratios s depend whether the underlying product is net, gross or income. Correspondingly ranges are given.

⁵SCHNEIDER 1999, p. 282.

⁶BARKAI 1988, p. 207.

⁷”(...) binnen 4 Jahren muß die Arbeitslosigkeit überwunden sein.”, in SCHNEIDER 1999, p. 256. ”Nun deutsches Volk, gib uns Zeit von vier Jahren, und dann urteile und richte uns”, in BENZ 2000, p. 95.

⁸BARKAI 1988, p. 156; SCHNEIDER 1999, p. 264.

The key propaganda project 'Volksautobahn' gave jobs only to some 120,000 workers⁹. Therefore, contrary to a still prevailing myth, autobahn building had only a marginal effect on job creation¹⁰. All over all the 'civil' NS programs created only about 500,000 jobs between 1933 and 1935¹¹. The unemployment statistics got 'sexed up' in 1933 which made some 1 million jobless disappearing¹², jobs previously done by Jews got taken over by 'Aryan' Germans¹³ and women got encouraged to leave the job market ('Ehstandsdarlehen') in order to carry out domestic work at 'Heim und Herd'¹⁴.

Additionally, latest research offers a rather 'boring' explanation for the economic recovery between 1933 to 1935: The economic downside trend got already reversed in 1932 and got effective on the job market one year later. This can be seen in when analyzing turns in indicators like investments, stockpiling and cost profiles between 1932 and 1933¹⁵.

Summarizing the above, the 1933/34 economic recovery can be attributed to political 'civil' measures as well as to a general cyclical economic upside turn. But from then onwards most of the economy was driven by war preparation.

Financing the War The national socialists introduced, when taking over in 1933, the Anglo-American concept of 'deficit-spending'. This implied creating (government) demand financed by increased national debt. The following table lists national debt *S* ('Reichschuld') and outstanding 'Mefo' bills *W* ('Mefowechsel')¹⁶

	national debt <i>S</i> RM bn	Mefo bills <i>W</i> RM bn
1933	12.9	
1934		2.1
1935		4.8
1936		9.3
1937		12.0
1938	31.5	12.0
1939	38.0	12.0
1945	≈ 400.0	8.1

⁹BURLEIGH 2000, p. 240.

¹⁰BUCHHEIM 2001, p. 508; BARKAI 1988, p. 155

¹¹SCHNEIDER 1999, p. 283.

¹²SCHNEIDER 1999, p. 283; BENZ 2000, p. 97

¹³SCHNEIDER 1999, p. 283

¹⁴BENZ 2000, p. 96.

¹⁵BUCHHEIM 2001, p. 655; BENZ 2000, p. 100.

¹⁶ BARKAI 1988, p. 240 (*W* 1933-1937); BENZ 2000, p. 105 (*S* 1933, 1938); DIRKS AND JANSSEN, p. 122 (*S* 1945), p. 121 (*S* 1939); SCHNEIDER 1999, p. 266 (*W* 1945)

Some the spending could indeed be financed out of the running budget. This was possible since tax income initially increased (e.g. from RM 7 bn in 1933/34 to RM 18 bn in 1938/39¹⁷) and unemployment payments got reduced (RM 4.0 bn in the 1933-1936 period¹⁸). But all excess spending, and that was all investment in rearmament, had to be financed in a different way.

The 'Mefo' bills served as main financing vehicle for the 'deficit spending', accounting for 85% of it between 1933 and 1936¹⁹. These bills, issued by the fake company 'Metallurgische Forschungsgesellschaft m. b. H', had a maturity of 3 months, but got prolonged for 5 years. The Nazi state could pay its armament orders by 'Mefo' bills, and accepted in turn placement of such bills in its treasury. Those bills were nothing else but plain money created in an inflationary way - hidden from the public and only after 1945 its existence got unveiled. When in 1939 the first bills matured, they got exchanged in other vehicles like trade related government bills ('Lieferschatzanweisungen') or RM 4.8 bn in tax vouchers ('Steuer Gutscheine'). Finally those bills never got settled²⁰.

By 1935 the capital market in Germany had dried out and government bonds could not be sold anymore to the public. As result the government debt got placed within banks and insurance companies. Indirectly this exchanged the savings and deposits the German public had placed with this institutions into (valueless) state debt. Silently the Nazi state made its own people to finance the forthcoming war²¹. Another way to finance the German war preparations is often neglected in common discussions: The expropriation of German Jews ('Arisierung'). Jewish property in the order of RM 5-8 bn²² was entirely transferred to the Nazi state and its people. The fee Jews paid to the regime to leave Germany ('Reichsfluchtsteuer') ran up to RM 0.9 bn²³. The 'atonement payment' ('Judenbuße') for the 'Reichskristallnacht' flushed some Jewish RM 1.75 bn in cash to the Nazi treasury²⁴. One has to bear in mind that those amounts are in order of size the values discussed above!

With tax income lower than required and ever increasing expenditures the Reich approached bankruptcy from 1936 onwards²⁵. A financial gap of around 30%

¹⁷SCHNEIDER 1999, p. 264

¹⁸BARKAI 1988, p. 233.

¹⁹BARKAI 1988, p. 157.

²⁰SCHNEIDER 1999, pp. 266; BARKAI 1988, pp. 156; BENZ 2000, p. 100; ABELSHÄUSER 1999, pp. 516.

²¹ABELSHÄUSER 1999, p. 519; DIRKS AND JANSSEN 1999, p. 123.

²²Göring: RM 5 bn 'Reichsgewinn in der Arisierung'. In: DIRKS AND JANSSEN 1999, p. 123. Deutsche Bank: RM 6-8 bn Jewish assets in 1938. In: JAMES 2001, p. 64.

²³DRESSEN 1998, p. 28.

²⁴LAQUEUR 2001, p. 391.

²⁵BENZ 2000, p. 106.

had to be closed by raising more and more debt²⁶. Additionally economic growth slowed down: German international trade declined (e.g. exports down from RM 13 bn in 1929 to RM 4.8 bn in 1936²⁷). 'Real' priced living standards stagnated, corporate investment disappeared and productivity fell back behind international standards - all important benchmarks where the Nazi economy differs from the German post-war 'Wirtschaftswunderzeit'. Other than widely assumed, the 'deficit-spending' was not very much Keynesian - this would have had required to stimulate the benchmarks ('multipliers') mentioned above. But exactly was not the case²⁸. For Nazi Germany the only way out was, what it always had prepared for: War.

With Germany invading its neighbors it gained the influx of cash and assets it required. The total German war bill ran up to about RM 850 bn - only 25% of those costs got financed in Germany, the remainder was pressed out of the occupied countries. Only about half of the coal, fuel and metal production of 1943 was produced in the Reich. More than one third of France's Gross Domestic Product got transferred to Germany. 7 mn forced labor made up 20% of the German workforce. Hundreds of thousands concentration camp prisoners got exterminated working for the German War Economy ('Vernichtung durch Arbeit')²⁹.

The Nazi state had financed itself by expropriating its own people and exploiting Europe to death.

²⁶SCHNEIDER 1999, p. 265.

²⁷BARKAI 1988, p. 235

²⁸BUCHHEIM 2001, p. 662.

²⁹BARKAI 1988, pp. 223; OVERY 1995, pp. 204.

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