

## *Flucht nach vorn:*

### Economy and Foreign Aggression in Nazi Germany, 1936-1939

#### **I. Historiographical Overview and Argument**

The number of books examining the origins of the Second World War would suffice to furnish a large library. While nothing resembling a ‘consensus view’ is in sight, most historians tend to agree that the Second World War can be interpreted as a continuation of the First World War and is rooted in the ill-designed provisions of the Treaty of Versailles. The impact of the Great Depression, which brought to power or strengthened the fascist movements in Germany and Italy and derailed the fragile democracies of Eastern Europe, is also commonly appreciated.<sup>1</sup> Few historians, however, ascribe more than contextual significance to the specific economic developments in Germany after 1933<sup>2</sup>. This thread of the war’s origins is usually overlooked due to the Nazi allegedly instrumental approach to the economy and their general disbelief in classical, Keynesian or, in fact, any macroeconomic house rules. While this characterization contains some truth, it does not follow that the Nazis were not concerned with the economy or that Germany’s foreign policy was independent of it. In this paper, I argue that it was the growing structural imbalances resulting from the military build-up driven recovery after 1933 (and especially after 1936) alongside the worsening fiscal and monetary position of the Nazi state that significantly contributed to the pattern of foreign aggression in the late 1930s and ultimately to the decision to invade Poland in 1939. I reconsider the set of arguments put forward by the British historian Timothy Mason in the 1970s, develop and revise it by using new evidence unavailable to Mason at the time.

The economic developments in Germany after 1936 led to a situation where only three policy alternatives were available to the Nazi leadership in August 1939. The first was a limited war with Poland, the resource plunder of which could enable Nazi Germany to continue the historically unprecedented pace of peacetime rearmament for a period of time until the country was better prepared to go to war with stronger neighbors, both in the east and the west. The second was the prospect of a

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<sup>1</sup> A concise summary of this view can be found in E. J. Hobsbawm, *The Age of Extremes : A History of the World, 1914-1991*, 84-141. Moreover, a collection of essays entitled *The Origins of the Second World War Reconsidered : A.J.P. Taylor and the Historians* edited by Gordon Martel is an illuminating introduction to the topic’s historiography.

<sup>2</sup> Among others: Richard Overy, Adam Tooze, Timothy Mason, William Carr and Alan Milward.

radical monetary and fiscal austerity, including removing price controls, diverting resources from heavy industry to the consumer sector and reestablishing the distorted export portfolio - to name just a few reforms required for the sake of macroeconomic sustainability. The third was a continuation of the Four-Year Plan policies which would have eventually precipitated an inflationary and financial crisis already imminent in 1939. The first option ultimately prevailed. I argue that there were numerous attractive (from a Nazi point of view) reasons in favor of that choice. I explain why and how they appeared attractive and how underestimated their role in the origins of the Second World War still remains.

The nature of the German post-Depression recovery (1933-1938) is not the main issue examined in this paper. Nonetheless, it is essential to keep in mind that the signs of major macroeconomic imbalance that became visible in the later period (1936-1939) were to a large extent a product of earlier policies and cannot be understood in separation. I thus begin with the introduction of the Four-Year Plan in October 1936. This moment has been often interpreted by historians as a turning point after which the Nazi leadership shifted the main thrust of its efforts from lifting the economy out of the Great Depression to a more directly war-oriented preparation and rearmament. I see no reason to question this interpretation and this paper provides further evidence to support it.

The basic premises of the Four Year Plan can be subsumed within two categories: autarky and indirect military investment. While Already in March 1933, Hitler indicated that the achievement of a full autarky was not possible within the post-WWI German borders,<sup>3</sup> it did not change the fact that the highest possible self-sufficiency was seen as most desirable. The Four Year Plan thus aimed at import substitution of resources such as oil, rubber, steel and rare metals chiefly by means of synthetic production and more efficient exploitation of lower-quality ores. A great deal of investment was directed to constructing new, gigantic industrial conglomerates such the *Reichswerke Hermann Goering* in the Salzgitter iron ore basin.<sup>4</sup> After the crop failures of 1934 and 1935, the reserves of grain and other foodstuffs became low and the foodstuffs import dependency of Germany was seen by Hitler as one of the decisive factors leading to defeat in the First World War. Indirect military investment included broadening the industrial base by means of investment in capital goods or assuring quick convertibility of consumer industries for war production. In October 1936, Hermann Goering became the head of the new ministry responsible for the Plan and a new phase in Germany's economic history began.

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<sup>3</sup> William Carr, *Arms, Autarky and Aggression : A Study in German Foreign Policy, 1933-1939* (New York: Norton, 1972), 101.

<sup>4</sup> Alan S. Milward, *The German Economy at War* (London: Athlone Press, 1965), 3.

## **II. 'Keynesian-militarism' : stimulating the economy by military expansion**

The proportion of heavy industry in the economy increased rapidly. In 1929, the capital goods sector was responsible for 41% of industrial output; in 1937 it was 51% and kept increasing.<sup>5</sup> The consumer share of GNP fell from 72% in 1935 to 54% in 1939. Some historians have emphasized the impressive (at first glance) growth of the German nominal GNP after 1932. While growth as such is undeniable, there are at least two conditions that have to be kept in mind. First, Germany was hit by the Great Depression more severely than all other European countries apart from Poland. The 1932 GNP level was thus extraordinarily low and explains the low base effect. Second, this nominal growth of GNP had little to do with a growing consumer economy or private investment. By 1938 Germany's GNP was 39% greater than in 1928, but the aggregate consumer expenditures were only 9% higher than ten years before; in per capita terms consumption had increased by meager 4 %. This small increase can be largely accounted for by the higher proportion of adults in the population in the late 1930s.<sup>6</sup> Consumer goods output increased only by 38% between 1932 and 1938, whereas the output of non-consumer goods increased by 197% and it was the latter that was chiefly responsible for the impressive GNP growth figures.<sup>7</sup> In 1938, 63% of the net national product could be attributed to personal spending; this ratio was respectively 85% in the US and approximately 79% in Britain and France. "The consumer in the Third Reich was not getting butter instead of guns."<sup>8</sup>

This policy of industrial expansion was not immediately perceived as an issue for the German consumer focused on his job stability. It was the German exporters suffered more since capital goods allocated for domestic investment had top priority. Both machine tools and armaments were not meant to be exported and especially armaments contributed little to improving the standard of living. As consumers could not find what they needed on the domestic market, they looked abroad. However, an increase in imports was hardly tolerated by the autarky-dominated thinking of the leadership and in consequence consumer demand had to be suppressed by various methods of intervention, regulation or coercion. As Hans Braun pointed out - the Nazi wage policy took away an increasing part of the national production from private consumption and made it available for rearmament purposes.<sup>9</sup> Still, big business was not happy with this situation since it was strongly encouraged to utilize low-quality resources, including iron-ore. This in turn decreased the overall quality of products, diminishing their international competitiveness and rendering businesses dependent on governmental orders. In

<sup>5</sup> Timothy W. Mason, *Nazism, Fascism and the Working Class*, ed. Jane Caplan (Cambridge: Cambridge University Press, 1995), 46.

<sup>6</sup> Gordon Martel, *The Origins of the Second World War Reconsidered : A.J.P. Taylor and the Historians* (New York: Routledge, 1999), 109.

<sup>7</sup> Richard J. Overy, *War and Economy in the Third Reich* (Oxford: Oxford University Press, 1994), 219.

<sup>8</sup> Mason, *Nazism, Fascism and the Working Class*, 47.

<sup>9</sup> Hans-Joachim Braun, *The German Economy in the Twentieth Century* (New York: Routledge, 1990), 96.

consequence, the industrial sector had to switch from quality export production to quantity production to satisfy the growing state demand. In 1939, the value of German exports was equal to 5.7 billion RM compared with 12 billion RM in 1930.<sup>10</sup>

Beneficial as the industrial base expansion was for the Reich's security and military potential, it put an unprecedented strain on Germany's limited pool of natural resources. As the global economy was recovering after 1933, the prices of basic industrial materials like iron or copper were increasing. On average, the prices of goods that Germany exported fell by 9% and the prices of imports increased by the same percentage prior to 1939.<sup>11</sup> Those unfavorable terms of trade did not help to improve the balance of payments leading to a permanent shortage of foreign currency. The value of German foreign trade fell from 26.3 billion RM in 1928 to 10.7 billion RM in 1938 and its foreign trade profile did not resemble the period of what it was in 1913 - half of it was barter or bilateral exchange in 1938.<sup>12</sup> Germany's trade position depended increasingly on political domination of her partners east and south of her borders. In consequence, the policy of autarchy radically transformed Germany from a leading world exporter to a regional power that bullied countries such as Romania or Yugoslavia into disadvantageous barter deals.<sup>13</sup>

Full employment that Germany achieved by 1936 was the flagship propaganda success and contributed greatly to the Nazi appeal. From a macroeconomic perspective, full employment entailed major disadvantages. One of them was a decline in productivity. During the 1929-38 period, per capita productivity of German industry increased by 1.3% per capita annually.<sup>14</sup> Petzina and Mason argued that there was actually a drop in productivity of as much as 10% "immediately before the war."<sup>15</sup> Even though this figure seems to be exaggerated, there is little doubt that the performance of German industry was far from ideal; over the same period British productivity grew by 2.5%. The kinds of state-sponsored investments after 1933 were usually labor-intensive. The textbook case of Autobahn construction is illuminating since not only is it very labor-intensive, but also because the government actively suppressed the usage of machinery at construction sites so that as many workers as possible could be employed. Secondly, the abundance of governmental orders after 1936 led to lowered competition stimuli that could lower productivity. The rearmament contracts offered at the end of 1938 - the naval rearmament Plan Z is an example - vastly surpassed Germany's industrial capacity. Big industrial firms had production queues secured for next several years and only command-economy style of incentivizing could enhance performance. Thirdly, most of the workers who were unemployed in

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<sup>10</sup> Ibidem, 103.

<sup>11</sup> Ibidem, 109.

<sup>12</sup> Richard J. Overy, *The Nazi Economic Recovery, 1932-1938* (London: Macmillan Press, 1982), 26-27.

<sup>13</sup> Volker Berghahn R., *Modern Germany : Society, Economy, and Politics in the Twentieth Century* (New York: Cambridge University Press, 1987), 147.

<sup>14</sup> Braun, *The German Economy in the Twentieth Century*, 93.

<sup>15</sup> Timothy W. Mason, *Social Policy in the Third Reich : The Working Class and the National Community*, ed. Jane Caplan (Providence: Berg, 1993), 186.

1932 were low-skilled or unskilled workers and their employment could not improve the statistics of per capita productivity dramatically. Fourthly, the military had a growing influence on the way that industry was being managed and the Wehrmacht did not seem to differ much from the proverbial inefficiency in which the armies around the world deal with the resources entrusted to them.<sup>16</sup>

The scale of state expansion in the economy was unprecedented in world history, Stalinist Soviet Union excepted. The peaks of government expenditure as percent of GNP immediately before WWI look bleak in comparison with the late 1930s levels. For example, the military budget in 1938 consumed 17% of GNP and 52% of total government expenditure. In 1913 it was equal to 3% of GNP and 24% of expenditure.<sup>17</sup> As Mason put it: “The Third Reich was the first modern state to face many new problems raised by permanent full employment and was totally unfitted to solve them.”<sup>18</sup> It was unfitted for two reasons: first, there was no empirical knowledge which could help to forecast where such a policy leads—“no nation had ever previously spent so vast a sum in peacetime on preparations for war.”<sup>19</sup> Second, even if there were some economic theories in circulation the Nazis did not seem to pay attention to academic theorizing. Hitler himself took pride in declaring that “the basic feature of our economic theory is that we have no theory at all.”<sup>20</sup> Therefore, speaking of an economic theory underpinning the policies of 1933-39 seems mistaken since not only was there no theory at all but, if anything, a conscious rejection of theories in principle, since all problems could have been overcome by ‘willpower’.

Whether one labels the policy mix introduced by the Nazis after 1936 Keynesian is an academic question. However, it is beyond doubt that the mix was oriented toward industrial expansion and militarization and not toward boosting consumer demand, as Keynes advised.<sup>21</sup> And because of such a direction, the classic disadvantages of fiscal expansion policies were further exacerbated. As Rene Erbe has estimated, the Keynesian multiplier of spending to income was equal to 1.5 - a rather disappointing figure: 32.6 billion RM marks spent, 52.7 billion RM of income.<sup>22</sup> Despite all the efforts of propaganda and Hitler’s personal affection for automobiles, the output per head in the German factories was four times lower than in the US<sup>23</sup> and Germany remained “one of the least motorized societies in Europe”, lagging behind Ireland in 1935 and behind France and Britain in 1939.<sup>24</sup> Short-term effects of military-driven economic growth were certainly not unsubstantial: full employment, nominal rise of GNP, high domestic demand and investment rates, etc., but the long-term structural problems: inflation, deficit and

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<sup>16</sup> Milward, *The German Economy at War*, 24-26.

<sup>17</sup> Martel, *The Origins of the Second World War Reconsidered : A.J.P. Taylor and the Historians*, 109.

<sup>18</sup> Mason, *Nazism, Fascism and the Working Class*, 49.

<sup>19</sup> Milward, *The German Economy at War*, 27.

<sup>20</sup> Braun, *The German Economy in the Twentieth Century*, 78.

<sup>21</sup> Berghahn, *Modern Germany : Society, Economy, and Politics in the Twentieth Century*, 146.

<sup>22</sup> Overy, *The Nazi Economic Recovery, 1932-1938*, 40.

<sup>23</sup> *Ibidem*, 53-54.

<sup>24</sup> Richard J. Evans, *The Third Reich in Power, 1933-1939* (New York: Penguin Press, 2005), 325-326.

debt, the inflexibility of productive capacities and many others are even more substantial after the rearmament is accomplished. Needless to say, the assumption that the process of rearmament will be complete at some point in time is something that has to be dismissed in the case of Nazi Germany.

### **III. The financial crisis of 1938/1939**

The fact that the German economy experienced structural problems rooted in the nature of policy mix applied between 1933 and 1939 does not shed much light on the relationship between this economy and the Second World War. However, the connection between the two is very marked if one looks closely enough. Some of the aforementioned structural problems were becoming visible in 1938 and prodded a change in the direction of the Four Year Plan and led to major international developments.

After 1936, full employment is no longer an adequate term capturing the state of the German economy. Terms such as ‘labor shortage’ and ‘state-managed allocation of labor’ are more applicable. The neoclassical mechanisms of balancing labor supply and demand through wages were becoming irrelevant. The situation was already severe in November 1936 when first regulations concerning maximum wage and labor mobility were introduced. However, a true crisis developed in 1938 when a law enabling labor conscription was passed. As Adam Tooze pointed out, “the fear of the inflationary pressure that everybody knew to be hanging over the German economy was such that any flexibility in wage setting was liable to be interpreted as indiscipline or even sabotage.”<sup>25</sup> By the end of 1939, 1.3 million workers had been employed based on this law.

The boom generated in the heavy industry sector had many consequences. The most immediate one was the rising average wage in the sector. As companies hired more employees the competition for labor become more intense and a higher wage prospect was the easiest way to attract new workers. After full employment had been reached in the summer of 1936, employers had to either poach the workers of their most direct competitors - in the case of high-skilled workers - or look for cheaper labor in other sectors of the economy. This imbalance induced by the government’s investment predominantly into one sector of the economy gradually led to an imbalance in wages between the preferred sectors (steel, chemicals, synthetics, weapons, construction, aircraft, shipyards, etc.) and other sectors considered less essential. For workers employed in the above-mentioned sectors a period of “unprecedented prosperity” ensued,<sup>26</sup> not only in terms of real wages, but also with respect to job security, prospects of promotion, overtime, various bonuses and premiums. For many other groups and for the farmers in particular, the standard of living differential became high enough to motivate them to abandon their occupation and

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<sup>25</sup> Adam Tooze, *The Wages of Destruction : The Making and Breaking of the Nazi Economy* (New York: Viking Penguin, 2007), 260.

<sup>26</sup> Mason, *Nazism, Fascism and the Working Class*, 65.

migrate to towns. From the Nazi point of view, this process was highly undesirable because of the increasing costs of production in the heavy industry sector and a shortage of agricultural workers, which threatened the autarchic goal of nutritional self-sufficiency.

Some historians deny the existence or the scale of that process on the grounds that statistically wage increases and differentials were negligible. The average hourly wage in industry increased only by 10% from 1935 to 1939 - a relatively modest change especially in comparison with the growing industrial output.<sup>27</sup> However, if we look at the average weekly wage, the difference is already 17.4%. Furthermore, these increases took place under a strict maximum wage cap and other wage regulations. The increase in real income was determined more by semi-official and often unrecorded means like premiums, bonuses, paid holidays, social security additions, etc. As Braun pointed out, the maximum wage limit led to unprecedented outcomes. In aircraft industry workers apparently worked as much as eighty hours per week.<sup>28</sup> Ian Kershaw wrote that “German workers [...] were subjected to such intense stress and a crippling work-tempo that damaging psychological and physical effects were unmistakable, and [...] found reflection in a rising toll of sickness, indiscipline and absenteeism.”<sup>29</sup>

In the late 1930s, the nominal prices, especially of foodstuffs, were being increasingly controlled by the state, hence the perceived standard of living was on the rise. According to Mason, the average cost of living in 1939 was 10% lower than in 1929.<sup>30</sup> Most historians do agree that the average cost of living was not higher in 1939; due to state price control mostly, but also because of the overvalued Mark and decreasing reliance on imports and favoring domestic supply.

The disequilibrium was chiefly caused by two factors. Firstly, the high demand for capital goods introduced a structural imbalance in the economy that was strengthened due to the lack of a market mechanism to mitigate the inter-sector differentials. Secondly, it was also purposely maintained by the government in order to secure a relatively high standard of living for the German worker. Even if outwardly tolerated, the Nazis were perceived with varying degrees of skepticism by industrial workers, in particular by the millions of them with political sympathies on the left before 1933. The Nazi party leadership was aware of this potential opposition. The strategy was to buy the workers out of socialist sympathies by means of improving their standard of living and winning genuine support rather than temporary acceptance.

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<sup>27</sup> Gerhard Bry, *Wages in Germany, 1871-1945* (Princeton: Princeton University Press, 1960), 242-243.

<sup>28</sup> Berghahn, *Modern Germany : Society, Economy, and Politics in the Twentieth Century*, 139.

<sup>29</sup> Ian Kershaw, *Popular Opinion and Political Dissent in the Third Reich, Bavaria 1933-1945* (Oxford: Oxford University Press, 2002), 99.

<sup>30</sup> Mason, *Nazism, Fascism and the Working Class*, 114.

However beneficial this situation was for the industrial workers, it entailed consequences that could not be ‘manually’ controlled indefinitely. As real wages increased, workers had more income to spend on consumer and luxury goods that often had to be imported. This tendency was directly opposed to the Nazi plan of converting consumer production for the sake of rearmament and further pressured the already worsening current account balance. As general Georg Thomas remarked to a German industrialist, “[Germany] shall never defeat England with radio sets, vacuum cleaners and cooking utensils”<sup>31</sup> – the growth of consumer consumption, normally a desirable economic indicator, was not really welcomed by the Nazis. These developments put more pressure toward introducing stricter controls and in consequence - moved the market economy of 1933 much closer to the Soviet model.

### Labor market

The first Nazi attempt to regulate the labor market took place in November 1936 and it was a part of the original Four Year Plan. However, after the first signs of discontent were reported to the Ministry of Labor, the measures of wage control and change-of-job permits remained valid mostly *de jure* and were not executed.<sup>32</sup> Next, the Decree on Wage Structure was passed. It set a limit to maximum industrial wages. Again, the officials of the Labor Ministry reported that the workers were strongly opposed to this idea, but the new laws were enforced more resolutely now as the labor shortage worsened. The most telling example of the Nazi inability to force a high degree of control over the labor market was the decree of war mobilization on September 4, 1939. The draconian measures - compulsory work conscription among them - that this order established sparked a wave of discontent so forceful that the decree was officially cancelled two months later. The additional reason justifying the limitation of workers’ freedom was of an international character: ‘the Reich is in danger and therefore we have the right to demand sacrifices’ – this kind of rationalizing was prevalent in the leadership.

To what extent the labor market control measures were unpopular and/or ineffective is a matter of controversy. Richard Overy argued that the Nazi leadership paid little attention to the workers’ attitudes and forced social policies according to the rearmament schedule and not according to the concerns over social support. Overy also tried to show that those measures allowed the Nazis to prepare the economy for war as well as it could have been prepared in 1939. I think that a more balanced view must be adopted. There must have been a trade-off between the pace of rearmament and its social acceptance. The first time labor regulations were introduced in Germany was during WWI and they “were among the most bitterly resented economic measures” of the war.<sup>33</sup> It would not be unreasonable

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<sup>31</sup> Mason, *Social Policy in the Third Reich : The Working Class and the National Community*, 199.

<sup>32</sup> *Ibidem*, 251-252.

<sup>33</sup> *Ibidem*, 231.



to suspect that very similar measures would be resented even more in peacetime and amidst the apparent prosperity. It is telling that full, total war mobilization took place in Germany only after the Stalingrad defeat.<sup>34</sup> William Carr wrote that the Nazi “stubborn refusal to curb expenditure on lavish building programs or to curb consumer goods production can only have been due to a conviction that bread and circuses were essential for preserving dictatorial government in a country where despite Gestapo and concentration camps, discontent was never far below the surface.”<sup>35</sup> The strategic concept of blitzkrieg might have also been motivated by this trade-off: a desire to avoid too much popular sacrifice by means of lightning-fast victories; “guns and some butter” must have been Hitler’s master-plan.<sup>36</sup>

As far as the initial stage of labor shortage could be alleviated by means of transferring workers from less relevant consumer industries to heavy industry, this option had its constraints. In April 1938, when the construction of the Siegfried Line was announced, the Labor Ministry experienced difficulties in finding the 300,000 workers required for this project.<sup>37</sup> After May 1938, the number of unemployed workers was occasionally lower than the official register of workers ‘unfit’ for work.<sup>38</sup> By the end of 1938, the Ministry of Labor estimated a shortage of around 1,000,000 workers in the economy.<sup>39</sup> In August 1939, unemployment reached a figure of 34,000 – a telling number in a country of eighty million.<sup>40</sup>

There were two quick solutions to the issue available - women and foreign workers and both were difficult to reconcile with the ideological line of the party. In general, the Nazi ideologues did not hold one coherent view on women’s role in society, but a conservative tone which emphasized their domestic, childrearing and lower level civic-service responsibilities often prevailed.<sup>41</sup> As Goebbels put it in 1929: “the mission of the woman is to be beautiful and to bring children into the world. [...] In exchange, the mate takes care of gathering the food, and stands guard and wards off the enemy.”<sup>42</sup> No policy aimed at increased labor participation of women was introduced. In consequence, the overall employment of women in 1939 was lower than in 1928 by 400,000.<sup>43</sup> The female labor force issue is an example of the “gap between NSDAP ideology and practical economic requirements.”<sup>44</sup>

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<sup>34</sup> However, it is still a matter of debate when and to what extent the German economy was mobilized for total war. See: Adam Tooze, *Statistics and the German State, 1900-1945 : The Making of Modern Economic Knowledge*, Vol. 9 (New York: Cambridge University Press, 2001), 249.

<sup>35</sup> Carr, *Arms, Autarky and Aggression : A Study in German Foreign Policy, 1933-1939*, 119.

<sup>36</sup> Milward, *The German Economy at War*, 8.

<sup>37</sup> Carr, *Arms, Autarky and Aggression : A Study in German Foreign Policy, 1933-1939*, 98.

<sup>38</sup> However, one must remain cautious while using employment statistics. As Adam Tooze writes, “If the data on raw material supplies were doubtful, the data on industrial employment were positively misleading.” Tooze, *Statistics and the German State, 1900-1945 : The Making of Modern Economic Knowledge*, 248.

<sup>39</sup> Mason, *Social Policy in the Third Reich : The Working Class and the National Community*, 183-185.

<sup>40</sup> Berghahn, *Modern Germany : Society, Economy, and Politics in the Twentieth Century*, 138.

<sup>41</sup> Jill Stephenson, *Women in Nazi Germany* (Harlow, NY: Longman, 2001).

<sup>42</sup> Evans, *The Third Reich in Power, 1933-1939*, 332.

<sup>43</sup> Mason, *Social Policy in the Third Reich : The Working Class and the National Community*, 235.

<sup>44</sup> Braun, *The German Economy in the Twentieth Century*, 97.

The number of foreign workers in 1939 was equal to around 0.5 million.<sup>45</sup> This figure looks bleak in comparison with the total number of ‘foreign’ workers that Nazi Germany enslaved during the war. Already in June 1941 the figure was - according to the official employment records - almost three million high and it could have been close to ten million by the end of the war.<sup>46</sup> Relying on foreign workers in peacetime was similarly ideologically inconvenient as it might have seemed contradictory to the Nazi fantasies of Aryan self-sufficiency and purity of blood. Conquest and ruthless exploitation of the subhuman peoples in the east did not pose such ideological conundrums.

### Finance and inflation

When discussing Nazi finances, it is indispensable to introduce ‘Hitler’s magician’ – Mr. Hjalmar Schacht. In 1936, Schacht was the most consequential and knowledgeable economic manager as both the Minister of Economics and the Reichsbank’s President. Schacht did support the Nazi policies of economic recovery (until 1936) and introduced its means of deficit-financing. However, as his biographer Norman Peterson remarks, he was also a leading proponent of conservative financial policies and his views very strongly shaped by the hyperinflation in the early 1920s.<sup>47</sup> Schacht considered the fiscal expansion as a necessary, but temporary measure, to be abandoned after the ‘normal’ operations of the economy were restored. When the Four Year Plan was introduced, Schacht considered resignation, but decided to remain in order to, as he later claimed, mitigate its negative influence.

Thanks to the Four Year Plan, Hermann Goering added yet another position to the his collection of official sinecures. He now became the head of the Office of the Four Year Plan. It was the first sign of Schacht’s weakening position. Earlier, in April 1936, it was Schacht himself who supported Goering’s appointment as a Commissioner for Raw Materials and Foreign Exchange, thinking that Goering will be the one to “take the unpopular decisions, whilst he pulled the strings in the background.”<sup>48</sup> In November 1937, Schacht was forced to resign from his ministerial office and was replaced by Walter Funk – a loyal *partei-genosse* since 1930.<sup>49</sup> He remained the President of Reichsbank for over a year, increasingly suspicious of Hitler’s intentions, but still willing to mitigate the negative effects of rearmament on the civilian economy<sup>50</sup>. On January 7, 1939, Schacht was dismissed and his open involvement with the Nazis

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<sup>45</sup> Mason, *Social Policy in the Third Reich : The Working Class and the National Community*, 238.

<sup>46</sup> *Ibidem*, 265.

<sup>47</sup> Edward N. Peterson, *Hjalmar Schacht: For and Against Hitler; a Political-Economic Study of Germany, 1923-1945* (Boston: Christopher Pub. House, 1954), 299.

<sup>48</sup> Tooze, *Statistics and the German State, 1900-1945 : The Making of Modern Economic Knowledge*, 219.

<sup>49</sup> Alan Bullock, *Hitler; a Study in Tyranny* (New York: Harper, 1952). 413.

<sup>50</sup> Tooze, *Statistics and the German State, 1900-1945 : The Making of Modern Economic Knowledge*, 223.

was over. Schacht was by far the best-informed person on the state of the German economy in the 1930s and since 1936 he never tired of predicting an imminent, sharp crisis.<sup>51</sup>

Between 1933 and 1938 the total government expenditure increased by over 300% and reached 42 billion RM, a 33.5% of GNP. In 1932 it was 17.9% of GNP.<sup>52</sup> It was financed mostly by government borrowing until 1938, but that year the amount of credit became scarce and thus a monetary expansion followed. By 1938, money supply had increased by 70% in comparison with the 1933 levels. During 1938 money supply grew much faster than industrial output, 22% versus 4% respectively.<sup>53</sup> The Reichsbank had to shift from long-term to short-term borrowing and eventually resort to printing presses. From March to December 1938 the amount of notes in circulation rose by 3 billion RM, 1.3 billion more than the total increase over the preceding five years.<sup>54</sup> But as Goering remarked in 1936: “measures which in a state with parliamentary government would probably bring about inflation do not have the same results in a totalitarian system.” Or in Goebbels’ words: “budget deficits were nothing to worry about, since there had never been a nation which had perished because of deficits, but only because of lack of weapons.”<sup>55</sup>

But Hjalmar Schacht was much alarmed by these developments. Earlier, it was Schacht who was responsible for enabling new ways of deficit funding by introducing the so-called Mefo bills. These bills were notes given to contractors that could be cashed in the future in anticipation of future state taxation. The bills were underwritten by a straw company - Metallurgische Forschungs GmbH - capitalized by big business, e.g. Siemens, Deutsche Werke, Krupp and Rheinmetall. Ingenious as this measure was in the early stages of the recovery, when the imminent militarization of the economy became clearer after 1936, especially smaller businesses refused to accept the Mefo-bills demanding regular payment instead. In 1938 Hitler cancelled the Mefo-bills and the Reichsbank had to rely to standard borrowing increasing the nominal public debt by 30% in the fiscal year of 1938/39.<sup>56</sup>

With the Mefo-bills no longer issued, numerous firms decided to cash their due notes which resulted in a rapid increase of money in circulation. In an attempt to defend the Mark and protect Germany from another inflationary spiral, Schacht, supported by fellow central bankers, refused to supply the government with a new tranche of credit in December, 1938. Faced with a rebellion of a key institution, Hitler reacted immediately - Schacht was dismissed and the small degree of independence of

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<sup>51</sup> Overy, *War and Economy in the Third Reich*, 187.

<sup>52</sup> *Ibidem*, 184.

<sup>53</sup> Overy, *The Nazi Economic Recovery, 1932-1938*, 32-33.

<sup>54</sup> Carr, *Arms, Autarky and Aggression : A Study in German Foreign Policy, 1933-1939*, 119.

<sup>55</sup> *Ibid.*, 90

<sup>56</sup> Overy, *War and Economy in the Third Reich*, 191.

the Reichsbank was gone by early January 1939. As Hitler explained in the Reichstag on 30<sup>th</sup> January 1939, “economic policy depended not on financial theories but simply on the volume of production.”<sup>57</sup>

In this context, Tim Mason wrote: “If we look at the Four Year Plan, it is obvious that the inflationary pressure that it implied had to be paid by someone other than Germany.”<sup>58</sup> It is not accidental that he used the term ‘inflationary pressure’ instead of simply ‘inflation’. Officially, there was no inflation in Germany in 1939 - the price index rose by a healthy 1%.<sup>59</sup> While this figure distorts more than it shows, it is a tribute to the efficacy of Nazi price controls. But as Harold James argued, the Reichsbank’s diminishing ability to float government bonds “reflected the symptoms of an already evident inflationary overhang, caused by increased incomes combined with reduced purchases following the deterioration of quality because of import restrictions in many consumer goods.”<sup>60</sup> Richard Overy wrote of “veiled inflation” that was additionally aggravated by growing world prices and which was “only repressed by the government’s strict enforcement of wage and price controls.”<sup>61</sup> According to Joseph Schumpeter, the government moved away from additive spending – with multiplier effect expected as a result of higher demand - to substitutive spending where the resources were diverted away from the consumer sector and invested in projects where little or no multiplier effect could be expected, i.e. in military equipment.<sup>62</sup> This would explain why there was no consumer-driven inflation, but it does not change the fact that the accumulated debt would have to be repaid sooner or later either by the German tax payers or by less conventional methods such as conquest and plunder.

In March 1942, Adolf Hitler uttered the following words: “Since the reintroduction of conscription, our armaments have swallowed fantastic sums which are still completely uncovered. There are only two ways: either these debts will be put on the shoulders of the *Volksgenossen* in the Reich in the shape of taxes or they will be paid for by the potential profits from the occupied eastern territories. The latter ought to be self-evident.”<sup>63</sup> A similar, if less ominous, conclusion, had been reached by the Reichsbank four years earlier: “the means of peacetime economy are no longer sufficient; one must instead begin to reach for the tougher measures of the war economy.”<sup>64</sup> Both these statements suggest that a connection between domestic concerns and foreign policy is not only a product of historical imagination. If we look closer at the unfolding the financial crisis of 1938/1939, we can see how closely the Nazi economy and foreign aggression were intertwined.

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<sup>57</sup> Carr, *Arms, Autarky and Aggression : A Study in German Foreign Policy, 1933-1939*, 119-120.

<sup>58</sup> Mason, *Nazism, Fascism and the Working Class*, 109.

<sup>59</sup> Overy, *War and Economy in the Third Reich*, 194.

<sup>60</sup> James, *The Nazi Dictatorship and the Deutsche Bank*, 30.

<sup>61</sup> Overy, *The Nazi Economic Recovery, 1932-1938*, 63.

<sup>62</sup> *Ibidem*, 64.

<sup>63</sup> Berghahn, *Modern Germany : Society, Economy, and Politics in the Twentieth Century*, 149.

<sup>64</sup> Tooze, *The Wages of Destruction : The Making and Breaking of the Nazi Economy*, 289.

### Low on cash – January 1939 as a point of no return

In May 1938, Goering confidently announced to the Wehrmacht's top commanders: "in relation to money, we would no longer need to worry [since] dealing with this issue was a question of political leadership." In the summer, he added: "the armed forces should not concern themselves with the fate of the economy. The Field Marshall has the sole responsibility: the collapse of parts of the economy is irrelevant."<sup>65</sup> To what extent those words sounded reassuring is not clear, but it is clear that 'the fate of the economy' was something that the Nazi leadership was indeed worried about in 1938.

In the autumn of 1938, the Reichsbank was forced to intervene in the private financial market - a prohibition of private mortgage loans was passed. This step was aligned with other efforts aimed at curbing private consumption and investment in order to provide capital for rearmament. It was also one of the first measures so openly hostile to consumer welfare. As one official of the Labor Office remarked - "a severe crisis of public confidence and bitterness were inevitable". According to Adam Tooze, at this period Germany was also facing "the worst housing shortage in history."<sup>66</sup> Even if the housing shortage was at that moment a less pressing concern than the shortage of capital, the prohibition of private mortgage loans is a sign that, from the leadership's point of view, financial concerns had at the moment higher priority than a potential social reaction to the measures applied.

In late summer 1938, the Finance Minister Schwerin van Krosigk asked for a private conversation with Hitler. When he was refused he drafted a memorandum on the condition of the Reich's finances. In that document, he warned that the country was in the grip of a "war and inflation psychosis" and that financial markets were becoming unwilling to cooperate with the government due to Hitler's aggressive rhetoric on the eve of the Sudetenland crisis.<sup>67</sup> Germany needed to restore investors' confidence by means of "clarifying its foreign policy"; there was weak demand for long-term loans floated at an alarming pace and money printing - Krosigk argued - was unacceptable. Annexation of the Sudetenland, similar to the Anschluss of Austria in March, improved the situation temporarily. Other than the gold and foreign currency reserves acquired, the financial markets were now buoyed by the hope that the potential source of war had been successfully resolved during the Munich Conference and that Hitler would now slow down the rearmament effort and restore the Reich's reliable borrowing practices. "In a surge of optimism savers, insurance funds and other financial institutions swallowed not only an offering of 1.5 billion RM in government bonds, but also a further 350 million added at short notice by the cash-starved Finance Ministry."<sup>68</sup> However, as Hitler's appetite was not satiated but wetted

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<sup>65</sup> Ibid, 253.

<sup>66</sup> Ibid, 258.

<sup>67</sup> Ibid, 272.

<sup>68</sup> Ibidem, 295.

by his revisionist achievements, the wave of confidence soon faded and the Reichsbank's attempt to float yet another 1.5 billion RM loan in the end of November 1938 failed - a third of the government's bonds failed to find a buyer. Hitler recommended that the situation should be overcome by will and determination, i.e. short-term borrowing and money printing. However, "buying public debt is a very obvious measurement of a regime's credibility in the eyes of well-off citizens"<sup>69</sup> and the fact that "the market had gone on strike"<sup>70</sup> could not be ignored by the leadership.

This crisis met a firm response from the War Ministry. In a letter addressed to the Reichsbank they accused the bank of an anti-state attitude and argued that short-term borrowing should have been executed instead of bond floating. In response, the Reichsbank's officials wrote that at the moment they were facing a 2 billion RM cash flow deficit and that the day when the bank would have to cease its payments was imminent.<sup>71</sup> Hjalmar Schacht also felt obliged to intervene. On January 2, 1939 he was permitted to hold a conference with Hitler during which he pleaded to lower the level of arms expenditure. As this produced no effect, he wrote a report to Hitler 'requesting' a curtailment of arms expenditure and a balanced budget as this was the only way to prevent inflation. Schacht's lifetime commitment was to maintain the respectability and stability of the Mark - even if it was overvalued at the moment - and to avoid the recurrence of the 1923 disaster.<sup>72</sup> He was willing to risk a lot and paid the price - together with other top Reichsbank officials - he was dismissed and replaced by Walter Funk and other more reliable party members. In June 1939, the statutes of the Reichsbank were changed providing no outside controls on monetary expansion.

A sharp shortage of currency reserves cannot be solved by personal changes. Walter Funk soon found out that the problems that made Schacht's policy 'anti-state' were real enough and had to propose new solutions to the problem. He devised the 'New Financial Plan' in April 1939. Its most important instrument was not unlike to Schacht's Mefo-bills - the government's orders were to be covered by tax certificates (up to 40% percent of payment) redeemable either after 7 or 37 months. Needless to say, it was a postponement not a solution. By September 1939, the value of tax certificates was equal to 3 billion RM<sup>73</sup> and kept growing.

The New Financial Plan is an example of how real economic problems generated by the fiscal expansion and rearmament were never properly addressed, but rather postponed by means of contrivances. It is completely reasonable to believe that the Nazi leadership did hope that a victorious war of conquest and exploitation would render financial problems irrelevant. No hypothesis about hopes

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<sup>69</sup> James, *The Nazi Dictatorship and the Deutsche Bank*, 31.

<sup>70</sup> *Ibidem*, 32.

<sup>71</sup> Tooze, *The Wages of Destruction : The Making and Breaking of the Nazi Economy*, 296.

<sup>72</sup> Peterson, *Hjalmar Schacht: For and Against Hitler; a Political-Economic Study of Germany, 1923-1945*, 305.

<sup>73</sup> Overy, *War and Economy in the Third Reich*, 216.

and motivations can be 'proven', and here especially so since Hitler believed that economics is of derivative nature compared to political will or *Volksgemeinschaft*. Tim Mason argued in his essay entitled 'Primacy of Politics' that this belief was the cornerstone of Nazi ideology and that war was its ultimate fulfillment. What kinds of solutions other than war were available? At the most basic level, they could have been as simple as increased taxation. However, this could be politically costly due to the populist and plebiscitary nature of the regime. The only significant tax increase before the war was the corporate tax which had been gradually raised from 15% to 40%.<sup>74</sup> Next tax hikes were introduced in September 1939.

There are at least two conclusions to be drawn from the financial crisis of 1938/39. First, it was severe enough to reach the highest ring of Nazi leadership and led to decisive interventions. In November 1938, Hitler ordered the Wehrmacht to curtail its expenditures and even though the order had been largely ignored, it had an impact on the level of combat readiness in September 1939. Richard Overy argued that because of that decision, the quantity of war supplies such as munitions or explosives was sufficient only for a month-long campaign and was a key factor which prevented Germany from attacking France in November 1939 as had been planned.<sup>75</sup> Second, the New Financial Plan failed to fix the source of the crisis in a systemic way. This might be explained by several hypotheses: 1) hoping that a war would fix the problem 2) legitimacy concerns due to the high likelihood of unfavorable social reaction to austerity 3) ideological disregard for the importance of financial issues or 4) a mixture of the three.

### Export and foreign currency

In August 1938, the value of German exports was 20% lower than last year, and there were few new foreign orders.<sup>76</sup> Because of the growing international tensions, the prospects for global trade looked bleak. In early November, Goering informed the Wehrmacht that export orders would have priority over all other contracts. In his Reichstag speech on January 31, 1939, Hitler pained the choice facing the German economy as 'either to export or to die'.<sup>77</sup> The total amount of foreign currency and gold reserves dropped sharply from about 1,000 million RM in early 1933 to less than 200 million RM in 1935 and then it fluctuated between 100 million and 200 million until 1939.<sup>78</sup> In 1938, Germany possessed only

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<sup>74</sup> Mason, *Nazism, Fascism and the Working Class*, 107.

<sup>75</sup> Milward, *The German Economy at War*, 33.

<sup>76</sup> Tooze, *The Wages of Destruction : The Making and Breaking of the Nazi Economy*, 301.

<sup>77</sup> *Ibidem*, 301.

<sup>78</sup> *Ibidem*, 72. There were short periods of 'financial security' after acquisition of the Czech and Austrian currency reserves.

1% of global gold and financial reserves, while France and Britain around 11% and the United States' over 50%.<sup>79</sup>

The unfavorable trade balance trend had been further aggravated by a complex import dependency. There were two 'constants' of the German imports in the 1930s. The consumer part of it was strongly connected to the populist character of the government. Thus, a country deep in war preparations still imported a substantial number of luxury goods like tobacco, cocoa and coffee.<sup>80</sup> In general, import of foodstuffs was increasing because of both the worsening agricultural situation and the increasing reserves of cash at hand available for industrial workers. There was an increase in the total import value of foodstuffs from 1.44 billion RM in 1935 to 2.39 billion RM in 1938.<sup>81</sup> The second 'constant' of imports was raw materials and this issue seems to be even more important in the context of Nazi foreign policy.

Germany industry could not operate without certain raw materials and the demand for them steadily grew as the Four Year Plan was underway. In September 1939, Germany still depended on imports for 70% of her iron ore demand, 90% of her copper, all of her manganese, chrome, nickel, wolfram, tungsten and many other metals.<sup>82</sup> The shortages of steel had been especially painful given the goals of the Four Year Plan. The ratio between the actual production volume with the amounts of raw materials available as of July 1939 and the potential production given unlimited raw materials was estimated to be between 1:3 and 1:4 after July 1939 and remained such until the summer of 1940.<sup>83</sup> Germany's post-WWI borders gave her a very limited access to iron ore and this was the chief factor explaining the low ratio. The Four-Year Plan broadened the resource base by some synthetics, but they could do little to alleviate the iron ore shortage.

### Agriculture

According to the *Dolchstoßlegende*, Germany was defeated in WWI not on the battlefield, but because of social democratic and communist traitors at home. Especially the officer corps espoused this belief, including Ludwig Beck, the Chief of the Army Staff. But even the most fanatical proponents agreed that the revolution in Germany did not come out of nowhere. It was the worsening food shortage that made the mariners and workers rebel. The weight of this myth is hard to overestimate and a great deal of Hitler's views can be seen as 'lessons' from the Great War. However, important as agricultural self-sufficiency and the fate of the average German farmer was ideologically for the Nazis, their

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<sup>79</sup> Paul M. Kennedy, *The Rise and Fall of The Great Powers* (New York: Random House, 1987), 307.

<sup>80</sup> Mason, *Nazism, Fascism and the Working Class*, 110.

<sup>81</sup> Mason, *Social Policy in the Third Reich : The Working Class and the National Community*, 200.

<sup>82</sup> Peterson, *Hjalmar Schacht: For and Against Hitler; a Political-Economic Study of Germany, 1923-1945*, 297-298.

<sup>83</sup> Tooze, *The Wages of Destruction : The Making and Breaking of the Nazi Economy*, 315.



propaganda could not hide the fact that it was agriculture was hit most by the growing structural imbalances in the late 1930s.

In 1939, a dairy worker earned approximately 60 RM a week while a bricklayer helper doing piecework cherished a weekly income of 150 RM.<sup>84</sup> This wage differential contributed to a rural exodus in the late 1930s, especially since price controls meant that the cost of living did not differ dramatically between villages and cities. The total number of people employed in agriculture had fallen by 1.4 million to 12.26 million by the late 1930s.<sup>85</sup> In April 1938, the Ministry of Labor reckoned that agriculture was short of 250,000 workers<sup>86</sup> while Nazi agronomists estimated that the Reich would need to add 7-8 million hectares of farmland in order to achieve food self-sufficiency.<sup>87</sup> Although the production of grain remained relatively high and 1938 was a bumper harvest year, the production of other more capital-intensive products like meat or milk declined. In consequence, the Reich was facing a 'fat gap'. This led to growth in foodstuffs import of about 40% between 1936 and 1939.<sup>88</sup> In 1939, due to mobilization, the shortage of labor was so acute that the government planned to make students work at reaping the harvest. In the end, the job had been done by reserve army divisions.

The overall agricultural output remained more or less constant in the 1930s with a decreasing number people in the fields. But from an autarkic point of view and in the context of war of attrition, this result was a failure. The demand for food grew constantly in the 1930s because of the rising standards of living in towns and this led to stronger import pressures. "The problem of agriculture called into question the entire achievement of Hitler's government" since this government was unable to address the most direct - so it was believed - cause of Germany's defeat in 1918.<sup>89</sup> Thus, even though the shortage of agricultural labor was not such an urgent problem as the financial crisis, it was far more important ideologically and played a key role in the fateful decisions of 1939. As the Polish Corridor crisis intensified, Hitler addressed his leaders (including Goering and Reader) in the following words: "We must not allow the principle to prevail that one can accommodate oneself to the circumstances and thus shirk the solution of problems. The circumstances must rather be adapted to suit the demands. This is not possible without breaking into other countries or attacking other people's property [...] Living space proportionate to the greatness of the state is fundamental to every power. One can do without it for a time, but sooner or later the problems will have to be solved by hook or by crook. [...] No German statesman can shirk the problem for longer"<sup>90</sup>. Then, he addressed agriculture directly: "It is not Danzig

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<sup>84</sup> Braun, *The German Economy in the Twentieth Century*, 100.

<sup>85</sup> Mason, *Social Policy in the Third Reich : The Working Class and the National Community*, 194.

<sup>86</sup> Mason, *Nazism, Fascism and the Working Class*, 112.

<sup>87</sup> Tooze, *The Wages of Destruction : The Making and Breaking of the Nazi Economy*, 197.

<sup>88</sup> Braun, *The German Economy in the Twentieth Century*, 99.

<sup>89</sup> *Ibidem*, 263.

<sup>90</sup> Carr, *Arms, Autarky and Aggression : A Study in German Foreign Policy, 1933-1939*, 111.

that is at stake [...] for us it is a matter of expanding our living space in the east and making food supplies secure and also solving the problem of the Baltic States. Food supplies can only be obtained from thinly populated areas. [...] the throughout German cultivation will tremendously increase the produce.”<sup>91</sup> This passage has received comment from numerous historians. There is no reason to doubt Hitler’s honesty in expressing his intentions and motivations to a closed circle of leaders. He made similar if less explicit remarks on other occasions. To give just one example, in a conversation with Albert Speer, he said that the Polish people must be kept poor and submissive so that they can be used as a cheap agricultural force; a policy systematically pursued between 1939 and 1944.

The agricultural crisis had a more long-term character than the financial one and it required less urgent attention than, for example, labor and raw materials shortages. It did not play a direct role in Hitler’s decision to invade Poland in 1939. However, if we consider Hitler’s lebensraum fantasies and the social-darwinist vision he presented in *Mein Kampf* seriously, the agricultural weakness of Germany was perhaps one of the key factors playing into Nazi strategic thinking.

#### **IV.’ It’s the economy, stupid’**

So far, the paper supports three main theses. First, that the mode of the economic recovery (1932-38) entailed serious structural problems in the long run; second, that a serious financial crisis did take place in 1938 and 1939; third - that the Nazi leadership approached the crisis seriously. What still needs further evidence is how those circumstances are connected with the outbreak of World War II.

Throughout history, wars were often waged because one or both sides perceived great gains if victorious. Some historians have argued that if the Second World War had economic origins, these origins were of similarly hypothetical, future-oriented nature. They pay special attention to some pre-1938 documents in which Hitler predicted why and how Germany would benefit from another war. Here, the so-called Hossbach memorandum plays a central role. Initially, Hitler arranged the Hossbach meeting because of the internal conflict between conservative-minded military leaders like Werner von Fritsch and state officials (primarily Goering) concerning the too rapid - according to von Fritsch - rearmament pace; Hitler probably sought to, by means of his oratory skills and patriotic tone, reconcile the two camps.<sup>92</sup> He argued that Germany’s destiny was either expansion or annihilation. He admitted that full autarky was illusory, that living standards could not be lowered by a policy of control and regulation in peacetime and that the prospect of acquiring space for additional agricultural cultivation as well as gaining access to rich natural resources was the only path forward.<sup>93</sup> He also predicted that the

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<sup>91</sup> Ibidem, 111.

<sup>92</sup> Bullock, *Hitler; a Study in Tyranny*, 370.

<sup>93</sup> Carr, *Arms, Autarky and Aggression : A Study in German Foreign Policy, 1933-1939*, 71-75.

comparative advantages of Germany's rapid rearmament would fade by 1943-45 and that immediate action was required. The Hossbach memorandum has been often perceived as the official Nazi 'blueprint' for war preparation and war itself, and with strong reasons: "Economy has no other task than the self-assertion of the nation. Parallel with the military and political rearmament and mobilization of our nation must go its economic rearmament and mobilization, and this must be effected in the same tempo, with the same determination, and if need be with the same ruthlessness as well. [...] The German economy must be fit for war in four years."<sup>94</sup> In the context of these words, the Second World War might be thought of as a product of a very consistent policy or a careful plan which assumed that hypothetical economic gains justified total national mobilization and war and for the sake of which [the plan] could not be altered by any domestic crises and other contingent developments.<sup>95</sup>

The reason why the aforementioned interpretation is not convincing is the fact that according to the Hossbach blueprint the war was not supposed to start earlier than 1942-43, the dates explicitly mentioned by Hitler. Furthermore, Hitler also openly declared that full war readiness could not be reached in peacetime, primarily because of social policy constraints. Therefore, even though it is beyond doubt that the Nazi leadership perceived the future war as a means of achieving certain (perversely understood) economic goals, the invasion of Poland was of different nature. As Adam Tooze perceptively remarked: [after the Hossbach meeting] "Hitler now ceaselessly raised the level of international tension. Rather than domestic mobilization creating the conditions for war, international tension was to become the principal lever through which the leadership of the Third Reich [...] catapulted the German economy into a dramatically higher level of mobilization. International escalation opened the door to domestic mobilization, not the other way round."<sup>96</sup> The Polish Corridor affair, after Anschluss, Sudetenland and the annexations of Bohemia and Memel, was meant to be yet another rung on the ladder of increasing international temperature and thus domestic mobilization, but not yet the total war for the sake of 'living space' and preservation of the Germanic race that Hitler sketched out in his Hossbach speech.

While issuing the order for his armies to invade Poland, Hitler was convinced that Britain and France would not fulfill their alliance obligations. In Hitler's mind, the war with Poland was meant to be a quick success just like all of his international and diplomatic adventures so far. This limited war was primarily a response to the worsening internal situation and an attempt to amend it temporarily until the 'proper war' with Western powers and/or the Soviet Union could be launched. The prospect of

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<sup>94</sup> Martel, *The Origins of the Second World War Reconsidered : A.J.P. Taylor and the Historians*, 107.

<sup>95</sup> Although I disagree with this interpretation, it is admittedly a strong one given the content of the Hossbach Memorandum. However, some historians - A.J.P. Taylor in particular - have dismissed it altogether as another piece of Hitler's bombastic rhetoric which was meant to address some other issues (internal conflict) that had nothing to do with the content of the speech itself. See: A. J. P. Taylor, *The Origins of the Second World War* (New York: Penguin Books, 1963).

<sup>96</sup> Tooze, *The Wages of Destruction : The Making and Breaking of the Nazi Economy*, 242.

conquering Poland provided hope for alleviating the problems of labor and foodstuffs shortage. Moreover, acquisition of “gold, silver, share certificates, foreign exchange and the Polish currency” could also alleviate the cash liquidity problems. As Harold James’ research shows, the executives of major German banks “looked enthusiastically at the economic opportunities offered by military expansion.”<sup>97</sup> Furthermore, the Polish industrial capacity was comparable to the Czech and larger than the Austrian and the newly developed Centralny Okręg Przemysłowy (Central Industrial Region) offered modern arms production facilities. Most importantly, however, according to the secret protocol of the Ribbentrop-Molotov Pact, the partition of Poland would establish a permanent land border and a railway connection with the Soviet Union, which would contribute, as it in fact did, to fixing the acute raw materials shortages thanks to favorable trade treaties signed in Moscow on 23 August 1939 and soon afterwards.<sup>98</sup>

In August 1939, Hitler still hesitated. He knew that a potential conquest of Poland would be beneficial in the many aforementioned ways. The prospect of blitzkrieg over Poland, not to last for more than a month, was long enough to introduce a (limited) war economy and tighten the measures of social control, so elusive in peacetime. However, it was the signing of the non-aggression pact with the USSR that ultimately convinced Hitler that declaring war on Poland was the right move. Not only did it assure Soviet benevolent neutrality, but also, as it turned out on September 17, military help. Most fundamentally, it provided the last straw in favor of the economic rationale to start the war. Only in 1939, 200 million RM was supplied jointly by the Deutsche Bank and the Dresdner Bank to finance the new trade deals with the Soviet Union and new contracts followed right until June 22, 1941.<sup>99</sup>

Hitler’s gamble with Poland followed the exact same logic that he had so successfully applied three times before - in March 1938, September 1938 and March 1939. The economic gains provided by the annexation of Austrian and Czech resources cannot be underestimated. In March 1938, Germany acquired an additional 440 million RM worth of foreign currency and gold reserves (compared to its own ca. 100 million RM at that time)<sup>100</sup> and increased its overall industrial capacity by 8 per cent. Most of the reserves served to fix the cash flow deficit, but around 140 million RM remained to be used for raw materials purchases abroad. Thanks to this acquisition Germany could run an annual trade deficit of 450 million RM - larger than at any time since 1929. The Anschluss had also increased the German steel production capacity (around 600,000 tons of steel – 4% of German production) and allowed for an opportunity to exploit the Erzberg Mountain – “200 million-ton-mountain of the highest grade iron

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<sup>97</sup> James, *The Nazi Dictatorship and the Deutsche Bank*, 158.

<sup>98</sup> Edward E. Ericson, *Feeding the German Eagle : Soviet Economic Aid to Nazi Germany, 1933-1941* (Westport, Co: Praeger, 1999), 56-58.

<sup>99</sup> James, *The Nazi Dictatorship and the Deutsche Bank*, 30.

<sup>100</sup> Carr, *Arms, Autarky and Aggression : A Study in German Foreign Policy, 1933-1939*, 86.

ore.”<sup>101</sup> Vienna became the second financial center of Germany and opened up new trade possibilities in the Balkans. The annexation of Bohemia followed similar logic. The Skoda armaments works, one of the largest in the world, were occupied immediately. The well-developed Czech industry supplied steel, coal and machine tools. The untouched Czech military equipped fifteen German infantry and four armored divisions. The Sudetenland offered generous supplies of brown coal. In terms of steel capacity, the Czech industry added about 15% to the German output – 3 million tons per year.<sup>102</sup> The six hundred tanks that the Germans ‘inherited’ from the Czech army were among the most modern in the world and played a considerable role in the French campaign of 1940. The foreign currency and gold reserves as well as stocks of raw materials allowed German industry to continue its rapid pace of armament production for several, decisive as it later turned out, months.

The context in which these events happened is perhaps even more indicative of Hitler’s logic than the scale of benefits *per se*. The key labor force regulations took place in June 1938 on the wave of enthusiasm following the Anschluss and immediately after the so-called first Sudetenland crisis - in May 1938. “[U]nder cover of the Czech crisis Goering plucked up courage and acted.”<sup>103</sup> Also in June 1938, the objectives of the Four-Year Plan were changed. The emphasis on indirect military investment (production capacity) was replaced by direct production of war materiel. These international successes were thus not only a way of diverting popular attention from everyday life, but contributed enormously to Hitler’s legitimacy and support, which could then be safely discounted through introducing tighter measures of social control. Therefore, even though the hypothetical annexation of Poland - or the Western, more developed part of it - could not be as costless as the previous successes were, Hitler was willing to pay the price. It fitted perfectly the logic of increasing tension and mobilization before the ‘proper war’ scheduled for 1942 and could be discounted to prolong the frantic pace of rearmament for a year or so.<sup>104</sup>

Hitler’s own words strongly support this interpretation. In March 1939 he declared: “German domination over Poland is necessary, in order to guarantee the supply of agricultural products and coal for Germany. [...] As concerns Hungary and Romania, they belong without question to the area essential for Germany’s survival. The Polish case, as well as appropriate pressure, will doubtless bring them down a peg or two. Then we will have unlimited control over their immeasurable agricultural resources and their oil reserves. The same can be said of Yugoslavia. This is the plan, which shall be completed up to 1940.”<sup>105</sup> A couple of days before the war broke out, he informed his generals: “We have nothing to lose,

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<sup>101</sup> Tooze, *The Wages of Destruction : The Making and Breaking of the Nazi Economy*, 246.

<sup>102</sup> Carr, *Arms, Autarky and Aggression : A Study in German Foreign Policy, 1933-1939*, 104.

<sup>103</sup> *Ibidem*, 98.

<sup>104</sup> Kennedy, *The Rise and Fall of The Great Powers*, 308-309.

<sup>105</sup> Overy, *War and Economy in the Third Reich* 222.

we have everything to gain. Because of our limitations, our economic situation is such that we can only hold out for a few more years. Goering can confirm this. We have no other choice, we must act.”<sup>106</sup>

The provisions of the Ribbentrop-Molotov are the strongest evidence in support of the claim that economic considerations had much more influence on Nazi strategic decision than their national-socialist ideology or Himmler’s racist delusions. The alliance with the Soviets was neither military or strategic in nature, not to mention ideology. It was tactical for economic purposes. As it soon turned out, Hitler did not need Soviet help to conquer Poland. The Polish army virtually disintegrated after two weeks. What he needed was Stalin’s benevolent neutrality and the inexhaustible natural resources of the Eurasian landmass. In mid-March 1939, the German economy was so overextended that it could not guarantee a timely delivery of goods to the Soviet Union, the amount of which was negligible in comparison with the exchange after September 1939<sup>107</sup>. Later, in 1942, Hitler did not attack the political center of the USSR - Moscow, but aimed to destroy its economic lifeline - the oil fields of the Caucasus. Already in November 1939 he remarked: “We are not fighting the same battles as we were a hundred years ago. Today we can speak of a racial battle. Today we are fighting for oil fields, rubber, ores, etc.”<sup>108</sup>

Hitler made it clear that the Free City of Gdańsk was completely instrumental in his game, he cared little about the old provincial port. In 1939, a limited war of aggression was one of the three options facing the Nazi leadership. The financial crisis had been merely postponed by Funk’s New Financial Plan. The frantic pace of rearmament could not be maintained given the limits on labor and raw materials. The first option was thus the Polish scenario; fiscal and financial retrenchment the second and an inflationary catastrophe the third. The implications of the first one are well known. The second one could have resulted in the Nazis gradually losing support, legitimacy and eventually power; the third one could have sparked social upheaval and a revolution comparable to 1923. The first option must have seemed most attractive and was a perversely logical outcome of decisions taken already in 1933, and especially after 1936.

The West eventually recognized Hitler’s intentions and started to rearm intensively in 1939 - Hitler was correct that the dynamics of rearmament and the advantages of surprise would be most beneficial for Germany between 1939 and 1941.<sup>109</sup> Burton Klein was wrong to assume, based on limited evidence available just after the war<sup>110</sup>, that the German economy was only partially mobilized until 1942 because of the nature of the blitzkrieg strategy. On the contrary, the level of mobilization in

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<sup>106</sup> Mason, *Social Policy in the Third Reich : The Working Class and the National Community*, 262.

<sup>107</sup> Carr, *Arms, Autarky and Aggression : A Study in German Foreign Policy, 1933-1939*, 114.

<sup>108</sup> Mason, *Nazism, Fascism and the Working Class*, 130.

<sup>109</sup> Tooze, *The Wages of Destruction : The Making and Breaking of the Nazi Economy*, 316.

<sup>110</sup> See: Burton H. Klein, *Germany's Economic Preparations for War*, Vol. . 109 (Cambridge: Harvard University Press, 1959). Also: Nicholas Kaldor, *The German War Economy* (Manchester: Norbury & Lockwood, 1946).

September 1939 was as high as it could have potentially been in peacetime given the limited domestic resources. However, what Hitler did not expect - he had every reason to - was the British ultimatum and subsequent declaration of war on 3 September 1939. This took the Nazi leadership by surprise and disturbed the transition to a total war economy. The world war and all the horrors that ensued clouded our perception of the fact that Hitler's invasion of Poland was not supposed to start anything like that. It was rather an attempt to address specific internal economic problems by means of a limited war. As it turned out, the Polish refusal to surrender diminished the gains of plunder that Germany obtained. The occupation of Poland failed to resemble the costless acquisitions of Austria and Czechoslovakia, even though it was meant to be a grander version of those earlier successes.

#### **V. 'Why do we fight?'**

The line of analysis sketched in this paper ends on 3 September, 1939. The British and French declarations of war forced the Nazis to completely rewrite their plans and blueprints. Of course, to say that the war and the six years of horror that it brought was an outcome of a mix of structural economic imbalances, flawed policies and short-term expediency or that it was triggered by an ill-conceived attempt to avoid inflation or alleviate labor shortages falls short as an explanation, even if it is true at some level. In a deeper sense, all the suffering and destruction that wars bring in general remains incomprehensible, even if we can pinpoint misguided decisions, tense circumstances, economic troubles or mad people with evil intentions. Nonetheless, the early Nazi advances up to Stalingrad "lent the whole affair an air of careful preparation that it did not possess"<sup>111</sup> and made many people think that Hitler must have entertained some sort of an 'evil master-plan' even before coming to power in 1933. In this case, the usual advantages of hindsight that historians enjoy mislead here more than help. A close examination of the Nazi foreign policy in light of their economic policies and the sharp crisis that unfolded in 1938 serves to dispel that myth. It also brings economics, usually eclipsed in most narratives by the Nazi ideology of hate or tense international relations, back to the picture. It becomes clear that "the pursuit of war and the pursuit of profit became under National Socialism a closed system, a vicious circle of almost complete mutual dependence." Still, as Tim Mason pondered, "[w]hat this closed system was for remained unclear."<sup>112</sup>

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<sup>111</sup> Mason, *Nazism, Fascism and the Working Class*, 130.

<sup>112</sup> *Ibidem*, 70.

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