



The German Economy Under the Third Reich

INTRODUCTION

As with so many other aspects of the Third Reich there has been much debate over the German economy – did Hitler achieve an economic miracle? Was big business the pawn of the regime? At what stage did the regime embark on rearmament? Did Hitler plan for total mobilisation in 1939? Part of the debate stems from controversy over the reliability of statistics on the Third Reich, especially those relating to the scope and scale of rearmament. The statistics used in this chapter reflect the different interpretations.

1 ↪ GERMANY'S ECONOMIC CONDITION IN 1933

In January 1933 Germany had all the features of a depressed economy:

- foreign trade had declined;
- industrial production, and with it national income, had fallen by 40 per cent;
- there was mass unemployment, with a third of the working population unemployed;
- wages and real income had fallen with inevitable consequences for those who produced consumer goods.

This depressed economy had all the makings of a major social and business catastrophe. Many felt that there was little prospect of restoring employment and that the end of capitalism was imminent. There was widespread poverty and the effects of the economic difficulties faced in the 1920s with post-war inflation emphasised this. People had been affected unevenly by these problems: big business and trade unionists did well, but peasants, the intelligentsia and white-collar workers did less so, compared with the experience of pre-1914 when they had fared better. The average income of peasants was 600 marks a year compared with 1,000 marks for workers. Germany, like France in the 1920s, was a country of small businesses and light manufacturing, with large numbers of traditional craftsmen, retail shops and cafés. Their standard

1933	March	Hjalmar Schacht becomes President of the <i>Reichsbank</i> ; SA attack Jewish businesses
	April	Nationwide one-day boycott of Jewish businesses
	May	Trade unions abolished; German Workers' Front established; employment contracts to be regulated by the Reich Trustees of Labour
	June	Law for the reduction of unemployment; German firms begin to contribute 0.5 per cent of wage costs to NSDAP
	September	Reich Food Estate established; work begins on autobahns; Reich Entailed Farm Law
	November	Beauty of Labour and Strength through Joy organisations established
1934	January	Law for the Ordering of National Labour weights industrial relations in favour of management against workforce; Law for the Reconstruction of the Reich
	March	'Battle for Work' begins
	August	Schacht appointed Minister of Economics
	September	Schacht introduces New Plan to reinvigorate economy
	October	Winter Relief Scheme introduced
1935	March	Compulsory military service introduced
	June	Compulsory labour service introduced
1936	April	Göring appointed Commissioner for Raw Materials
	September	Second Four Year Plan aiming to make German economy self-sufficient and laying preparations for a war economy
	October	Göring placed in control of the Second Four Year Plan
1937	February	<i>Reichsbank</i> and <i>Reichsbahn</i> (railway system) placed under government control
	July	Founding of Göring's steel production works
	November	Schacht resigns as Economics Minister
1938	April	Employment of Jews in business concerns terminated
	December	Compulsory closure and sale of all Jewish businesses to Aryan competitors
1939	January	Schacht dismissed as President of <i>Reichsbank</i>
	August	Food rationing introduced
	September	War Economy Decrees
	October	Clothing coupons introduced

TABLE 38
Date chart of chief events in the economy, 1933–9

of living was below the level of semi-skilled workers. Small businesses were disadvantaged by the competition of cheap American goods and had to pay more in welfare payments. Their situation had a detrimental effect in small towns and villages through their role as a credit source. This group was **marginalised** economically in the 1920s. It was hit by widespread poverty across society and shared with the peasantry and impoverished clerks the difficulties of the economy of the 1920s.

The Wall Street Crash of 1929 had not been the cause of collapse of the German economy. It was already in recession by the spring of 1929 so that the crash sent it into a further downswing. There was a shortage of gold and foreign exchange reserves, preventing the purchase of overseas technology, raw materials and foodstuffs, but we need to be clear about the impact of the withdrawal of American cash. There was a net inflow of money until 1931, but German investors moved their money

marginalised pushed to the limit, especially in the sense of having or making no further profit

KEY ISSUE

The problems facing the economy in January 1933.

to safer havens in Switzerland, Holland and England so that there was an outflow of German-based investment. Thus the recession in Germany was not a by-product of the international economy though it was affected by it.

The downturn of the weak domestic economy between 1929 and 1931 is more important. Textbooks have stated that at the height of the depression the number of registered unemployed reached six million, but recent research has shown the figure to be much closer to eight and a half million. The difference represents the number of unemployed who were removed from the register by the government through its programme of voluntary labour service, different kinds of welfare funding or because they were female. The unemployed were not the only ones to suffer; those who were in work found that they were on a short-day week amounting to four days' work with the corresponding reduction in earnings. Small businesses and shops suffered a decline in income by as much as 50 per cent between 1929 and 1932 as consumer demand fell. This was a catastrophe for their owners because they had no reserves. It particularly affected small businessmen, including bankers. As many as 10,000 businesses a year were ruined between 1929 and 1933. This business failure inevitably affected the middle classes and because, as owners of businesses, they did not qualify for welfare payments, they had no recourse but to rely on private charity, such as that offered by soup kitchens. It follows, from what has been said, that the economic crisis of 1929 to 1933 affected all social groups and this goes a long way to explaining the success of the NSDAP and its ability to attract nationwide support.

2 ↪ HITLER'S RESPONSE TO THE ECONOMIC CATASTROPHE

Even though a recurring promise made during the various *Reichstag* election campaigns of 1928–33 had been *Arbeit und Brot*, (bread and work), Hitler had no preconceived strategy or programme for dealing with the crisis in business. In 1933, he believed that it was a 'matter of will', though he had economic aims based on his election promises to provide workers with work and bread, to rescue the middle class, to carry out land reform in the peasants' favour and to revive business fortunes. Not all of these promises were capable of being achieved because they were in competition with his determination to re-arm Germany rapidly and develop a self-sufficient economy. He was prepared to spend public money to stimulate the economy, but he was also keen to control inflation. Equally, he was aware that he could not politically afford to introduce rationing or sacrifice the working classes' standard of living.

However, earlier interpretations of the economy of the Third Reich that concentrated on Hitler or Göring, and that suggested that eco-

conomic planning was confused and a victim of competing arguments by various groups, have given way to a belief that a clear economic programme was followed. This does not mean that it could not also be opportunist. In the early years of the regime policies tended to evolve out of the demands of the situation rather than being the result of careful planning. No single unified economic system prevailed and Hitler adopted a political, rather than an economic, view of problems. Despite the anti-capitalist tone of early Nazi manifestos, political realities meant that he frequently had to compromise between a number of competing and often conflicting forces, to meet his election promises and satisfy the different economic interest groups. Hitler wanted to unite the people in a 'people's community' under Nazi leadership. Germans would have to abandon class, economic and religious differences and become one people totally dedicated to the needs of the State. Industrialists, landowners, the middle class and the urban and rural working classes were all to submit to the common interest (see Chapter 10). Every one had to accept the necessity to work hard and to make sacrifices to restore Germany's greatness. Hitler was willing to work with the leaders of big business because he needed their expertise and support to restore confidence and prosperity (we shall be looking at this relationship in greater detail in section 6, page 360). It was not until the end of 1937, when the economy had been revived, that control passed to more radical Nazis. Hitler was opposed to reckless experiments and preferred to continue with pre-1932 modest attempts at the control of inflation and expansion of government spending and employment. He also set out to restore the health of Reich finances with the appointment in March 1933 of Hjalmar Schacht as President of the *Reichsbank* and in August 1934 as Minister of Economics.

KEY ISSUE

Hitler's role in solving the economic problems.

HJALMAR SCHACHT (1877–1970)

Schacht was born in Schleswig in January 1877 to a family with Danish origins. His parents had spent the early 1870s in the United States before returning to Germany. Schacht studied medicine, then political science and finally took a doctorate in economics at Berlin.

Ambitious and very able, Schacht quickly made his career in banking and established a reputation as a financial wizard. In 1923, as special currency commissioner in the Finance Ministry, he was mainly responsible for ending the disastrous inflation of that year and setting up a new currency, the *Rentenmark*. At the end of 1923 he was appointed president of the *Reichsbank*, Germany's leading financial institution, a post he held until he resigned in 1930 in protest against the Young Plan (see page 85). A fervent nationalist, he was hostile to the amount of money Germany was expected to

pay the Allies as reparations for war damage and to the growing foreign debt of the Weimar government.

In 1930, having read *Mein Kampf*, he decided that Hitler was a political genius who, unlike the incapable Weimar politicians, might save Germany by supporting a sound economy in a strong state. Schacht left the DDP (which he had helped found in 1919) and became a supporter, though never a member, of the Nazi Party. He helped Hitler secure financial support from the rich Rhineland industrialists from 1930 onwards. He supported Hitler's cause in the prolonged negotiations which preceded the Nazi rise to political power in 1932–3. Hitler rewarded him for his loyalty in March 1933 by making him again president of the *Reichsbank*. This was followed by his appointment as Reich Minister of Economics, from August 1934 to November 1937 when he resigned in protest at Göring's policies under the second Four Year Plan. He was dismissed from the *Reichsbank* in 1939 after a disagreement with Hitler, charged with treason and interned by the Nazis. At the Nuremberg Trials after the war he was acquitted of crimes against humanity.

3 THE ROLE OF SCHACHT IN GERMANY'S ECONOMIC RECOVERY 1933–7

Schacht's appointment as Economics Minister reflected the need of the Nazi leadership to work with the powerful forces of big business, for Hitler relied on Schacht's reputation as a respected international banker and a man of great ability. By a law of 3 July 1934 Schacht was given dictatorial powers over the economy and he contributed as much as Hitler to the reconstruction of the Third Reich. Schacht recalls his relationship with the Nazi leadership in his book, *Account Settled*, published in 1949:

As long as I remained in office, whether at the *Reichsbank* or the Ministry of Economics, Hitler never interfered with my work. He never attempted to give me any instructions, but let me carry out my own ideas in my own way and without criticism... However, when he realised that the moderation of my financial policy was a stumbling block in his reckless plans (in foreign policy), he began, with Göring's connivance, to go behind my back and counter my arrangements.

His approach to the problems of high unemployment and depression in the German economy was influenced by the contemporary British economist, John Maynard Keynes. Keynes urged a policy of state intervention in the economy through public works' schemes which

would encourage employment and consumer demand. This was known as the concept of the multiplier.

Initially, the regime under Schacht embarked on a policy of **deficit financing**. In this respect the regime continued with the policies of its predecessors. Brüning and Schleicher, which were already beginning to have an effect. By the time Hitler became Chancellor, the economy was beginning to come out of depression and unemployment was past its peak (see Table 43 on page 351). Schacht was also the economic expert behind German rearmament and he used the financial facilities of the *Reichsbank* to their fullest extent. He enjoyed the full confidence of most of the industrial interest groups who felt he was coping successfully. Profits in key industries increased, wages were kept low and employers were freed of trade union interference. Germany appeared to be regaining her position as a major economic power.

Assessments of Schacht's contribution have varied between those who claim that he 'contributed as much as Hitler to the construction of the Third Reich', to those who criticise him for 'only papering over the cracks'. It is true that he played a vital role in laying down the economic foundations of the Nazi state. By the end of 1935 Germany actually had a trade surplus, unemployment had fallen and industrial production had increased by 49.5 per cent since 1933. However, such successes hid fundamental structural weaknesses for, although he had hidden the balance of payments problem by a series of clever financial schemes, he could not settle the competing demands for scarce resources. Agriculture and industry competed for foreign exchange, while between 1936 and 1937 there was an 80 per cent increase in armament spending. In 1936 matters came to a head with a balance of payments crisis. Schacht believed that a budget deficit and a balance of payments could not be maintained indefinitely. In early 1936 it became clear to him that as the demands of rearmament and consumption increased, the German balance of payments would go deeply into debt. He therefore suggested a reduction in arms expenditure, in order to increase the production of industrial exports to earn foreign exchange. Such a solution was not acceptable to the army or Nazi leadership and Schacht's influence declined, as he described in *Account Settled*:

Göring set out, with all the folly and incompetence of the amateur, to carry out a programme of economic self-sufficiency, or autarky, envisaged in the Four Year Plan. Hitler had given him as chief of the Four Year Plan operations in order to extend his own influence over economic policy, which he did not find difficult, since he was now, of course, in a position to place really large contracts... On December 17th 1936, Göring informed a meeting of big industrialists that it was no longer a question of producing economically, but simply of producing. And as far as getting hold of foreign exchange was concerned it was quite immaterial whether the provisions of the law were complied with or not... Göring's policy of recklessly exploiting Germany's economic substance necessarily brought me into more and more

deficit financing
spending money on public works to create jobs as an artificial stimulus to demand within the economy, while vigorously controlling prices and wages

Autarky, page 295

Q
What reasons
does Schacht give for the
decline in his influence?

acute conflict with him, and for his part he exploited his powers, with Hitler and the Party behind him, to counter my activity as Minister of Economics to an ever-increasing extent...

Schacht failed to convince Hitler of the necessity for scaling down rearmament and found his responsibility for the economy reduced in 1936 with the introduction of the second Four Year Plan and the appointment of Göring as its minister. He resigned in 1937 after the November 1937 Hossbach Conference, to be replaced by Walter Funk. From 1936 onwards a more vigorous policy of self-sufficiency or autarky was pursued based on the creation of a trading community in Central Europe under the dominating influence of Germany. Along with this went a defence economy, *Wehrwirtschaft*, whereby the peacetime economy was 'geared to war'.

4 THE ROLE OF GÖRING IN GERMANY'S ECONOMIC RECOVERY 1936-9

With Göring's appointment as Minister Plenipotentiary for the second Four Year Plan, he became effectively the economic overlord of Germany and the man in charge of rearmament. He acquired vast powers for amassing property and directing industry. From 1937 onwards, he amassed a vast fortune through the Reichswerke-Hermann-Göring, a state-owned mining and industrial enterprise which was used to keep big industry under control. It became the largest industrial enterprise in Europe, controlling iron ore and coal mining, smelting and refining iron and steel, and manufacturing the finished iron as armaments or heavy machinery. It produced synthetic petrol and ran transport businesses. Göring, through his Hermann Göring Ore and Foundry Company, played an active role in planning the development of Germany's iron ore fields at Salzgitter in Hanover and in Franconia in the south to relieve dependence on imported superior Swedish iron ores. He also planned a similar development of iron and steel plants using coking coal from the Ruhr. The scheme was uneconomic and met with little success. Production at Salzgitter fell below the target while the Franconian iron and steel plants were not built. Territorial expansion brought under German control more lucrative sites which were incorporated into Göring's industrial empire. By the late 1930s Germany was second only to the United States as the largest producer of iron and steel.

Göring also developed a close relationship with the massive chemicals firm, I.G. Farben, Germany's largest private business. The company was committed to developing synthetic chemicals, rubber, petrol, oil and textiles and it persuaded the regime to increase its investment on the promise that it could help Germany achieve economic self-

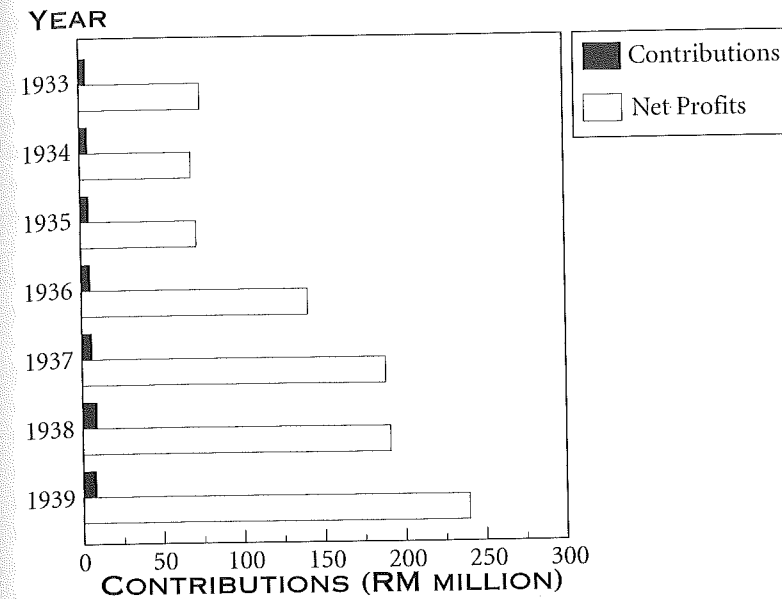


TABLE 39
Contributions to the NSDAP
and net profits of I.G. Farben,
1933-9 (RM million)

Year	Contribution	Net profits
1933	3.6	74
1934	4.0	68
1935	4.5	71
1936	4.9	140
1937	5.5	188
1938	8.2	191
1939	7.5	240

RM Rentenmark or revalued mark. In 1923 after hyperinflation associated with French occupation of the Ruhr, a new currency, the Rentenmark, replaced the old mark which had lost all significance as money (see also pages 46-7).

sufficiency. In return the company made increasing financial contributions to the Party, though not on the scale of its profits, and accepted top Nazis on its Board of Directors (Table 39).

Göring developed an administrative structure based on a General Council with its own personnel to administer the Four Year Plan which eventually rivalled and replaced the Ministry of Economics (see Diagram 6). He made all the decisions and also became involved in questions to do with foreign exchange and raw materials as well as taking responsibility for labour allocation, agriculture, price control, industrial investment and foreign trade. From late 1936 onwards Göring floated loans and made large-scale investments in the name of the State. He also increased government regulation so that by late 1938 he was considering a complete nationalisation of heavy industry in order to achieve the Nazi economic and military programme. The impact of Göring's influence in the economy can be seen from the changes in the pattern of industrial investment. In 1937-8, the State accounted for 66 per cent of the total fixed capital investment in industry through the Four Year Plan, which was concentrated in iron, steel, chemicals and machine engineering at the expense of consumer production and house-building. Göring appointed his own commissioners to supervise key industries to ensure that targets set in the Four Year Plan were achieved. He was also given special powers to take over Jewish businesses which would be used for 'national' purposes and which became absorbed into his drive for rearmament. Big business found increasingly that it now had to work within the framework laid down by the Nazi leadership (see section 6 on page 360).

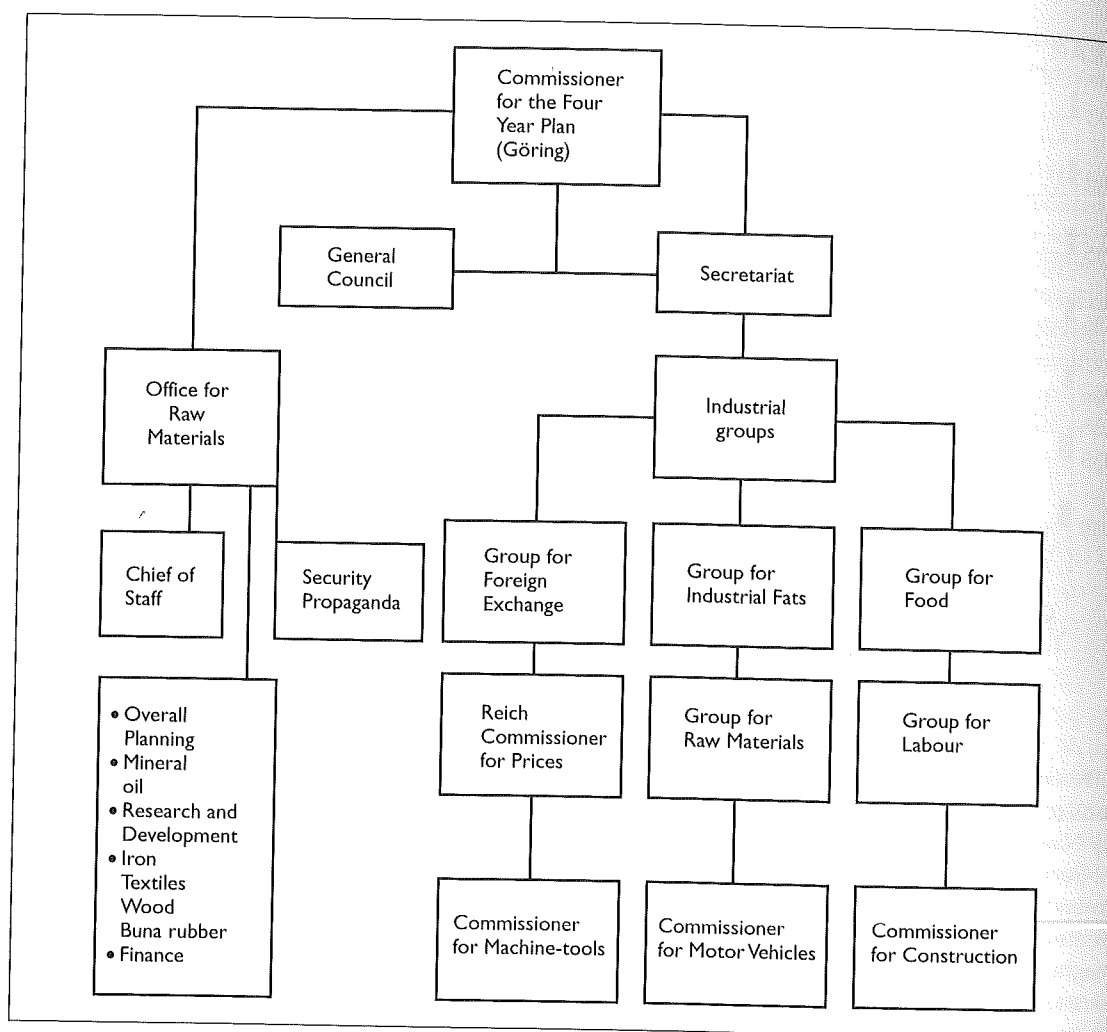


DIAGRAM 6
The organisation of the Second Four Year Plan

5 POLICIES TO ACHIEVE ECONOMIC RECOVERY 1933-9

A Government controls

A foreign exchange crisis in September 1934 led Schacht to make use of the economic powers he had been given in July 1934. He refused to pay reparations and bargained with Germany's creditors, such as Britain, for a reduced settlement of its debts.

He introduced the New Plan in September which extended the existing system of government control over foreign exchange and import

regulation. Importers had to obtain foreign exchange approval before, rather than after, importing goods. Permits had to be obtained for each deal from one of the special supervisory offices which were set up to regulate and control specific commodities. This arrangement allowed the government not only to set the priorities on those goods and raw materials that should be imported but also to prioritise its trading partners. The New Plan gave Schacht the power to pursue a vigorous protectionist policy against Western European countries and the United States with whom it traded at a loss. Pursuing a policy of self-sufficiency or autarky, the regime signed bilateral trade treaties with economically weak countries, such as South America, the Balkans and eastern Europe (Yugoslavia, Romania and Hungary), who could provide the materials vital to Germany's economic recovery. Trade was on a barter basis, Germany exported manufactured goods to its Balkan trading partners in return for raw materials such as chrome, bauxite and oil. Under this barter system the value of the mark was negotiated and varied. Schacht also introduced large-scale export subsidies to bring down prices to a competitive level on the world market. Despite following an autarkic policy, the increasing demands of the armaments industries led to an expansion in the import of industrial raw materials (from 27 per cent in 1932 to 37 per cent in 1937), especially Swedish iron ore, while food imports fell (from 46 per cent in 1932 to 35 per cent in 1937).

Autarky, page 295

B State-led investment

As part of the drive to reduce unemployment, Hitler was prepared to rely on the experience of the business community. He wanted to avoid appearing to control the economy too closely, preferring to rely on providing a suitable environment for growth. He hoped that private business would create the economic revival. However, this did not happen so that the regime became permanently involved in the economy, which became state-led. State policies after 1933 led on to a complete system of controls, what Franz Neumann called the 'capitalist command economy'. Without such intervention, the economy might not have recovered to the extent that it did or in the way that Hitler's future war plans dictated. The period 1933-8 saw a considerable economic revival, which to many contemporaries had the appearance of a miracle, which could not have been achieved by the private sector in such a short time. A high level of government spending was embarked upon, increasing from 17.9 per cent in 1932 to 33.5 per cent in 1938 and accelerating after 1936 when the second Four Year Plan and a policy of rearmament

	1928	1932	1934	1936	1938
Total expenditure (current prices) (RM bn)	11.7	8.6	12.8	15.8	29.3
Government expenditure as a percentage of GNP	14.8	17.9	22.9	22.5	35.5

TABLE 40
Government expenditure, 1928-38

TABLE 41
Public expenditure by category,
1928-38 (RM bn)

	1928	1932	1934	1936	1938
Total expenditure	23.2	17.1	21.6	23.6	37.1
including					
Construction	2.7	0.9	3.5	5.4	7.9
Rearmament	0.7	0.7	3.0	10.2	17.2
Transport	2.6	0.8	1.8	2.4	3.8
Work creation	-	0.2	2.5	-	-

Gross National Product (GNP) an economist's term for the measurement of the total 'value' of the economy

infrastructure services essential for the creation of a modern economy (and the waging of war): power, transport, housing, education, health services, etc.

Q
For what reasons might it be claimed that 'not all businessmen benefited from recovery of the economy'?

TABLE 42
Relative growth of producer and consumer goods in Germany, 1929-38
(base year 1928 = 100 for comparison)

	1929	1932	1938
Total production	10.9	58.7	124.7
Capital goods	103.2	45.7	135.9
Consumer goods	98.5	78.1	107.8
Pig iron	113.8	33.4	157.3
Machinery	103.8	40.7	147.7
Chemicals	91.8	50.9	127.0
Textiles	92.4	79.2	107.5
Household furniture	104.2	69.6	113.6

were launched. **Gross National Product (GNP)** grew at a remarkably fast rate in Germany during the 1930s, overtaking the level achieved before the years of depression.

Government investment in construction and transport (superseded by rearmament after 1936) played a key role in producing the initial growth which achieved the economic recovery. Hitler sought to solve the unemployment problem by embarking on a vast new building programme to create an **infrastructure** which people would associate with the Thousand Year Reich. The recurring propaganda image of him opening the latest stretch of autobahn was symbolic of this vision. He hoped that a higher standard of living for all Germans would also follow.

However, after 1936 the amount spent on rearmament was particularly high for a peacetime economy, accounting for two-thirds of spending. The economy was restructured to gear it for waging war. Restraints were put on consumer expenditure so that scarce resources could be moved from consumer to capital goods and industrial raw materials (refer to Table 42). Heavy industry benefited, iron, steel and chemicals in particular showed massive growth. The undistributed profits of big business grew from 1.3 to 5 billion RM. By 1939 Germany had a capitalist command economy with 40-50 per cent of the workforce employed on war-related projects.

C Battle for work

This was one of several propaganda campaigns launched in the first years. It aimed to restore confidence and create the impression of 'something being done'.

- It included a bookkeeping manoeuvre which removed from the unemployment records the names of all those involved in Labour Service and Emergency Relief Schemes, which absorbed 1 million young people.
- This was followed by a number of work creation schemes, starting in June 1933 with the Law to Reduce Unemployment. This aimed to make government-led recovery more effective, but there was a limit to such schemes which only absorbed about 600,000 at their peak.
- The real boost to employment came as the State provided the money for private institutions to engage in work creation schemes and government contracts for railways, roads, bridges and canals. This dragged the heavy industry branch of the economy out of depression more rapidly than the consumer goods industry. Money was poured into public works, such as construction, and subsidies were given for private construction or renovating old buildings.
- A separate law initiated a large-scale plan for building 7,000 kilometres of motorway, which encouraged both employment and subsidiary industries.

But there was no consumer boom. Consumer industries were discriminated against over investment and contracts, so that their performance by late 1938 was lower than in the 1920s. Income tax rebates and loans were issued to increase industrial activity in the private sector. There was also an attempt by the German Labour Front to improve working conditions through its promotion of various organisations, such as *Kraft durch Freude* (Strength through Joy) and *Schönheit der Arbeit* (Beauty of Work).

The 'battle for work' policies were very successful and, combined with an upturn in the **trade cycle**, brought the 1929 depression to an end. Unemployment fell rapidly from the 1932 registered figure of 5.6 million to 2.7 million by 1934 and had been eliminated by the spring of 1939 when there was even a labour shortage and great pressure was put on labour. This decline in unemployment was an impressive achievement and one which won admiration at home and abroad.

Trade cycle alternating periods of trade boom and depression

Q
How successful were these policies?

	1928	1932	1934	1936	1938
Gross national product (1928 prices) (RM bn)	89.5	57.6	66.5	82.6	104.5
Industrial production 1928 = 100	100	58	83	107	122
Unemployed (in millions)	1.4	5.6	2.7	1.6	0.4

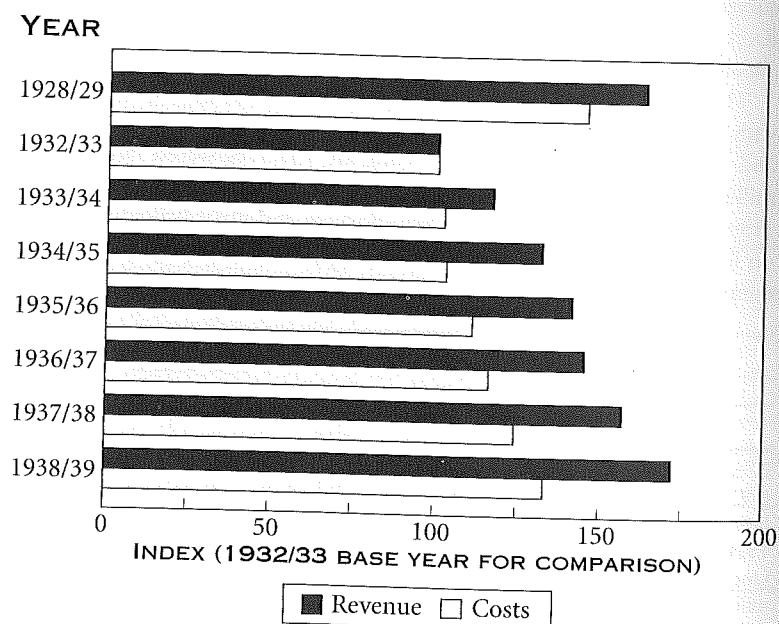
TABLE 43
Economic recovery and its impact on unemployment, 1928-38

D Protection of farming

We have already looked at the role of the peasantry in Nazi propaganda, ideology and the people's community in previous chapters. This section is concerned with the regime's policies towards agriculture as an industry. The problems confronting the agricultural industry in 1933 partly stemmed from Germany's shortage of foreign currency along with the collapse of world trade which meant that foreign food imports fell. Added to this there were problems arising from poor weather conditions; it was a harvest failure in 1928 which had flung the economy into a depression even before the Wall Street Crash. National Socialist policy towards agriculture was to achieve self-sufficiency, particularly in fats, partly to relieve continuing pressure on scarce foreign currency but also for defence in the event of future war. A 'battle of production' to increase grain production was introduced but this policy was hampered by poor harvests in 1934 and again 1935. New measures for agricultural production were introduced in 1936 under Göring's Four Year Plan organisation, but these favoured arable rather than livestock farmers. These measures included reduction in fertiliser prices, mechanisation subsidies and grants for bringing new land into cultivation, and, combined with good harvests in 1938-9, led to a rise of 20 per cent in production compared with 1928-9. Livestock farmers, however, still had to rely on imports of feed and were given fewer subsidies. The regime's support of agriculture met with some success. By 1938-9 self-sufficiency had been achieved in bread grains, potatoes, and sugar, closely followed by vegetables and meat, but there was a crucial shortfall in animal fats. Attempts to grow substitute oil seed plants were uneconomic and of marginal significance. However, the main obstacle to agricultural expansion was the shortage of labour, which had become

TABLE 44
Revenue and costs of agriculture
1928-39 (base year 1932/33 =
100 for comparison)

Year	Revenue	Costs
1928/29	163	145
1932/33	100	100
1933/34	117	102
1934/35	132	103
1935/36	141	111
1936/37	145	116
1937/38	157	124
1938/39	172	133



serious by 1939 and which was only partly met by the drafting in of foreign labour. Food consumption per head of the population increased by about 4-5 per cent but only 57 per cent of the demand for fats was met. The price of foodstuffs was strictly controlled after 1935, but was allowed to rise more than farm costs. Price increases varied, but all remained below those for 1928-9. Even so, with the increase in production after 1935, farmers' incomes went up by 41 per cent between 1933 and 1938; this was small compared with trade and industry's 116 per cent, but significant when compared with the 25 per cent gain enjoyed by industrial workers.

E The second Four Year Plan 1936

By 1936 the regime had gone a long way to achieving Hitler's primary goal of redeeming his election promises of 'bread and work', a success which secured his position. In 1936 he issued his Secret Memo in which he discussed the 'programme for a final provision of our vital needs'. This is one of the central documents of the Third Reich and it represents Hitler's response to his critics, such as Schacht, Reich Minister for Economics, and the opposition of German business to all large-scale plans to achieve economic self-sufficiency (autarky) in the interests of rearmament.

The Secret Memo is valuable to historians:

- as an insight into Hitler's war aims;
- as evidence that he was planning for war from 1936;
- as evidence of Hitler's views on the economy and its relationship to political and rearmament objectives;
- as an account of Nazi rearmament objectives in 1936.

In other words, its *value* is as a serious statement of intent to wage a war. Its *limitation* is that it is not possible to say what kind of war Hitler was planning, or the extent of Germany's preparedness in 1939.

The Memo, and the second Four Year Plan which it launched, outlined his plans for completely converting the economy and the armed forces for war within four years. This extract, from the Memorandum on the Four Year Plan, August 1936, is quoted in Noakes and Pridham, *Nazism 1919-1945, A Documentary Reader, Vol 2*:

The world has been moving with ever-increasing speed towards a new conflict, the most extreme solution of which is Bolshevism. . . I therefore draw up the following programme for a final provision of our vital needs:

i. Parallel with the military and political rearmament and mobilisation of our nation must go its economic rearmament and mobilisation. . . In future the interests of individual gentlemen can no longer play any part in these matters. There is only one interest, the interest of the nation; only one view, the bringing of Germany to the point of political and economic self-sufficiency.

KEY ISSUE

The economy is geared for war 1936-9.

- ii. ...foreign exchange must be saved in all those areas where our needs can be satisfied by German production. ...
- iii. ...German fuel production must now be stepped up with the utmost speed and brought to final completion within eighteen months.
- iv. The mass production of synthetic rubber must also be organised and achieved with the same urgency. From now on there must be no talk of processes not being fully determined and other such excuses. ... This has nothing whatever to do with the Ministry of Economics. Either we possess today a private industry, in which case its job is to rack its brains about methods of production; or we believe that it is the Government's job to determine methods of production, and in that case we have no further need of private industry.
- v. ...If we really are obliged to build up our domestic economy on autarkic lines, which we are... then the price of raw materials individually considered no longer plays a decisive part.

It is further necessary to increase German iron production to the utmost limits. ... The job of the Ministry of Economics is simply to set the national economic tasks; private industry has to fulfil them. But if private industry thinks itself incapable of doing this, then the National Socialist State will know how to resolve the problem on its own. ... Nearly four precious years have now gone by. ... There has been time enough in four years to find out what we cannot do. Now we have to carry out what we can do.

I thus set the following tasks:

- i. The German armed forces must be operational within four years.
- ii. The German economy must be fit for war within four years.

The Memo highlighted four priorities: to achieve an increase in agricultural production, to retrain key sectors of the labour force, to impose government regulation of imports and exports, and to achieve self-sufficiency in raw materials. Official production goals were set for the production of raw materials vital to the rearmament drive – oil, rubber and metals.

The emphasis of the Four Year Plan, and a recurring theme in all Hitler's speeches, was Germany's scarcity of foodstuffs and raw materials in relation to the competing demands of the population and rearmament. Scarce resources created a conflict between 'guns before butter' and people were unwilling 'to tighten their belts'. It was recognised from the beginning that there was a direct relationship between rearmament and the people's standard of living for Germany's foreign exchange reserves could not cover unlimited quantities of both. The Four Year Plan was designed to re-orientate the economy for war, by achieving self-sufficiency in essential war materials of oil, rubber, and steel. This would relieve pressure on scarce foreign exchange which would enable Germany to continue with its food imports until the long-term solution of living space had been secured. As would appear from the concluding comments to the Memo, Hitler's concern was to

Why was autarky such an important priority for Hitler in 1936?

TABLE 45

German production increases in the sphere of the Second Four Year Plan

Commodity	1936 output (000 tons)	Output in 1936 as a percentage of 1940 Plan target	1938 output (000 tons)	Output in 1938 as a percentage of 1940 Plan target	Plan target (000 tons)
Mineral oil, including synthetic petrol	1,790	12.9	2,340	16.9	13,830
Aluminium	98	35.9	166	60.8	273
Buna rubber	0.6	0.6	5	4.2	120
Nitrogen	770	74.0	914	87.9	1,040
Explosives	18	8.1	45	20.2	223
Steel	19,216	80.1	22,656	94.4	24,000
Iron ore	2,255	40.6	3,360	60.5	5,549
Brown coal	161,382	67.1	194,985	81.1	240,500
Hard coal	158,400	74.4	186,186	87.4	213,000

ensure that 'the German armed forces must be operational within four years' and 'the economy must be fit for war'.

By 1936 the regime had come to a turning point.

- 1 Having achieved a dramatic fall in unemployment, a rise in investment and a secure foreign trade, which did not leave Germany a debtor, Hitler then expected the revitalised economy to be geared to rearmament. He had recognised that a strong economy was required if he was going to achieve the massive military machine which would enable him to achieve his long-term foreign policy goals of *Lebensraum* with its attendant threat of war with Russia.
- 2 Massive rearmament was not well received by either Schacht or important businessmen, including the armaments baron, Gustav Krupp, who believed that the regime should continue with its drive to raise people's standards of living and levels of consumption and expand foreign trade. They were not opposed to some limited rearmament but not at the cost of consumers.

This divergence of views regarding the future direction of the economy led to an intense debate between ministers, the army and business leaders. Hitler's Secret Memo, and the Four Year Plan which it launched, marked a significant new stage in the regime's economic strategy. Control of the economy increasingly passed to the ambitious Göring who was made Minister Plenipotentiary for the Second Four Year Plan while Schacht's influence was reduced (see sections 3 and 4, pages 344-8). State control and the direction of industry was tightened in the interests of preparing the economy for war. Hitler completed his control at the beginning of 1938 when he made himself supreme commander of the armed forces. Delivered from his dependence on the elites which had acted as a restraint on his freedom of action, Hitler proceeded with his massive rearmament programme.