

The Role of Private Property in the Nazi Economy: The Case of Industry

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Abstract. Private property in the industry of the Third Reich is often considered a mere formal provision without much substance. However, that is not correct, because firms, despite the rationing and licensing activities of the state, still had ample scope to devise their own production and investment patterns. Even regarding war-related projects freedom of contract was generally respected and, instead of using power, the state offered firms a bundle of contract options to choose from. There were several motives behind this attitude of the regime, among them the conviction that private property provided important incentives for increasing efficiency.

I. The Nazi regime did not have any scruples to apply force and terror, if that was judged useful to attain its aims. And in economic policy it did not abstain from numerous regulations and interventions in markets, in order to further rearmament and autarky as far as possible. Thus the regime, by promulgating Schacht's so-called "New Plan" in 1934, very much strengthened its influence on foreign exchange as well as on raw materials' allocation, in order to enforce state priorities. Wage-setting became a task of public officials, the capital market was reserved for state demand, a general price stop decreed in 1936.¹ In addition state demand expanded without precedent. Between 1932 and 1938 it increased with an average annual rate of 26 per cent; its share in GNP exploded in these years from 13.6 to 30.5 per cent.² As a consequence private consumption as well as exports were largely crowded out.

A major part of the rise of state demand was in the form of orders for manufacturing

¹ Quick information about this regulatory activities can be found in Barkai, *Nazi Economics*.

² Ritschl, *Deutschlands Krise und Konjunktur*, Table B.5.

enterprises. Thus it could have appeared quite rational to the state authorities to create state firms for their execution. For in that case the state would have been able to save the large profits which in fact were paid to companies which engaged in the production for state demand.³ However, the state did not proceed along this path. There occurred hardly any nationalizations of formerly private firms during the Third Reich.⁴ In addition, there were not very many enterprises newly created as state-run firms either. The most spectacular exception to that rule was the *Reichswerke Hermann Göring* which was founded in 1937 for the exploitation of the German bad-quality iron ore deposits.

The main question treated in this paper is why was that the case. Why did the Nazi state refrain from widespread nationalization of industry, contrary to the Soviet Union which it is sometimes compared with? In view of the violence displayed by the regime otherwise it can be taken for certain that the reason was not any respect for private property as a fundamental human and civil right.

In the second part of the paper it is analysed whether private property of industrial companies in the Nazi economy, the formal existence of which is unanimously agreed on in the literature, was perhaps an empty shell without much significance to entrepreneurs, a proposition which is voiced quite often. In that case there would have been not such a great real difference between the Nazi economy and socialism. It is shown, however, that freedom of contract, that important corollary of private property rights, was as a rule not abolished during the Third Reich. In fact firms preserved a good deal of their autonomy even under the Nazi regime. Therefore the causes for the reluctance of the state in the Nazi period to encroach on private firm property are

³ For profits see Spoerer, *Scheingewinne*.

⁴ One prominent exception were the Junkers airplane factories which were expropriated in 1933/35 against full compensation payments to the former owner family; Budraß, *Flugzeugindustrie*, pp. 320-35

analysed in the third part. In conclusion we then will suggest a general characterization of the Nazi economy with respect to industry which accords to the results of this paper.

II. Recently Michael von Prollius stated in his book on the economic system of the Third Reich that the autonomy of enterprises was restricted to their internal organization and that private property has been without much real substance. For relations of firms with the outside world were totally subordinated to state direction.⁵ In a similar way Richard Overy maintained writing on the enterprises of the Ruhr heavy industry:⁶ “Though they could still profit from the system, they were forced to do so on the party’s terms. Profit and investment levels were determined by the state, on terms much more favourable to state projects. [...] Rational calculation gave way to the ‘primacy of politics’.” The most clearcut position is the one of Peter Temin summarizing his opinion in an article about ‘Soviet and Nazi Economic Planning’ as follows: “The National Socialists were socialists in practice as well as in name.”⁷ Of course, Temin is not blind to the fact that the German state of the period, contrary to the Soviets, had not nationalized industry. The apparent paradox is solved by him, however, by pointing to allegedly unequal long-term contracts between the Nazis and industry groups with the obligation of the latter to deliver their output at fixed prices. If firms refused to comply they could be nationalized, for the Nazis viewed private property as conditional on its use to further their goals.⁸ This proposition is echoed by other authors who also speak of the threat of nationalization which private firms were constantly confronted with.⁹ The right to control their assets, that very important aspect of private firm ownership, is thus considered as having been

⁵ von Prollius, *Wirtschaftssystem der Nationalsozialisten*, pp. 229-31, 276-7.

⁶ Overy, *War and Economy*, p. 106.

⁷ Temin, "Economic Planning," p. 573.

⁸ *Ibid.*, p. 576.

⁹ Lorentz / Erker, *Chemie und Politik*, p. 9; B.C. Wagner, *IG Auschwitz*, p. 36.

relinquished almost totally. Temin as well as Overy therefore feel entitled to allude to the Soviet centrally planned economy when describing the economic system of the Third Reich.

But the picture of German industry during the Nazi period described so far is not correct. It can be demonstrated that it has severe flaws in at least three respects:

1. Despite widespread rationing of inputs firms normally still had ample scope to follow own production plans.
2. Investment decisions in industry were influenced by state regulation, but the initiative generally remained with the enterprises. There was no central planning of the level or the composition of investment.
3. Even with respect to its own war-related investment projects the state normally did not use power in order to secure unconditional support of industry. Rather, freedom of contract was respected. But the state tried to induce firms to engage according to its plans by offering them a whole bundle of contract options to choose from.

1.) Contrary to a socialist economy rationing of inputs in the Third Reich was not accompanied by material balancing.¹⁰ That means the use of inputs was generally not planned beforehand with regard to the output composition of each enterprise and the exact allocation between companies. Of course, the production of an increasing selection of goods was quantitatively restricted or even forbidden, a tendency greatly intensified during the war. On the other hand, however, most enterprises could freely choose among a whole range of production possibilities, all of which had privileged access to rationed materials, including the making of almost every

¹⁰ That also is the view of Temin ("Economic Planning," p. 576).

finished product for export, because exports commanded a very high priority. In addition there often was allotted a quota of rationed inputs for unspecified use.

A good example is provided by textiles which, according to numbers employed, behind metal processing, food and clothing still was the fourth largest manufacturing branch in the thirties – far bigger than chemicals for example.¹¹ From spring 1934 onwards the purchase of raw materials was regulated in this industry. Later quotas were established which in principle restricted for each firm the processing of materials to a certain percentage according to a reference period. In addition, since 1936 enterprises were required to mix a prescribed amount of staple fibres to their inputs of natural raw materials. Within this rationing framework, however, firms generally remained free to produce those varieties of textiles they considered most profitable to them, even though the ordinary input quotas were decreasing in the course of time. But the regime also established a system of incentives consisting of extra rations of scarce raw materials allotted to firms which undertook to manufacture textiles for high priority requirements. All export orders were privileged in this way, which opened up to entrepreneurs additional scope of autonomous decision making and production. In a similar way military orders as well as those of other state agencies commanded extra quotas of input materials which enterprises could compete for. Thus, the German textiles industry of the Nazi period certainly did not work in an institutional setting of liberal markets. But it neither was one of complete state direction and central planning. Private ownership of firms still had its economic significance, because entrepreneurs preserved a good deal of their autonomy with regard to production until after the outbreak of war.¹² That also is true for price setting, for there existed numerous exceptions to the rule of fixed prices which led to considerable price increases and

¹¹ Hoffmann, *Wachstum der deutschen Wirtschaft*, pp. 198-9; for the following see Höschle, *Deutsche Textilindustrie*.

¹² Peter, *Rüstungspolitik in Baden*, pp. 217-70.

very handsome profits for firms which were in the position to exploit the opportunity of getting extra rations of raw materials.

In many ways the rationing procedures in textile production set an early precedent which was then followed in other industries. Thus it can be observed that the rationing of iron and steel was organized in a comparable way from 1937 onwards when it seemed necessary to do so in view of increasing shortages of that raw material which was basic for an economy oriented towards armament and war. Again military orders and many other demands, including exports, were given privileged status in their possibilities to be supplied with iron and steel, but there also was a quota left for general purposes.¹³ Therefore enterprises manufacturing iron and steel products could to a large extent preserve to themselves the decision about their precise production plans and then apply for the necessary amounts of iron and steel. Thus in a recent dissertation on machinery firms in Chemnitz during the Nazi era, it is concluded with regard to the prewar period: “Even if price control, shortage of raw materials and slowly declining freedom to dispose of workers – the latter becoming fully effective only during the war – restricted entrepreneurial autonomy: In its principal strategic decisions the management still was autonomous.” That is proven by the actual production which was in large part not geared to the regime’s priority of rearmament at all.¹⁴ This clearly shows that even under the Four Year Plan of 1936 the state did not use iron and steel allocation as an obvious and potent means to strictly plan industrial output and the composition of national production.¹⁵ Contrary to an explicit statement of Temin the state did and could not use its exclusive access to the capital market for this purpose either.¹⁶ For industry generated enough financial means through big

¹³ Geer, *Markt der geschlossenen Nachfrage*, p. 44.

¹⁴ Schneider, *Chemnitzer Maschinenbauunternehmen*, p. 143; compare idem, “Business Decision Making“.

¹⁵ That, however, is maintained by Temin (“Economic Planning,” p. 576).

¹⁶ *Ibid.*

profits and high depreciations charges earned that it could finance its genuine needs by its own without resort to the capital market. Despite the encompassing nature of the agency created to execute it, the Four Year Plan therefore was not at all comparable to Soviet Five Year Plans. Its ambition mainly was to rapidly increase the output of a few basic products from German raw materials, in order to reduce the dependence of the Third Reich on imports of strategic importance.¹⁷ Even in doing that the state largely abstained, as we will see, from the use of force.

A corollary of the still great autonomy of industry with regard to its production plans and another difference to a centrally planned economy was that enterprises normally continued to select their customers themselves. An obligation to serve a specific demand did rarely exist for the majority of firms at least before the war. That also applied to orders from state agencies. Firms could in principle refuse to accept them. A deviation from this rule was the fact that merchants importing raw cotton since 1936 had to deliver it to manufacturing firms assigned to them by the authorities.¹⁸ Another exception occurred in late summer 1937 when the iron and steel industry was obliged to accept orders from certain privileged demanders of iron under all circumstances which included military orders. This step, however, was qualified even by Hermann Göring as a “very strong” measure¹⁹ and after two months it was to be lifted automatically.²⁰ In November 1941 Ernst Poensgen, director of the iron and steel industry group, still could frankly explain the plenipotentiary for iron and steel rationing General

¹⁷ This was demonstrated already by Petzina, *Autarkiepolitik*.

¹⁸ Höschle, *Textilindustrie*, p. 41.

¹⁹ Thyssen-Krupp-Archives Duisburg FWH/1512, Telex Scheer-Hennings to Poensgen about conversation with Göring, 26.6.37; for all informations on iron and steel rationing we thank Ulrich Hensler, University of Mannheim, who is currently writing a dissertation about the subject.

²⁰ Mannesmann-Archives Mülheim M 80.200, Anordnung über die Annahme und Auslieferung der Ausfuhr-, Wehrmachts- und Vierjahresplan-Aufträge für die Monate August und September 1937, 9.7.37.

Hermann von Hanneken that the members of his group were not prepared to further accept military orders. Instead they wanted to serve orders for exports, from shipbuilding and the *Reichsbahn* where it was easier to get higher prices.²¹ Only in 1943 an obligation to supply certain requirements was reintroduced under the utmost exigencies of total war.

2.) Regulation of raw material consumption in industry not unexpectedly had an effect on investment. If we again take the example of textiles it can be observed that after 1936 much of new investment in this industry served to adapt plants to the processing of big quantities of staple fibres. Further investment was necessary to enable firms to produce special products which commanded privileged access to raw materials. On the other hand, after the introduction of iron and steel rationing, it became increasingly difficult for textiles companies to get the amounts of iron necessary for their investment projects. Since 1934 there also existed a general prohibition of capacity enlargement in the textiles industry, which, however, principally did not apply to modernization and rationalization. In addition, exceptions from the ban on capacity enlargement could be and were agreed to by the authorities. Together that bundle of incentives and disincentives for investment activities in the textiles industry led, perhaps surprisingly, to quite a vigorous growth of investment, which between 1936 and 1938 even was comparable to that of industry as a whole. And what is more important in our context state intervention in concrete investment plans of firms was restricted to the legally prescribed licensing in some cases and, later on, to the allocation of the necessary amounts of iron. But the initiative for investment projects normally was to and could come from the enterprises themselves and not from any state planning agency. Again it is clear that conditions were quite different from a situation where mainly market signals determine investment and thus the future composition of

²¹ Müller, *Mobilisierung der deutschen Wirtschaft*, p. 610; see also: idem, *Manager der Kriegswirtschaft*, pp. 136-7.

production, but that nevertheless private ownership and genuine profit expectations of firms still played an important role.²²

The latter conclusion seems to be true for industry as a whole. Therefore Adam Tooze is right when stating in a recent article: “Even in 1944 it proved to be impossible to effectively direct private investment”, which in his eyes explains the uneconomically large sales of machine tools between 1938 and 1944 in Germany.²³ The power of the Reich’s Economics Ministry to designate industries where all investment was prohibited is no proof to the contrary. Enacted in the famous law from 1933 on forced cartelization²⁴ its aim was to prevent construction of new capacity which there was no real need for, a tendency which indeed often occurs in cartels. Also not restricted to cartels, forced or otherwise, the provision was applied only in a few cases, often requested by the specific industry itself, and exceptions were always possible. In some instances it appears to have been used as a device to protect branches dominated by small and medium-sized enterprises from ruinous competition, in others no real restriction, only control of investment behaviour was intended.²⁵

Of course small and medium-sized enterprises were exactly those which during the war came under mounting pressure to close down and release their labour and other resources for more efficient use in greater firms heavily engaged in armaments production. The most severe threat in this respect stemmed from a decree of January 1943. However, the resistance against actions to shut down firms was great with the consequence that they were not very successful. The decree itself clearly was an emergency measure of total warfare and therefore cannot be taken

²² Höschle, *Textilindustrie*.

²³ Tooze, “‘Punktuelle Modernisierung’,” pp. 79-98.

²⁴ Reichsgesetzblatt 1933 I, p. 488.

²⁵ Lurie, *Private Investment*, pp. 200-9.

as evidence for an inclination of the regime towards socialism and central planning. In fact the reopening of firms closed after the war was guaranteed.²⁶

3.) A great percentage of all industrial investment during the Third Reich was in the interest of the regime and occurred in the armaments sector and in branches which were important for autarky. The respective industries grew very fast. Already in 1938, for instance, 24 percent of the total labour force in industry was employed in the production of armaments according to *Wehrmacht* design.²⁷ The question arises, how investment projects in these sectors were realized. Did the state use its power to oblige enterprises to conform to its investment plans in case they did not want to fulfil them voluntarily? Or was the principle of freedom of contract respected even in such circumstances?

A famous example where enterprises were forced to undertake an investment was the *Braunkohle-Benzin AG (BRABAG)*.²⁸ In order to finance its plants for the production of fuel from domestic raw materials, the biggest German producers of lignite were obliged against their will to make available the necessary capital in the form of a quasi-loan over a ten-year period.²⁹ Incidentally, a similar procedure was selected in West Germany through the 'Investment Aid Law' of 1952 resulting in a forced loan to supply the capital needs of basic industry.³⁰ In the Third Reich there probably were some more cases of this or a similar kind. However, on the whole they remained exceptions. As in West Germany they cannot be seen as

²⁶ Herbst, *Totaler Krieg*, pp. 207-31.

²⁷ Petzina, "Vierjahresplan und Rüstungspolitik," p. 73.

²⁸ Birkenfeld, *Synthetischer Treibstoff*, pp. 37-8; Hayes, *Industry*, pp. 133-5.

²⁹ Bundesarchiv [BArch] R 3101/18353/9, Note on a conversation in the Economics Ministry with representatives of BRABAG, 11.4.38.

³⁰ Adamsen, *Investitionshilfe*.

a proof of the proposition that enterprises were permanently labouring under the threat of being subjected to force or even nationalized if they did not comply with the wishes of the regime. Rather it was the fact that they normally could refuse to engage in an investment project designed by the state – without any consequences. There are to be found quite a few instances where they did so, even after the implementation of the Four Year Plan and the beginning of war, both being considered in some of the literature as watersheds in the economic policy of the regime.³¹ And indeed, the rhetoric might sometimes have become more aggressive after 1936. But the actual behaviour of the state in relations with private enterprises appears to have not changed, because firms continued to act without any indication of fear that they could be nationalized or otherwise put under unbearable pressure.

Thus, *de Wendel*, a coal mining enterprise, refused to build another hydrogenation plant in 1937.³² In spring 1939 *IG Farben* declined a request by the Economics Ministry to enlarge its production of rayon for the use in tyres.³³ It also was not prepared to invest a substantial amount in a third *Buna* (synthetic rubber) factory in Fürstenberg/Oder, although this was a project of high urgency for the regime.³⁴ Another interesting example is the one of *Froriep GmbH*, a firm producing machines for the armaments and autarky-related industries which also found a ready market abroad. But in the second half of the 1930s the demand for the former

³¹ Mollin, *Montankonzerne*, p. 257; Overy, *Nazi Economic Recovery*, p. 56; Hayes, *Industry*, pp. 165-73; idem, *Degussa*, Ch. 4.

³² BArch R 3101/18220, Amt für deutsche Roh- und Werkstoffe to Wirtschaftsgruppe Mineralölindustrie, 27.4.37.

³³ Rheinisch-Westfälisches Wirtschaftsarchiv Köln 195/B 6-28-146, Hermann note about telephone call of 9.4.39 with Gajewski from IG Farben.

³⁴ BArch R 3101/18453, Amt für deutsche Roh- und Werkstoffe, various notes. See R.G. Stokes, Von der I.G. Farbenindustrie AG bis zur Neugründung der BASF (1925-1952), in: Abelshauser (ed.), *BASF*, pp. 221-358, who also notes that the resistance of the company against the proposals of the government finally was successful (p. 302).

purposes was so high that exports threatened to be totally crowded out. Therefore the company planned a capacity enlargement, but asked the Reich to share the risk by giving a subsidized credit and permitting exceptional depreciation charges to reduce its tax load. When the latter demand was not accepted at first, the firm reacted by refusing to invest. So in the end the state fully surrendered to the requests of the firm.³⁵ To conclude this enumeration a last case seems worthy to be mentioned – the *Oberschlesische Hydrierwerke AG Blechhammer*. This hydrogenation plant was one of the largest investment projects during the Third Reich which between 1940 and autumn 1943 cost 485m RM.³⁶ Originally it was planned to finance it with the help of the Upper Silesian coal syndicate. However, the biggest single company of the syndicate, the *Gräflich Schaffgott'sche Werke GmbH*, repeatedly refused to participate in the effort. Other companies were prepared to finance a part of the plant, but only under conditions which were unacceptable to the Reich, because they would have implied a discrimination of enterprises which had already concluded contracts with the state regarding other projects. For some time Carl Krauch, then already plenipotentiary for chemicals production, contemplated an obligatory engagement of firms. There existed, however, rather different opinions among state agencies concerning this question. And finally, in November 1939, the hydrogenation factory was founded without any participation of private industry.³⁷

All the cases mentioned which could still be augmented show that freedom of contract generally was respected by the regime even in projects important for the war. Therefore it is apt

³⁵ BArch R 3101/18071, Various letters from Froiep as well as from the Four Year Plan Authority.

³⁶ BArch R 3101/18220, List of hydrogenation plants. The sum mentioned impressively compares to a total investment of 706m RM of Daimler-Benz during the whole Nazi period; Gregor, *Daimler-Benz*, pp. 39, 84.

³⁷ BArch R 3101/18250, R 3101/18251, R3101/18253, Various notes and letters, notarial document. Interestingly Birkenfeld wrongly writes that force was applied in that case without giving a proof of this contention, however; Birkenfeld, *Synthetischer Treibstoff*, p. 139.

to state that short- and long-term profit expectations of firms played a decisive role in the armaments and autarky-related sectors, too. Private property rights and entrepreneurial autonomy were not abolished during the Third Reich even in these sectors. That being the case the regime had to devise instruments for the inducement of firms to voluntarily provide the state with the means necessary for warfare. Very often that could be done only by shifting the financial risk connected to an investment at least partly to the Reich. For this purpose the state offered firms a whole bundle of contract options to choose from implying different degrees of risk-taking. For example, in a kind of leasing arrangement the state itself could become the owner of a plant which was then operated by a private enterprise in exchange for a secure profit.³⁸ That was the one extreme option where the state paid total costs and bore the whole risk. The other extreme option, of course, was an enterprise realizing a war-related investment with no state aid at all except perhaps the permission to turn to the capital market for the necessary financial means. In between lay contracts which included a state subsidy and contracts guaranteeing sales for a fixed minimum price (*Wirtschaftlichkeitsgarantievertrag*).³⁹

The first kind of contract mentioned, where the state was the owner, the private firm only the operator of a factory, was chosen, if short- and long-term expectations of the enterprise concerning the project were negative, as was the case for stand-by armaments plants, many of them being integrated in a state holding company, the *Verwertungsgesellschaft für Montanindustrie mbH (Montan GmbH)*.⁴⁰ A similar arrangement was applied to the exploitation of the very poor German copper mines which could not be done in a competitive framework.⁴¹ If profit expectations by firms were negative in the short, but positive in the long

³⁸ For examples see Hopmann, *Montan*.

³⁹ Lurie, *Private Investment*, pp. 185-9.

⁴⁰ Hopmann, *Montan*, pp. 119-20.

⁴¹ BAArch R 3101/30383, Mansfeld-Contract of 15.5.39.

run a *Wirtschaftlichkeitsgarantievertrag* was normally opted for. These contracts were available for a period of up to ten years, the fixed minimum price being calculated to include relevant costs including depreciation charges and a certain profit margin. The plants built under such an arrangement were the property of the firm, but the state reserved to itself extensive control rights during the contract period. Furthermore the contract could not be terminated earlier by unilateral decision of the enterprise. A *Wirtschaftlichkeitsgarantievertrag* was typically chosen in the case of hydrogenation projects.⁴² The reason was that under certain circumstances one could reckon with synthetic fuel becoming internationally competitive.⁴³ However, if that had not materialized after the end of the contract period, plants designed for the hydrogenation of coal could be switched with little cost to the hydrogenation of mineral oil residues from the cracking process. That appreciably augmented the fuel yield from a given quantity of raw oil, a procedure employed in the US since the beginning of the thirties.⁴⁴ Therefore such plants carried with them positive expectations in the long run, i.e. after the termination of guaranteed sales. And that in turn made it valuable to the enterprises to own them.

When the Reich was asked by a firm to just subsidize an investment project it was interested in, for example by guaranteeing necessary credits, there existed positive profit expectations in the short run even under potentially competitive conditions.⁴⁵ Therefore, enterprises wanted to have the option to get out of the contract whenever they chose, possibly paying back the

⁴² For instance Benzin-Contract of 14.12.33 (BASF-Archives Ludwigshafen, IG-Files, B 4/760); Ruhrchemie-Contract of 31.7.34 (BArch R 3101/18361).

⁴³ See for example Becker, *Mineralölwirtschaft*, p. 149; BArch R 2301/6580, Translation of a Financial Times article (30.9.37); Hayes, *Industry*, p. 143.

⁴⁴ BASF-Archives, M 42, Speech by M. Pier of 24.8.33; von Nagel, *Methanol*.

⁴⁵ See for instance Scherner, "Zwischen Staat und Markt".

guaranteed credits. Characteristically, in 1937 *IG Farben* concluded a *Wirtschaftlichkeitsgarantievertrag* for its first plant to produce *Buna*.⁴⁶ For the second one of 1939, however, it only accepted a state subsidy, because in the meantime short-term expectations for the sale of the product, for which the firm had a national monopoly, had become positive through higher productivity achieved by further innovations and cost reductions. For the third plant operating in a still perfected manner, which was finally constructed in Ludwigshafen in 1940/41, the *IG* wanted no state aid at all.⁴⁷

The foregoing analysis proves the contention that in the Nazi period enterprises continued to shape their actions according to their expectations and that the state authorities not only tolerated this behaviour, but bowed to it by adapting their contract offers to the wishes of industry. That is also confirmed by Tooze's paper quoted above where he argues that there was no 'Stalinist option' available to the Nazi regime and consequently "a mixture of incentives provided by the state with private economic motives" was decisive for the development of certain sectors of production.⁴⁸ Further examples of this are provided by the negotiations of the shipbuilder *Blohm & Voss* with the navy about the construction of a huge dock in 1937⁴⁹ as well as the conditions for the enlargement of the *Krupp* Essen plant requested by the company and fulfilled by the Reich.⁵⁰ Incidentally the behaviour of enterprises in all these cases also demonstrated that they foresaw the eventual re-establishment of conditions in which the state would largely withdraw from its position of the biggest single source of demand and much

⁴⁶ BArch R 3101/18447, *Buna-I-Contract* of 16.8.37

⁴⁷ BArch R 3101/18448, Memorandum of *IG* on the construction and financing of the three *Buna*-factories, 8.1.40; BArch R 3101/18446, Ministry of Economics, note of 14.4.39.

⁴⁸ Tooze, "Punktuelle Modernisierung", p. 98.

⁴⁹ Meyhoff, *Blohm & Voss*, pp. 178-81.

⁵⁰ Abelshausen, "Rüstungsschmiede der Nation?", pp. 338-40.

reduce its interventionism with the consequence that competition would re-emerge, also with foreign producers. If it had been otherwise the forming of long-term expectations different from short-term expectations would have been meaningless. Thus industry itself did not consider the development of the Nazi economic system as heading towards socialism and central planning. Rather, the very important role of the state in the pre-war and war economy was seen as related to warfare and thus temporary.

III. This perspective is clearly corroborated by an analysis of Nazi intentions. Available sources make perfectly clear that the Nazi regime did not want at all a German economy with public ownership of many or all enterprises. Therefore it generally had no intention whatsoever to nationalize private or to create state firms. On the contrary the reprivatization of enterprises was furthered wherever possible. In the prewar period that was the case for example with the big German banks which had to be saved during the banking crisis of 1931 by the injection of large sums of public funds. In 1936/37 the capital of the *Deutsche Bank*, *Commerzbank* and *Dresdner Bank* in the possession of the German Reich was sold to private shareholders and consequently the state representatives withdrew from the board of these banks.⁵¹ Also in 1936 the Reich sold its shares of *Vereinigte Stahlwerke*.⁵² The war did not change anything with regard to this attitude. In 1940 the *Genshagen* airplane engine plant operated by *Daimler-Benz* was privatized; *Daimler-Benz* bought the majority of shares held by the Reich earlier than it wished to. But the company was urged by the Reich Aviation Ministry and was afraid that the

⁵¹ Kopper, *Zwischen Marktwirtschaft und Dirigismus*, pp. 201-8.

⁵² Mollin, *Montankonzerne*, pp. 52-3

Reich might offer the deal to another firm.⁵³ Later in the war the Reich actively tried to privatize as many *Montan GmbH* companies as possible, but with only little success.⁵⁴

Thus state-owned plants were to be avoided wherever possible. Nevertheless, as was shown above, sometimes they were necessary, if private industry was not prepared to realize a war-related investment on its own. In these cases the Reich often insisted on the inclusion in the contract of an option clause according to which the private firm operating the plant was entitled to purchase it.⁵⁵ Even the establishment of *Reichswerke Hermann Göring* in 1937 is no contradiction to the rule that the Reich principally did not want public ownership of enterprises. The Reich in fact tried hard to win the German industry over to engage in the project. However, most iron and steel companies were not interested in working the poor German iron ores a big part of which lay in great depth, especially since cheaper ore with a much higher iron content could be had on international markets.⁵⁶ Finally, Göring pushed forward with the creation of a public enterprise against continuing resistance of the Finance Ministry.⁵⁷ As it soon appeared the project was a very expensive and inefficient one.⁵⁸ Thus it seems plausible to consider this experience to have strengthened the resistance of the Reich bureaucracy against

⁵³ Gregor, *Daimler-Benz*, pp. 110-11; see also Budraß, *Flugzeugindustrie*, p. 494, where he states that at the end of 1941 almost the whole equity capital of the airplane industry in possession of the Reich from before 1938 had been reprivatized.

⁵⁴ Hopmann, *Montan*, pp. 131-4. But see Lorentz, *Industrieelite und Wirtschaftspolitik*, pp. 215-19, for one of the few actual privatizations of a *Montan* company.

⁵⁵ For instance the contract between the Reich and the Gerhard Fieseler Company, Kassel, of 9./14.9.39; BArch R 2/5478; Hopmann, *Montan*, p. 123.

⁵⁶ BArch R 2/19553, Reich Finance Ministry, Note on Reichswerke Hermann Göring, 14.7.37; compare Mollin, *Montankonzerne*, pp. 70-5.

⁵⁷ BArch R 2/21586, Schwerin von Krosigk to Göring, 3.9.37.

⁵⁸ Mollin, *Montankonzerne*, pp. 138-41; Bopp, "Evolution of the Pricing Policy," pp. 153-5.

future engagements of a similar kind. In any case the principle of the Four Year Plan that its projects preferably had to be executed by private industry was quite often confirmed later on⁵⁹ and it was explicitly stated that more *Reichswerke* (companies owned by the Reich) were not desirable.⁶⁰ During the war even Hermann Göring repeatedly said that he had always aimed to restrict financial engagements of the Reich in industrial enterprises as far as possible.⁶¹ Consequently, in 1942 he gave his consent to reprivatize quite a few armaments-producing firms which belonged to the *Reichswerke Hermann Göring* group.⁶²

There are several causes for the Nazi policy with regard to public ownership of companies just described. First, paragraph 48 of the law on the Reich's budget (*Reichshaushaltsordnung* [RHO]) together with paragraph 60 of the regulations concerning the financial and economic behaviour of the Reich (*Wirtschaftsbestimmungen für die Reichsbehörden* [RWB]) permitted entrepreneurial engagement of the Reich only when important interests of the Reich were not attainable otherwise and only with the consent of the Reich Finance Minister. These decrees, originating in the Weimar Republic, were never repealed during the Third Reich and thus placed the liberally-minded bureaucracy of the Reich Ministry of Finance in a strong position.

⁵⁹ BArch R 3101/18453, Amt für deutsche Roh- und Werkstoffe, Note on a discussion with representatives of the Reich Finance Ministry, 28.1.38; R 3112/169, Speech about the execution of the Four Year Plan, c. 1938/39 (probably given by Krauch).

⁶⁰ BArch R 3101/18453, Amt für deutsche Roh- und Werkstoffe, Note on negotiations with IG about Buna III, 5.2.38.

⁶¹ BArch R 2/15160a, Instruction of Göring, 23.3.42; BArch R 2/5551, Göring to Reich Finance Ministry, 24.7.42; compare also *ibid.*, Reich Aviation Ministry to Reich Finance Ministry, 18.2.43. See Müller, "Albert Speer und die Rüstungspolitik im totalen Krieg," p. 323, where Göring is quoted with an explicit appreciation of the advantages reaped by letting things be done through private industry.

⁶² BArch R 2/15160a, Instruction of Göring, 23.3.42; see also R 61/496, Conference of Sub-group on Money and Credit of Class IV, Akademie für Deutsches Recht, 28./29.11.42; compare Mollin, *Montankonzerne*, pp. 52-3.

It insisted that all institutions of the Reich had to strictly apply those regulations. And it even threatened that otherwise it would not agree to an industrial engagement of the Reich, making it unlawful.⁶³ In this respect even Reich Marshal Hermann Göring had to bow to the Reich Finance Ministry. Thus it is characteristic that the Finance Ministry could decline a request from October 1944 of the Reich Aviation Ministry the head of which was Göring to increase a guarantee of credits given by the *Bank der Deutschen Luftfahrt* to the airplane industry as share capital.⁶⁴ The power of the Reich Finance Ministry basically derived from its preserved formal responsibility for the Reich budget – a relic from the Weimar democracy. That in turn was a consequence of the fact that the Nazi takeover of 1933 was not a revolution in the proper sense of the word. The National Socialist Party just established some new non-state executive agencies *besides* the old state institutions.⁶⁵ Of course, every Weimar law and every traditional state institution could have been brushed aside by the Nazi regime. But as long as that was not done they functioned in their normal way. Thus the following two reasons might explain why the old order of things was not changed in this case.

For one has to keep in mind that Nazi ideology held entrepreneurship in high esteem. Private property was considered a precondition to develop the creativeness of members of the German race to the best of the people. Therefore it is not astonishing that Otto Ohlendorf, an enthusiastic National Socialist and high-ranking SS officer, who since November 1943 held a top position in the Reich Economics Ministry, did not like at all Speer's system of industrial

⁶³ BArch R 2/21586, Reich Finance Ministry, November 38, regarding Hermann Göring-Werke: Consent of the Reich Finance Ministry according § 48,4 RHO; Wawerla / Ambrosius, *Haushaltsrecht*, pp. 254-5. According to Art. 123,1 of the Basic Law the RHO and RWB continued to be law in the Federal Republic.

⁶⁴ BArch R 2/5551, Reich Aviation Ministry to Reich Finance Ministry, 16.10.44. The request was made a second time in January 1945; see *ibid.*, Reich Aviation Ministry to Reich Finance Ministry, 26.1.45.

⁶⁵ See already Fraenkel, *Dual State*.

production. He very much criticized the cartel-like organization of the war economy where groups of interested private parties exercised state power to the detriment of the small and medium entrepreneur. For the postwar period he therefore advocated a clear separation of the state from private enterprises with the former establishing a general framework for the activity of the latter.⁶⁶ In his opinion it was the constant aim of National Socialist economic policy, “to restrict as little as possible the creative activities of the individual. [...] Private property is the natural precondition to the development of personality. Only private property is able to further the continuous attachment to a certain work.”⁶⁷

A third cause has to do with the deep conviction even in the highest ranks of the Nazi elite that private property itself provided important incentives to achieve greater cost consciousness, efficiency gains and technical progress. The principle mentioned above that Four Year Plan projects were to be executed as far as possible by private industry was explicitly motivated in the following way: “It is important to maintain the free initiative of industry. Only in that case one can expect to be successful.”⁶⁸ Some time earlier a similar consideration was expressed: “Private companies, which are in charge of the plants to be constructed, should to a large extent invest their own means in order to secure a responsible management.”⁶⁹ During the war Göring said, it always was his aim to let private firms finance the aviation industry so that private initiative was to be strengthened.⁷⁰ Even Adolf Hitler frequently made clear his opposition in principle against any bureaucratic managing of the economy, because that, by preventing the

⁶⁶ BArch R 3101/32.016, Speech of Ohlendorf to the Reichsgruppe Industrie, 4.7.44; see also Herbst, *Totaler Krieg*, pp. 79, 448-52.

⁶⁷ BArch R 3101/32.149, Principles of economic policy (not dated).

⁶⁸ BArch R 3112/169, Speech of Carl Krauch (?) about the execution of the Four Year Plan, c. 1938/39.

⁶⁹ BArch R 3101/17789, Amt für deutsche Roh- und Werkstoffe, Financing proposal for the plan, 1937 (?).

⁷⁰ BArch R 2/5551, Göring to Reich Finance Ministry, 24.7.42.

natural selection process, would “give a guarantee to the preservation of the weakest average [sic] and represent a burden to the higher ability, industry and value, thus being a cost to the general welfare.”⁷¹

Interestingly enough this third cause conforms well to modern economic reasoning about the effects of private versus public ownership.⁷² In this context a very important suggestion is that the question of ownership of firms has to be strictly distinguished from the competitive or non-competitive framework they are working in. For the effects of public ownership not only often negate the efficiency-enhancing properties of competitive markets because of weak incentives to managing bureaucrats and political interference. But it is also the case that private ownership of firms is advantageous even if producing for state demand in monopoly situations. The reason is that residual control rights remain with the private owner. Therefore, in the normal case of incomplete contracting, the owner can engage in actions which increase efficiency without asking the government, as long as he does not violate the contract, and he will do so, because it will augment profits. The *Wirtschaftlichkeitsgarantievertrag* exactly was such a type of contract with an obligation for the enterprise to produce a specified product while guaranteeing minimum sales for a certain price, but leaving residual control rights to the firm. As has been shown, *IG Farben*, monopoly producer of synthetic rubber, achieved high efficiency gains in a framework of this kind with the result that for the second and third *Buna* factories it did without such a contract, in order to increase its freedom of action even more. On the other hand, the *Reichswerke Hermann Göring* offer a good example for the deleterious

⁷¹ Quoted from Herbst, *Totaler Krieg*, p. 80; see also Ritschl, „Verhältnis von Markt und Staat.“

⁷² Hart et al., “Proper Scope,” pp. 1127-61; Shleifer, “State versus Private Ownership;” Shirley / Walsh, *Public versus Private Ownership*.

effects of public ownership with high inefficiency because of practically unlimited subsidization as well as openness to corruption.⁷³

IV. By keeping intact the substance of private firm ownership the Nazis thus achieved efficiency gains in their war-related economy. And, perhaps surprisingly, they were aware of this relationship and made consciously use of it to further their aims. Thus “planning” had indeed a very different meaning in the Nazi state from that in the Soviet Union. It is therefore not at all astonishing that this was often emphasized by contemporaries from many quarters.⁷⁴ The greatest difference to a centrally planned economy, however, was the role private ownership of firms had to play in the economy – in practice as well as in theory. The ideal Nazi economy would liberate the creativeness of a multitude of private entrepreneurs in a dominantly competitive framework gently directed by the state to achieve the highest welfare of the Germanic people. But this “directed market economy”, as it was called, had not yet been perfected because of the exigencies of war. Therefore a way to characterize the actual German economy of the Third Reich more realistically would probably have been “state-directed private ownership economy” instead of using the term “market”. But, as it was explained earlier, that does not mean that “markets” played no role for the actions of enterprises. The expectation of the eventual reestablishment of markets as decisive institutions for the

⁷³ A foreign example has been the production of synthetic fuel by a state-owned company in Spain (Román / Sudrià, “Synthetic Fuels”). The harder budget constraint a private firm is confronted with indeed is a further important reason for its greater productive efficiency; see Schmidt, “Costs and Benefits”.

⁷⁴ For instance R 3101/32.149, *The economy as an element of the National Socialist life of the German People* (by Ohlendorf, probably 1936/37); that also was made clear in textbooks about the (legal) relationship of state and economy; compare Häberlein, *Verhältnis von Staat und Wirtschaft*, with paragraphs on “Führungs- oder Lenkungswirtschaft, nicht Planwirtschaft” or “Über die Gestaltung und Auswirkung des deutschen Sozialismus im Wirtschaftsleben”; Hedemann, *Deutsches Wirtschaftsrecht*, pp. 41-5, 157-9. Compare also economics textbooks of the period; see Hesse, “Semantik“.

governance of business rather shaped the behaviour of firms also in the time when their actual importance was much diminished.⁷⁵ The relationship between state and industry in the Nazi period, having produced a long debate about which of the two commanded primacy,⁷⁶ can therefore be best interpreted as a temporary partnership where the state was the principal and the industry the agent. However, the agent not only, as always, had a very close eye on its own interests, but actively prepared for being the principal himself in the medium future. In the meantime, of course, industry adapted to the regime's wishes, often at little financial costs, but by deferring development plans of its own. It is clear therefore that there existed, in the words of Peter Hayes, opportunity costs to enterprises.⁷⁷

That also is indicated by the investment behaviour of firms as well as the composition of industrial investment. Thus industry, as a result of a very high cash flow, paid back bank credits⁷⁸ and hoarded liquidity, but invested on its own only relatively small amounts in real capital.⁷⁹ For instance, less than 40 per cent of industrial investments in 1938 were spontaneous in the sense that they were not directed by the state towards armaments and autarky-related

⁷⁵ That is not seen in an otherwise quite interesting contribution recently published by Werner Plumpe (Plumpe, "Unternehmen im Nationalsozialismus"). For Plumpe explicitly states that in the course of time decision-making of firms was less and less influenced by observation of markets and that its place was taken by the demands of politics transformed into sales and price guarantees.

⁷⁶ For a short overview of this debate compare Kershaw, *Nazi Dictatorship*, pp. 42-60.

⁷⁷ Hayes, *Degussa*, Ch. 6.

⁷⁸ Kopper, *Zwischen Marktwirtschaft und Dirigismus*, pp. 181-98.

⁷⁹ *Krupp*, for example, between 1932 and 1938 invested only 45m RM in capacity enlargement – despite an increasing shortage of iron and steel –, but 58m RM in highly liquid assets; Krupp-Archives Essen, WA IV 2876, finance. Compare also Abelshauer, "Rüstungsschmiede der Nation?", pp. 338-40.

products.⁸⁰ Although profitability of companies in 1938, according to Spoerer, was four times higher than in 1928,⁸¹ spontaneous investment of industry at most reached two thirds of the level of 1928. This shows that even after the inauguration of the Four Year Plan and the establishment of iron and steel rationing it still was possible for firms to invest according to their genuine plans which, of course, can be considered as expression of their continuing entrepreneurial autonomy. On the other hand, spontaneous investments were rather low seen before the background of very high profitability. This was due, at least partly, to the fact that entrepreneurs reckoned with the collapse of the armament boom in the near future potentially leading to high overcapacities because exports remained underdeveloped in the Nazi era.⁸²

Finally, one further consideration has to be taken account of: Economic reasoning is about institutions providing incentives to economic actors whose actions determine economic development. In that context the non-economic characteristics of the actors such as nationality, race, beliefs and so on are largely irrelevant. But that definitely was not the case with the Nazi economy. It is therefore not astonishing that its analysis in purely economic terms cannot grasp its specific National Socialist properties. For in the Third Reich the fact was that one group of economic actors was not equal to other groups of economic actors with the same economic characteristics, since there applied a differentiation along racial lines. This meant that freedom of contract for Jewish entrepreneurs was more and more restricted until Jews were excluded as

⁸⁰ The figure is derived as follows: Industrial investment is taken from *Statistisches Handbuch*, p. 605, for 1938 augmented by investments of sectors not included in the official figures, namely Montan GmbH (Hopmann, *Montan*, p. 121) and aviation industry (BArch R2/5551, Survey on investment and financing of military aviation industry), allocated to single years according to Montan GmbH investments. Armaments and autarky-related investments include those of Montan GmbH, the aviation industry and the Four-Year-Plan (for the latter compare Petzina, *Autarkiepolitik*, p. 183).

⁸¹ Spoerer, *Scheingewinne*, pp. 147.

⁸² Buchheim, "Wirtschaftsentwicklung im Dritten Reich".

economic actors altogether after 1938. Thus, the main difference between the Nazi war-related economy and Western war-related economies of the time can be detected only by an analysis which transcends economics.

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