Some Basic Features
of the National Socialist Economic System

Chapter V of ‘The Economic Recovery of Germany’ by
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This chapter is an attempt to sum up in a few words what would appear to be the salient characteristics of the German economic system as it took shape during the years 1933 to March 1938.

**State Control Over Investment, the Money Market, the Rate of Interest, and the Foreign Exchanges**

By the establishment of a rigid and highly effective control over the foreign exchanges the German economy has in a large measure, though by no means completely, been rendered independent of fluctuations in the outside world. Under these conditions external changes could alter the total volume of Germany’s foreign trade, but could not cause wide divergences to occur between the value of imports and exports taken as a whole.

Down to the end of 1937 it was in fact possible to preserve a favourable balance of trade and to redeem a considerable part of the foreign debt whose existence has been, and still is, so great a handicap to Germany’s freedom of movement in her commercial relations with foreign countries. As a further result of foreign exchange control the internal monetary and price structure has been divorced from world price movements and from the influence of gold. The export of capital also can be effectively held in check. ¹

Inside Germany the monetary system has been based on the general principle that the effective volume of money and credit in circulation should keep pace with the growth of production and the output of goods and services.

Unlike the American experiment of the New Deal, and disregarding the views of many recent monetary “reformers” of the Major Douglas type, the Germans in their recovery measures have laid predominant emphasis upon investment as contrasted with direct transfers to consumers. They have proceeded along the common-sense lines that work and production alone constitute the real source of the wealth of a community, and have relegated money to the subordinate though very important
rôle of financing investment in all its forms, including output of every kind – but chiefly output in the production goods industries; and they have left it to the investment and employment thus created to produce incomes and savings. In the process they have adopted what, in appearance at least, has been a purely inflationary policy, inasmuch as the money (it is entirely immaterial that it should have taken the form of bank credit and not of paper money) has been created by the Reichsbank and the banking system as a whole in advance of the production of wealth – though not, be it noted, in advance of the orders for the production of wealth. The result has demonstrated in practice the truth which R.F. Kahn in this country has propounded in theory, namely, that the creation of money (inflationary finance) cannot produce an inflationary rise in the general level of prices, with all its attendant evils, so long as there is an abundant amount of idle resources and unused productive capacity available.  

Expressed in technical language, what is needed is that the short-period supply curves of output as a whole should be highly elastic. It is true that there are two conditions which must be fulfilled in order that this general proposition may be valid: there must be substantial stability of the level of efficiency wages, and the process of money creation must not be accompanied by the export of capital on a large scale, i.e. by a flight from the currency. But in the case of Germany both these conditions have in fact been satisfied as a result of direct State intervention.

It would not appear that, in adopting this policy, the Germans were governed by considerations based on economic theory and analysis, but rather by the necessities of the situation in which Germany found herself in 1933. At that time the production goods industries were abnormally depressed and suffering from vast unemployment. By contrast, the consumption goods industries were doing relatively well. It was natural, therefore, to apply the stimulus of State orders to that part of the economic system which was hardest hit, and where, moreover, considerations both of the supply of raw materials, and “labour intensity” made it probable that a given expenditure of public funds would give rise to the maximum amount of new employment. Moreover, the decision not to devaluate had left the German price level above that of the countries which had devalued their currencies, and made it imperative to do nothing which could raise initially the general level of prices, such as allowing wages or individual prices to rise, or relying upon an expansion of consumer’s demand reacting back on the demand for the products of this investment goods industries. In any case the high rate of interest would have impeded this latter type of reaction, while any growth of consumption would have increased the imports of foreign raw materials for which finance could not be provided. In these circumstances to have attempted to finance consumption would have been worse than useless, so the only alternative left was to concentrate every effort upon creating employment and stimulating output. Even the novel device of using
employment creation bills as a means of financing public investment, may be said to have originated automatically out of the breakdown of the capital market, combined with the then existing legal provisions governing the lending powers of the Reichsbank.

While recovery has been directly based upon the expansion of State investment, at first in the form of public works but later to be potently reinforced by rearmament expenditure, a most essential feature has been the control of the volume and direction of private investment. In place of the ordinary profit incentive to investment in a free economic system, there has been a careful and thorough regulation which was initially designed mainly in order to prevent over-investment in particular industries, but was subsequently extended to the general allocation of investment in accordance with its importance for the needs of the State.

The rôle of the rate of interest as an index for the distribution of investment has been greatly restricted; and once the rate of interest had been reduced by deliberate measures to a level which was low in relation to the prospective return on capital, it was stabilised at that level by means of an appropriate manipulation of the money and capital markets. At the same time the Law preventing the distribution of dividends in excess of 6 per cent., together with the control over new capital issues, has greatly lessened the importance of the Stock Exchange, except as a market for dealing in old shares, and has eliminated its influence as a potential disturbing factor in economy.

Stable Wages and Stable Prices
The level of minimum tariff wage rates has been kept unchanged since 1933, though there have been considerable increases in actual hourly earnings, and still more in weekly earnings, especially in the production goods industries. Earnings have risen owing to such causes as the rise in efficiency, the scarcity of labour, the extension of piece-wages, overtime, etc. But basic efficiency rates have not been altered, and the most important single factor making for a general rise in prices has thus been eliminated.

Prices have been subjected to a control of increasing intensity, culminating in the Wage Stop Decree of November 1936, which imposed a general prohibition on all price increases without the express sanction of the Reich Commissioner for the Formation of Prices. Since 1933 a large number of prices have fallen as a result of State intervention, but still more have risen. However, the net result was a rise of only 13 per cent. in the general wholesale prices index number between 1933 and March 1938.
When it is remembered that in March 1938 Germany was in a state of full employment (in the usual sense of this term), that there was an extreme scarcity of labour, and that many of her most important industries were working to capacity, with heavy overtime, this relative stabilisation of wages and prices must be regarded as a very remarkable achievement. It is certainly unique in economic history down to the present time.

**A Regulated and Disciplined Economy**

It is difficult to conceive of anyone who had read the preceding chapters of this book and yet failed to realise the enormous extent and complexity of State regulation and interference. Whether in the relation of employers and their workers, or the choice by an individual wage-earner of his place of employment or even the nature of his employment, or the kind and quantity of raw material that an entrepreneur can buy, or the disposal of his produce by the peasant – in all these and a thousand other ways, the free use of individual discretion and judgement is liable to be restricted and controlled.

One of the main planks in the original (and still unaltered) programme of the National Socialist Party, drawn up by Hitler in 1920, is the slogan “*Gemeinnutz vor Eigennutz*”, *i.e.* the interests of the community must take precedence over the interests of the individual. Now it is probable that the citizens of every country would pay at least lip-service to the principle embodied in this slogan; but its application in practice must mean (and this again is true for every country) the subordination of the interests of the individual to what the ruling power in the State decides to be the interests of the community. In Germany the unparalleled amount of interference with personal freedom of action in the economic sphere, is justified and excused, by those in authority, by reference to this overriding principle of general policy. It must be borne in mind that German National Socialism is opposed in principle to State management. They have in fact de-nationalised and de-municipalised many undertakings; the most conspicuous exception to this, the Hermann Goering works, being due to quite exceptional circumstances. It is a cardinal tenet of the Party that the economic order should be based on private initiative and enterprise (in the sense of private ownership of the means of production, and the individual assumption of risks) though subject to guidance and control by the State. Thus the greatest stress is laid on the value of personal achievement and of emulation as a spur to action. Nothing is more abhorrent to the Germans than the suggestion that there is any parallel between their system and that of Soviet Russia. They contend that theirs is not even, in the strict sense, a “planned economy”, *since it has neither a central planning body nor a central plan at the back of it.*⁵ It may be said, indeed, that the German economic structure suffers from some of the disadvantages and enjoys freedom from some of the defects of a more ordered and organic system. There is
undoubtedly a considerable lack of co-ordination between different parts of the body economic, which gives rise to many difficulties, to loss of individual tempers and of general efficiency; and it is by no means always true that the right hand of official authority knows what the left hand is doing. Both a priori considerations and a knowledge of conditions inside Germany must lead to the conclusion that a modern complex economic system, such as prevails there, cannot be drastically regimented without a vast amount of friction. Indeed, to imagine that the German economic machine works with a precise clockwork efficiency would imply a very false picture of the reality. The machine creaks and groans, but nevertheless moves with surprising rapidity; nearly everybody grumbles – but everybody conforms.

It must be recognised as a major factor in the German economic recovery that on the one side there is a central will capable of quick decision and armed with supreme authority, while on the other side there is a highly disciplined organisation of the productive forces of the whole economy.

It is not, however, the case that this organisation exists solely in order to register and carry out orders which it receives in detail and without having any voice either in their framing or their execution. There is a great deal of consultation with the industries concerned before important messages are decreed, and a very genuine attempt is made to preserve a certain measure (as much as is found possible) of individual enterprise and initiative. The major decisions on policy are finally taken at the top; for example, by Field-Marshal Goering or one of his subordinates; but the execution of the policy is left to the individual Group or Sub-Group concerned to carry out as it finds best. Even in the Groups or the Sections of the Food Estate the so-called “leadership” system (Führerprinzip) is dominant, and there is no possibility of a recalcitrant minority or even, in extreme cases, a majority standing out against a decision binding on all members of the Group or Section. As a rule, therefore, the individual shopkeeper or manufacturer gets his instructions from the Group to which he belongs and not direct from a State official. The instructions may of course still be unwelcome, but they have at least been worked out (cf. the official reduction in prices of branded goods in 1937) within the Group, and therefore with a knowledge of the technical and other considerations involved.

So far as price-fixing and marketing are concerned, the control of industry is chiefly in the hands of the cartels, and although these are subject to a certain supervision by the Groups, the latter are forbidden to take any direct part in the determination of marketing conditions and price policy. The general policy then is to make as much use as possible of the machinery of self-government in the different parts of the economic system. On the other hand there is an army of State officials to see that the innumerable Decrees and regulations are carried out and a great deal of valuable
time is wasted in negotiating with them. It should in justice be added that this type of official interference with the conduct of business is chiefly confined to firms engaged in foreign trade, or which require permits in order to procure raw materials. But here the “paper war” (Papierkrieg) flourishes at its maximum intensity. The Minister of Economics, Herr Funk, stated in a recent speech that the German export trade involves 40,000 separate transactions daily; yet for a single transaction as many as forty different forms have commonly to be filled in.

Finally, one thing remains to be said on the basis of many pronouncements of the leaders and spokesmen of German economic policy: the existing extent of interference and regulation is officially regarded as something abnormal and temporary – the result of the emergencies of the present time. It is by no means thought of as an end in itself; the hope is continually held out that, if and when these stresses relax, and Germany can regain a greater degree of freedom of movement in her economic life in general, it may be possible to cut away much of this vexatious and cumbersome network of decrees and regulations.

**The Withdrawal of Agriculture from the Ordinary Pricing System**
The whole of German agriculture has been organised as a complete and distinct economic entity within the Food Estate. A comprehensive marketing organisation has been set up involving the control of production and distribution at every stage from the farmer to the consumer. The extent of the control varies a good deal: in the case of production it is more commonly indirect, through price regulation, expert advice and propaganda; but in the case of distribution the control is mainly direct. The farmer receives neither a minimum nor a maximum price, but a guaranteed price for his produce, while for each succeeding stage until the produce reaches the consumer, prices are fixed on a reproduction cost basis, allowing the merchant, miller, manufacturer, retailer, etc., their costs, together with a standard rate of profit on the turnover.

In the early years, 1933 to 1934, producer prices of agricultural products were raised from the low level to which they had fallen in the slump, and then substantially stabilised at a level which allowed the farmer what was at first a favourable remuneration, but which later declined as farming costs and prices of industrial products rose in 1936-37. The aim here has been to protect the farmer from the ordinary fluctuations of market prices and to give him economic security, so that he can carry out his main duty of supplying the basic food requirements of the German people.

Partly on racial and political grounds the peasant (and the agriculturalist in general) is regarded as being in a very special degree entitled to protection of the State.
Agriculture is thought of as a way of life rather than only one of many ways of earning a living; and the peasant is taught to regard himself as the backbone and aristocracy of the nation, the custodian of the purity and vigour of the German race. The Hereditary Farms Law, with its creation of a great class of peasant holdings which are entailed from father to son and free from the possibility of mortgage indebtedness in future, is an outstanding example of this attitude.

**State Recognition of the Right to Work**

The National Socialist State professes to guarantee to all its citizens that it will provide them with the means to work. This does not mean that no unemployment is allowed to exist, for there are obviously seasonal variations in employment as well as the normal turnover of labour and personal factors which can lead to a man being thrown out of work. But it does mean that the State will not tolerate the existence of long-term unemployment on a large scale. Rather than permit this the State will itself provide alternative employment in some form – if not “regular” then “substitute” employment.

As a corollary to this recognition of the right to work the State imposes the duty to work, and this is a very far-reaching obligation. It can mean that the State has the right to lay down the conditions under which a man shall work. The State can say to a man: You shall work in this occupation; you shall work for ten hours and for these wages; and you shall work where you are told to work, even though it is a different district from that in which you are now living.

It is important here to make the distinction between policy under normal conditions and policy under conditions of great national emergency, such as war or the imminent threat of war. The significance of this distinction can be illustrated from German history since 1933.

During 1933 and 1934, when there was extremely heavy unemployment, very large numbers of men (800,000 on the average throughout 1934) were employed on emergency relief works and in the Labour Service, where they worked hard and received only pocket-money and their keep and lodging – the latter often under canvas. If the work had not been provided for them they would have been receiving a very meagre relief allowance at home for doing nothing. They quite possibly were rather better off (especially from the physical point of view) than if they had remained at home; but it is an essential point that they did not receive ordinary wages in return for their labour. The willingness of the unemployed to work under these conditions (alternatively the power of the State to make them do so) was thus a factor of great importance in the whole situation.
During the years 1935 to the end of 1937, the Labour Service (about 200,000 men) was retained, not as a form of substitute employment, but as a training in physical work for young men; on the other hand, emergency relief work by degrees dwindled into insignificance as the workers were absorbed into normal employment. Now, during this period, apart from occupational guidance which was not coercive, and some restrictions affecting certain categories of labour, it is broadly true to say that there was no interference with the freedom of the vast mass of individual workers either to choose their occupations or their place of employment. Basic wage rates had been stabilised at their 1933-34 level, but there was nothing to prevent the employer from paying more, or the worker from changing his employment if he thought he could get higher wages elsewhere. Strikes, it is true, were prohibited and disputes were required to be submitted for compulsory arbitration; but in place of the old trade unions, which had been abolished, there was the Labour Front which was very active in many directions in defence of the workers’ interests; and there was a form of workers’ representation in all save the very small factories. There was also that interesting innovation, the Courts of Social Honour (Soziale Ehrengerichte) whose influence is not to be measured merely by the number of cases actually brought before them.

Thus from 1935 to 1937 we do not get the impression of highly abnormal conditions from the point of view of the position of labour in a modern industrial system; and it would not be in accordance with the facts to represent the German worker at this time as little better than a serf with no liberty of action or movement.

Considerable changes took place in the relations between the State and labour in the summer of 1938, and though it is, strictly speaking, outside the period covered by this book, their great importance may be held to justify some reference to these most recent developments. Owing to the increase in political tension in Europe as a result of the Czechoslovak dispute, the German Government decided to fortify with all possible speed the Western frontier of Germany and to speed up rearmament in general. It must be remembered that Germany was already in a state of full employment and that her available reserves of labour had been exhausted. A Decree was issued on June 28, 1938, empowering the State to call upon any citizen in the country to perform work of urgent national importance. Under this Decree hundreds of thousands of men were drafted from their normal occupations, e.g. as builders in Berlin and elsewhere or as road-workers, to work on the new fortifications. It was laid down, however, that the remuneration of this conscripted labour should be not less than that which the men previously had been earning, and in the administration of the measures it was arranged that those called up should be almost entirely unmarried men. Legally the decree was held to represent Arbeitspflicht but not Berufszwang. This meant that there was a compulsion to work but not a statutory
interference with the individual’s normal choice of occupation – the men called up were deemed to be “seconded” from their ordinary work for a temporary period of national emergency, the presumption being that when the emergency was over they would return to their usual employment. By another important decree the functions of the State-appointed Trustees of Labour were extended, and they were empowered to issue binding orders to cover all wages and labour conditions, whereas previously they had been concerned only with minimum wages and conditions. This power, however, was confined to industries which were scheduled by the Minister of Labour; and down to the present (October 1938) it has only been applied to the building and metal industries.

It is clear that the State in Germany has now assumed virtually unlimited powers over German labour. Such powers are no doubt inherent in the sovereignty of the State; but the important distinction in this case is that they have been legally assumed during a period of peace and will very likely continue to remain in force on paper. Whether this means that in future these powers will be used as a normal thing, so that the individual worker in Germany henceforward is deprived of his freedom of choice of occupation and place of work, is a question which can only be answered by the event. Current comment in German economic periodicals would seem to show that an indefinite prolongation of these conditions is not expected, and would certainly not be welcomed, by responsible opinion in Germany.

**Independence of Foreign Sources of Supply of Essential Foodstuffs and Raw Materials**

German policy in this matter is to become self-sufficing in those foodstuffs and raw materials for which she has an inelastic demand, or which, if they were cut off in the case of war, or as a means of political or economic pressure in time of peace, would bring disaster to the State. There is, however, general agreement in Germany that it is not desired, even were it feasible, to make the country completely self-sufficing so that she ceased to have any foreign trade. The utmost importance is attached to increasing the volume of German exports, in order to make it possible for her to raise the standard of living of her people by increasing her imports, subject to the general proviso that these imports should be of a type which could be dispensed with in time of war without endangering the security of the country.

So far as raw materials are concerned, the policy is directed to changing the rawmaterial basis of industry as far as possible from products which are scarce outside Germany, or which have to be imported, to products which can be obtained within the German borders or from contiguous countries with which she is not likely to be engaged in war. Thus plastic materials take the place of iron and other metals; the output of aluminium, magnesium, and low-grade iron ores is being greatly
expanded; synthetic rubber replaces natural products, and staple fibre cotton and wool. For the time being this development is a heavy additional burden to the economic system of the country, both because it adds to investment demands at a time when the capital and savings market is already severely strained, and because it increases the need for labour which is now the most serious bottleneck or limiting factor in the economy. The Plan may fail, but if it is a failure this does not imply economic disaster for the country, at least in the short period; it would mean that the hopes of ultimately raising the standard of living by this means (while maintaining security) had been disappointed, and the extra cost must be added to the economic burden thrown on the community as a whole by what Professor Pigou in his *Political Economy of War* has called “the shadow of war”.

**The Decentralisation of Industry and Population in Germany**

The Germans hold that the ordinary industrial town, as it had grown up in the sixty or seventy years before 1933, with its many-storied tenement dwellings in which each family occupies a flat or one or two rooms, is a monstrosity. They desire to replace these urban agglomerations by a decentralised type of industry, small industrial towns being scattered about the countryside. The ideal before them is that each worker should live in his own house with a garden or allotment; and special facilities in many different forms are being made available to enable him to buy his house by payments spread over a long term of years.

Partly for these reasons, and partly on military grounds, most of the new undertakings built in connection with the Second Four-Year Plan have been placed in districts far removed from the great industrial centres, thereby incidentally creating new problems and difficulties, especially for agriculture, which are discussed elsewhere.

All over Germany regional and town planning has been developed to a high degree along very efficient lines. There is a Central Planning Board in Berlin, a Reich Institute, linked up with all the universities, for conducting research into problems of planning, and regional planning authorities in every State of the Reich. The latter must be consulted before a road can be constructed, a factory built or a housing scheme approved, while the Central Board is concerned with laying down general lines of policy for the whole country. An immense amount of activity is going on in this field; it represents one of the less known but most constructive aspects of modern Germany, and is one that may well provide valuable lessons for other countries. While the greater part of the housing activity in Germany since 1933 has taken the form of the provision of houses in the large cities, where the housing shortage has been most acute, there has been a considerable amount of construction of small family houses and of suburban and country housing settlements – a work in which
the Labour Front has played an active rôle. The promotion of these settlements is an integral part of the Second Four-Year Plan, especially in connection with the establishment of the new factories. It has been pointed out by critics of Germany that such settlements, especially when they are financed by the undertakings in which a man is employed, as is frequently the case now in Germany, are open to the grave objection that they increase the dependence of the worker upon his employer. While it is certainly true that they will have this effect, its ultimate significance must largely depend upon the course of labour policy and industrial relations as a whole in Germany. On one interpretation the whole scheme is a skilful device to enslave and exploit the worker, while on another it is a measure of constructive social reform within the frame-work of a capitalist society.

Down to the present time the amount of progress that has been made with such ambitious proposals as the migration of industries from the big cities to the country, and with the provision of rural settlements to enable the industrial worker to share in the life of the countryside, has not been large. They remain, however, an essential part of National Socialist economic doctrine, and are important as an indication of probable future trends.

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A consideration of the “basic features” of the National Socialist economic system shows clearly the extent of the gulf that separates it from the relatively free economic systems of such countries as Great Britain, France, and the United States. It is incumbent on those who would draw conclusions from the results on employment and activity of Germany’s economic policy to reflect on the institutional environment in which these results have been achieved. Despite incoherencies in detail, the system as a whole is coherent and mutually interdependent. This is not to deny that other countries can learn from or imitate with advantage certain of the features of the National Socialist economy, but the greatest caution must be observed in applying the experience of Germany to countries with a different type of economic and institutional background.
Author’s Footnotes
The following notes were not written by myself (Bogumil), but make up C.W. Guillebaud’s original footnotes from the chapter transcribed above.

1. The Germans are fond of the slogan “Mengenkonjunktur statt Preiskonjunktur”, by which they mean that their objective is a boom expressed in volume of output and not in value due to price rises.


3. Since the appearance of Mr. Keynes’s General Theory of Employment Interest and Money many Germans have tried to rationalise their official policy by reference to his theories. Independently (in whole or part) of Mr. Keynes, German economic writers, such as Richter-Altschäffer, Nahmer, Grünig, Föhls and others, have developed theories on somewhat similar lines. But there is no evidence to show that the original policy was influenced at all by abstract theories. In so far as there could be said to have been an economic theorist of early National Socialism, Herr Gottfried Feder, who belonged to the extreme left-wing of the Party and subsequently fell into disfavour and obscurity, would seem to have the best claim to the title.

Dr. Schacht has been the financial genius of the new economic system, but the agricultural and industrial controls have mainly been worked out empirically by the civil servants and administrators, with some regard to war-time methods, e.g. those developed in England in 1917-18 – Wehrwirtschaft, it may be noted, is now an important special branch of economic study in Germany.

In the case of agriculture the ideas of the pre-war German economist, G. Ruhland, appear to have been of great importance.

4. The stabilisation of the long-term rate of interest since 1935 has been a factor of great importance both from the standpoint of saving and of investment.

5. The Second Four-Year Plan comes very near to this, but still may be held to have only a limited and temporary objective.

6. Where the Group or Section could not agree on a matter coming within its competence, this would be referred for decision to a higher authority within the economic organisation. The stringency of the “leadership” principle in industry has been a good deal modified in more recent years by the provision of rights of appeal.

7. Cf. the following lament from Die Deutsche Volkswirtschaft for April 1938: “The head of a firm is often treated by some young junior official or departmental representative, as though he was in the dock, if any measure, which is necessary in the business interests of the firm or is due to special circumstances, offends against even a letter of some almost incomprehensible regulation… It is true that the employer today is left with nothing but duties. If he fulfills them, it is taken for granted, and he gets no recognition. But woe to him if he neglects one of his duties, then there is the devil to pay, although it is scarcely possible any longer for him to fulfil all the duties which are more and more piled upon him, as though his capacity for work were inexhaustible.” The same journal, for March 1938, cites the (possibly exceptional) case of a sugar factory which wanted to put up a small boiler-room with an electric power connection. Before it could do this it had to obtain permission from twelve different authorities, each of which required multiple copies of drawings and specifications.

8. It must be remembered that insurance against unemployment in Germany only began in 1927, and that its finance broke down completely in the depression of 1931-32, with the result that the great majority of all the sex million unemployed were being maintained on an extremely exiguous scale of poor relief.
9. This conscripted labour was demobilised in October 1938.

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