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The Short Third Reich: On the Question of the Continuity of Socio-Economic Structures between the Weimar Republic, the Third Reich and the Federal Republic
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The Short Third Reich: On the Question of the Continuity of Socio-Economic Structures between the Weimar Republic, the Third Reich and the Federal Republic

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Abstract: A few years ago, economic historian Albrecht Ritschl proposed the thesis that the socio-economic structures of the Federal Republic of Germany were more strongly influenced by path dependencies from the Third Reich than by the Federal Republic's regulatory policy. I subject this thesis to a critical review. From a functional perspective, I argue with regard to (1) the intensity of competition, (2) material prosperity and its distribution, and (3) producer and consumer sovereignty that the early Federal Republic was characterized much more by ties to regulatory traditions from the Weimar period than by path dependencies from the Third Reich.

Keywords: Economic History, economic policy, economic miracle

JEL classification: N14, N44

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The Short Third Reich: On the Question of the continuity of Socio-Economic Structures between the Weimar Republic, the Third Reich and the Federal Republic

1. Beyond the myths

The founding myths of the Federal Republic of Germany can be outlined in terms of their economic aspects with just a few catchwords: zero hour, Marshall Plan, currency reform, Ludwig Erhard, social market economy, economic miracle. The economic-historical research of the past four decades has subjected all these catchwords to a closer examination and has qualified or even negated the contribution of the phenomena or personalities behind them to explaining the economic recovery of West Germany after 1945/48. Werner Abelshauser popularized estimates by the German Institute for Economic Research (DIW), according to which the destruction of production capacities was by no means so extensive that one could speak of a zero hour in 1945 or 1948. On the contrary, the gross investments due to the armament build-up since 1936 were so high that, despite aerial war damage and dismantling, industrial assets in the West had a higher value in 1948 than in 1936 (Krengel 1958: 76-77, 94; Baumgart/Krengel 1970; and Abelshauser 1975: 114-30). Accordingly, no miracle effects are attributed to the Marshall Plan any longer (see the debate between Abelshauser 1981, Ritschl 1985 and Abelshauser 1989). Much more important than financial aid, which directly benefited Germany only to a small extent, was the resumption of domestic (West) German and West European foreign trade regarding which an initially temporary renunciation by German foreign creditors was necessary, as Helge Berger and Albrecht Ritschl have pointed out (Berger/Ritschl 1995). In addition to the old debts of the German Reich originating in the period before 1933, these include above all Germany's clearing debts accumulated during the Second World War (see Scherner's new estimate of 2012) and the waiver of the immediate demand for reparations in the London Debt Agreement of 1953.

Although the significance of the currency reform is acknowledged in research throughout, reference is also made today to the simultaneous release of many – but by no means all (Zündorf 2006; and Steiner 2006) – prices in the Leitsätzgesetz (Guiding Principles Act), which was passed at the same time. However, the double liberation through currency reform and price liberalisation was not only the result of German policy, but had been decreed by the American occupation force defining the baseline and only leaving the details
to German experts (Buchheim 1988, 1999). The Deutschmark, as Albrecht Ritschl (2005: 151) provocatively formulated it, was basically “American occupation money”.

Ludwig Erhard, who since the late 1940s had allowed himself to be transfigured as an icon of the social market economy, had originally rejected this term. He was concerned with a return to capitalism, which had been thoroughly discredited by the world economic crisis, and which was forced into a corset of functional competition by state regulatory policy, thus generating “prosperity for all”. Elsewhere, I have argued (not being the first) that the concept of the “social market economy” was and is an empty formula, the significance of which can be seen above all in its social-medial integration power (Spoerer 2007).

Finally, the economic miracle, which has long been attributed to a wise regulatory and economic policy, intimately linked to Erhard and other ordoliberal political scientists, also occurred elsewhere in Western Europe. Looking beyond the German horizon shows that economic growth was highly dynamic almost everywhere in Europe, where the return to democratic capitalism, however declared, was under way, cushioned by the expansion of the welfare state (fundamentally Lindlar 1997; and Spoerer 2007, 2009). It is not the “social market economy”, the French “planification” or the “Swedish model” that explain the high growth rates of the “Trente glorieuses” between 1945 and 1975, but rather more profane (but very powerful) structural phenomena such as reconstruction and catching-up (Dumke 1990; Vonyó 2008, 2018; Ritschl/Eichengreen 2009). In this respect, the “economic miracle” was neither limited to West Germany nor was it a “miracle” that would be inaccessible to an academic explanation.

Ritschl pushed this demystification of the West German development path since 1945/48 even further some years ago. In an essay in the Perspektiven der Wirtschaftspolitik, programmatically entitled “Der späte Fluch des Dritten Reichs” (The Late Curse of the Third Reich), he argued in 2005 that the socio-economic structure of the Federal Republic of Germany showed a great deal of continuity with the Third Reich due to multiple path dependencies.

To make this point, Ritschl (2005) examines both process and (basic) regulatory policy. With regard to process policy, he argues that the debt-financed quasi-Keynesian armament policy of the Nazi regime and its supposed successes since 1933 were a major cause of Keynesian demand management optimism in the post-war period. The National Socialists
had, as it were, supposedly successfully demonstrated what would be taken up again after 1948 under democratic conditions.

Ritschl’s claims reach further with regard to continuities in the regulatory economic order. The National Socialist regulatory policy, he argued, had installed regulatory regimes in Germany creating such strong path dependencies that they were basically retained after 1948 despite numerous changes in detail. Ritschl (2005: 164, 166; my translation of the German original) concludes:

*With the restau ration of the status quo from the Third Reich, its economic policy rules and regulations also survived, which were intended to replace Weimar’s anonymous market society, which had been attested with the odium of failure, with a more corporate, communitised system.*

Thus,

* [...] it can be pointedly said that post-war Germany’s economic and competitive order was shaped more by Hjalmar Schacht than by Ludwig Erhard. [...] On a regulatory level a real break has hardly taken place.*

Beyond that, in his “History of German Economic Policy after 1945”, published a decade later, Ritschl (2016: 331, 389) writes that with the exception of the Allied ban on cartels and the (later abolished) regionalisation of the major banks, “until the amendments of the late 1950s, the economic order of the Third Reich simply continued to exist”. Tamás Vonyó (2018: 188; see the critical review by Streb 2018), who at times also worked at the LSE like Ritschl, takes a similar line, even considering the Gesetz gegen Wettbewerbsbeschränkungen (GWB, Act Against Restraints of Competition) passed in 1957 a failure.

Despite all sympathy for attempts to deconstruct the often almost mantra-like recited economic founding myths of the early Federal Republic, this interpretation seems to me to overshoot and to underestimate the quality of the new beginning around 1948. Following a request made by Ritschl on several occasions, I summarise my points of criticism in the following. First, I will briefly deal with process policy before turning to regulatory policy in the main section. I establish criteria on the basis of which I compare the quality of the regulatory policy of the Third Reich with that of the Weimar Republic and the Federal Republic. In so doing, I come to the conclusion that Ritschl, as accurate as some of his detailed observations may be, generalises them excessively, leaving out central aspects that are of much greater importance for the assessment of continuities in regulatory policy. Even at the risk of being unoriginal, I come to the clear conclusion that the orthodox view, according to which the regulatory structures of the Federal Republic of Germany created in
1948/49 represent a structural break and resemble those of the Weimar Republic much more than those of the Third Reich, is essentially correct. In other words, from the point of view of economic and regulatory policy, the Third Reich was not long, but short. It began in 1933 and ended in 1945; in terms of regulatory policy in 1948 at the latest.

2. Process policy continuities?

It is undisputed that from 1933 onwards the National Socialists pursued a credit-financed expansive economic policy that correlated with an economic upswing. This is deliberately formulated so cautiously because it is by no means clear whether an identifiable causal link exists. After Germany effectively abandoned the gold standard in July 1931 and Reich Chancellor Heinrich Brüning, in response to the British abandonment of the gold standard in September, issued emergency decrees imposing drastic wage and price cuts, and after the payment of reparations was effectively suspended in July 1932, an economic upswing would probably have taken place anyway (Buchheim 2001; empirically supported by Ritschl 2003; see also Ritschl 2002: 56-67; and Spoerer/Streb 2014: 300-301.) In this respect, it is not clear whether the National Socialist economic policy deserves the recognition that even the contemporary opponents of the regime grudgingly paid to it (Priester 1936).

National Socialist economic policy is sometimes interpreted as Keynesian (Abelshauser 1998: 125-126, 131, 169). However, since Keynesian “deficit spending” is typically understood as economic policy measures aimed at raising private (non-governmental, and certainly not armaments-related) consumption, this can also be seen differently (Erbe 1958; Ritschl 2005: 155-156; and Spoerer 2005: 426). For Ritschl’s point, however, it is not relevant whether National Socialist economic policy was Keynesian or not. The fact is that the National Socialists pursued a debt-financed expansive economic policy that was perceived as successful by contemporaries and thus served as a foil for corresponding Keynesian experiments in the post-war period.

Wanting to see in this a legacy of the Third Reich, however, seems to me to be an expression of a Germany-centred view, for a look at Germany's Western European neighbours and not least at the United States shows that Keynesianism was en vogue throughout the Western world (Skidelsky 1978; Hall 1989; Nützenadel 2005: 54-62, 348-352; and Hesse 2010: 41-43). The supposedly positive experiences with pseudo-Keynesian politics from the National Socialist era may have contributed to the fact that Keynesian political concepts
were positively connotated in the Federal Republic (see, as a prime example in this context, the dissertation by Karl Schiller in 1936, who was Federal Minister of Economics from 1966 to 1972, also quoted by Ritschl). However, they were certainly not the cause of the Federal Republic’s planning optimism because of the discrediting of the Third Reich. Apart from that, such a claim comes with the problem that the economic policy of the first CDU-led federal governments from 1949 until the formation of the grand coalition in 1966 is normally not regarded as Keynesian and demand-oriented, but as neo-classical and supply-oriented. In the 1950s, the federal government even deliberately pursued a contractionary economic policy on several occasions, which at most in the election years 1957 and 1961 turned into a clearly expansive fiscal policy (Berger 1997: 158). Only in the second half of the 1960s and 1970s, when the two oil price crises also challenged economic and social policy, can German economic policy be interpreted as Keynesian (Tilly 1993: 218-222; and Giersch et al. 1992: 139-150).

However, to interpret the adoption of Keynesian-inspired economic policy as a decisive path dependency of process policy from the time of National Socialism would implicitly suggest that, after the laborious defeat, its economic policy was also seen as a model abroad. This was certainly not the case. Rather, Keynesian economic policy in the West drew its legitimation from the high growth rates of the 1950s and 1960s, which contemporaries attributed to a successful economic policy. After the war, too, people fell into a kind of political illusion (which basically still persists today) as they causally link process policy and economic development. Only in a retrospective view of economic history has it become clear that, on the one hand, the reconstruction after the Second World War and, on the other hand, the catching-up to the global productivity leader America were the two driving forces of growth, on the wave-combs of which process-policy experiments brought little benefit or harm as long as they adhered to some extent to the rules of a democratic capitalism tamed by the welfare state (Lindlar 1997; Spoerer 2007, 2009; and Vonyó 2008).

3. Dominance of regulatory continuities?

It is more difficult to assess the claim that the “economic policy regulations” of the Third Reich survived it and that therefore “post-war Germany's economic and competitive order was shaped more by Hjalmar Schacht than by Ludwig Erhard”, as Ritschl (2005: 164, 166) wrote. It remains to be seen whether the regulatory regimes listed by Ritschl, which were
enshrined in law during the Third Reich (handicraft regulations; dual in-company training system; regulation of the banking, transport and energy sectors) were specifically National Socialist; after all, the preparatory work in some cases goes back far into the Weimar period (see the articles in Kollmer-von Oheimb-Loup 2012). In addition, the territorial monopolies in the electricity industry prominently highlighted by Ritschl also existed elsewhere at the same time (for example in Denmark, Japan, and Canada; see Millward 2005: 134-135, 139; Hosoe 2006; Bolduc 2015; and, for an overview, Midttun 1997: 5-6). Rather, the question is to what extent these examples, even if one were to regard them all with Ritschl as specifically Nazi, are representative of the economic and competitive order of the early Federal Republic as a whole.

What one must look for, then, are criteria by which one can measure or at least estimate the empirical relevance of the regulatory regimes or economic order introduced under National Socialism. From a legal or administrative perspective, one can of course limit oneself to a comparison of institutions à la Ritschl. But ultimately, regulatory regimes – like all institutions – are to be measured by what they achieve. In the following I will therefore take an economic, or more generally speaking, functional perspective. Since we are discussing regulatory and competition policy here, I propose three criteria against which the regulatory regimes of the Third Reich and the early Federal Republic should be measured (others would be conceivable): first, intensity of competition; second, material prosperity and its distribution; third, producer and consumer sovereignty.

### 3.1. Intensity of competition

The central feature of a market economy-based system is competition, which serves as a detection and sanction mechanism. After 1933, even in the years after the relatively moderate Hjalmar Schacht became Reich Minister of Economics (until 1936) and President of the Reichsbank (until 1939), a comprehensive system of state economic governance was already in place. The system of economic groups, introduced as early as 1934, brought together companies in the same or neighbouring sectors and forced them to cooperate in areas which until then each company had quite naturally regarded as an autonomous task: procurement of materials, coordination of investments, production, research and development, etc. (Tooze 2007: 99-134). The restriction of competition became manifest in a special way
through the 1933 Zwangskartellgesetz (Compulsory Cartel Act) and its subsequent implementation (Feldenkirchen 1985).

However, this by no means completely eliminated competition; rather, competition was shifted increasingly from the anonymous market to the corridors of the arms bureaucracy in Berlin. On average, companies that produced armaments earned considerably more than those that remained in the consumer goods industry; armament was thus not forced à la Stalin (as in a fulminant and grotesque misinterpretation of Temin 1991), but was achieved by means of economic incentives (see for the profit perspective ex post Spoerer 1996 and ex ante Scherner 2008).

The cartel-friendly attitude in industry and in large parts of politics changed little after 1945. However, with regard to the future competition regime, the Americans, who in 1945 had issued a total ban on cartels in their zone that was valid until the GWB, asserted their influence and strengthened the liberal forces in their confrontation with the interests of industry. The GWB, finally passed in 1957, was a classic compromise that removed many sectors of the economy from competition. The eleven exceptional sectors included agriculture, transport, banking, post and telecommunications, utilities and insurance – but not industry. In post-1945 agriculture, the density of regulation was not nearly comparable to that of the Reichsnährstand, under whose roof the National Socialists had forced production and distribution as early as 1933. The structural change in agriculture could not be stopped by its exemption from the GWB, nor could the Federal Republic’s and later European agricultural policy. Industry, on the other hand, which since 1945 or 1949 had to accept the Allied ban on cartels, which was then confirmed in the GWB, accounted for over half of value added (Federal Statistical Office 1972: 264). Thus, the competition regime of the Federal Republic of Germany before and also after the adoption of the GWB was incomparably more competition-oriented than in the so-called peace years of the Third Reich (Schröter 1994: 485-486).

The opposite argumentation with – admittedly quite significant – exceptional areas such as transport and energy, which were deregulated only in the 1990s, establishes the exceptions to the rule. Moreover, in France, for example, and until the reforms under Margaret Thatcher in Great Britain, these sectors of the economy were also regulated by the state for decades. Millward (2005: 72; see also Streb/Streb 2012) has called this pattern of regulation, which can be found throughout Europe, “regulation by administrative means”. In
the early Federal Republic, however, competition prevailed in most product markets – much more so than in the Third Reich, and incidentally also more so than in the relatively strongly cartelised Weimar Republic (König 1960).

3.2. Material wealth and its distribution

The orientation of the economic structure changed fundamentally from 1933 onwards. National Socialist economic policy was fully focused on rearmament at a very early stage, as Ritschl (1992) pointed out in an early contribution. Through a variety of measures, the state channelled only as much resources as necessary into private consumption and as much as possible into state consumption. Behind the strong computational growth in gross domestic product was the production of weapons and ammunition, not consumer goods (“cannons instead of butter”). Therefore, despite the strong increase in real per capita gross domestic product in 1936, consumers were no better off than in 1928, and probably not in 1938 either (Erbe 1958; Spoerer 2005; and especially Spoerer/Streb 2013a: 84-86). As partial compensation for the shift in the fulfilment of consumer desires, the regime also relied on virtual consumption, i.e. propagandistically exaggerated promises of consumption in the future, such as the Volkswagen or mass tourism (“Kraft durch Freude”, “power through joy”) (Berghoff 2001). Christoph Buchheim (1994, 2001) described this shift in the forces of growth, which was also reflected in a corresponding change in the industrial structure, as “deformed”.

This deformation certainly also includes special cases and sins of regulatory policy, such as the regulation of the energy, communications, and transport sectors, which were long maintained in the Federal Republic. But they have apparently hardly hampered the strong growth of the West German economy.

In the Third Reich, the increase in economic growth benefited first and foremost the state and secondly those companies that produced what the state needed, directly or indirectly, for its political goals. At the same time there was redistribution from the lower social strata to the upper ones (Spoerer 2005: 426-427; Dell 2007: 374-375; Banken 2019: 311-312; and Bartels 2019: 682). Finally, it must be noted that the National Socialist arms boom was financed on credit (Table 1), as Reichsbank President Schacht so clearly pointed out to Hitler in January 1939 that the latter dismissed the entire Reichsbank board of directors (Hansmeyer/Caesar 1976: 380-385).
Tab. 1: Average annual net new borrowing in the Third Reich and in the Federal Republic, 1933-1938 and 1951-1982

<table>
<thead>
<tr>
<th>Period</th>
<th>In percent of GNP</th>
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<th>In percent of GNP</th>
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<tr>
<td>1933/34</td>
<td>4.2</td>
<td>1951-1960</td>
<td>1.9</td>
</tr>
<tr>
<td>1935/36</td>
<td>6.2</td>
<td>1951-1973</td>
<td>1.6</td>
</tr>
<tr>
<td>1937/38</td>
<td>8.3</td>
<td>1974-1982</td>
<td>3.6</td>
</tr>
<tr>
<td>1933-1938</td>
<td>6.2</td>
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Sources: Third Reich calculated according to Ritschl (2002, Appendix, Tables A.3 and B.5); Federal Republic according to Deutschland in Daten, Tables K07.5 and K13.1 (http://www.deutschland-in-daten.de/datensatz/).

It is certainly disputable whether the prosperity of the Federal Republic of Germany may have been created in the long term at the expense of future generations. But in the 70 years of its existence it has never come even close to national bankruptcy (Hansmann 2012: 102-103). One can also discuss whether prosperity in the Federal Republic is “fairly” distributed, but the differences between rich and poor were and are rather slightly below average compared to other developed economies (Spoerer/Streb 2013b: 262-264). The ratio of government expenditure to GDP rose steadily during the boom phase of the Federal Republic and has been hovering just below 50 percent since the 1970s – as in 1938 (Hansmann 2012: 34). The only difference today is that government spending is allocated differently. Whereas in 1936 (1938) about a good 7 (17) per cent of gross domestic product went into armaments, the corresponding figures for 1961 are 4 per cent and for 1928 and 2010 only about 1 per cent each (values for 1936 and 1938 calculated according to Oshima 1980: 226-227; and Ritschl/Spoerer 1997: 51; values for 1928, 1961 and 2010 according to Spoerer 2015: 109). In a parliamentary democracy, the size of the state, the allocation of its expenditures and revenues, and also the extent of income redistribution is based on the majority of voters’ will. This is not intended to uncritically sing the high song of the Federal Republic’s economic and social order, but Ritschl’s claims make it necessary to recall these fundamental facts. The growth and distribution of prosperity in the Federal Republic was and is certainly not deformed, or at least much less so than in the Third Reich.

The lines of continuity between the Weimar Republic and the Federal Republic are also evident in the shaping of the welfare state. The three classical pillars of the German social security system (health, accident and old-age insurance) created in the eighties of the 19th century were extended to five in 1927 with unemployment insurance and in 1995 with
nursing care insurance. In this respect, the Third Reich, which, for example, softened social security entitlements by introducing “ethnic” criteria, represented a temporary aberration, the cruel culmination of which was the destruction of “worthless life” since 1939 (Hockerts 1998: 23-25; and Schmidt 2005: 59-71, 167-169).

3.3. Producer and consumer sovereignty
Perhaps the greatest difference in the economic and competitive order before and after 1945/48 is the extent of producer and consumer sovereignty. In order not to do Ritschl injustice, as a precaution I will compare the Federal Republic's order with that of the early Nazi regime, which was strongly influenced by the moderate Schacht in his double function as Reich Minister of Economics and President of the Reichsbank, i.e. until 1936.

The foreign exchange controls introduced in 1931 were considerably expanded by Schacht in 1934 as part of the “New Plan”. While companies had already had problems in the previous three years conducting their international business almost normally, now all their dealings with foreign countries (in so far as they were cash-effective) were subject to strict regulation (Ebi 2004). In particular, companies that were not armaments-critical were forced to convert their production because of the very extensive import restrictions, some of which became de facto bans. This has been examined in more detail for the textile and margarine industries, to name but a few examples (Höschle 2004; Pelzer/Reith 2001; and Hensler 2008). The freedom of investment had also been increasingly restricted by bans. Samuel Lurié (1947) has already described this in detail. Other prohibitions concerned the setting of prices and wages (Steiner 2006). Even in the “peace years” of the Third Reich, companies thus operated in a network of state-fixed prices and wages.

Some economic historians interpret these far-reaching restrictions on entrepreneurial freedom of decision as an expression of a quasi-socialist planned or command economy (Temin 1991; and the debate between Hayes 2009 and Buchheim/Scherner 2009; in summary Plumpe 2018: 126-130). Even if one (like me) may not go so far, it is nevertheless obvious that the sovereignty of producers was already restricted in the “peace years” of the Third Reich to a much greater extent than ever before in the Weimar Republic or in the Federal Republic.

The same goes for consumer sovereignty. The National Socialist regime already restricted consumers’ freedom of choice in the “peace years”. By expanding its control over
foreign exchange, the regime curtailed access to imported consumer goods, especially after 1934. This by no means only affected luxury goods, but also the quality of everyday clothing, for example by imposing a quota on cotton wool imports and promoting semi-synthetic substitute fibres (rayon, artificial silk). The obligation to add butter made margarine more expensive, which was preferred as a cheap spreadable fat especially by the lower strata of society (Pelzer/Reith 2001; and Spoerer/Streb 2013a). Many other examples could be cited (Berghoff 1999).

With the introduction of the Deutschmark, the release of most prices in the Leitsätze-gesetz and the abolition of the system of rationing of consumer goods which had been introduced on 28 August 1939, the purchasing decisions of German consumers depended only on their individual preferences and purchasing power – as was already the case during the Weimar Republic and the German Empire (Reckendrees 2007).

4. Conclusion

Yesterday, printed in thick print, crammed into a large format: Exploiting the hamster psychosis. A peddler in Leipzig bought yarn for 10 Pf the roll, sold for 30 in detail. For price gouging and spreading the psychosis he was sentenced to six months in prison.

Today: “Mrs Lehmann, please sew some buttons on.” – “Do you have any thread?” – “…?” – “There is no black or white thread in Dresden”.

(Klemperer 1995: 164)

The fact that as early as November 1934 consumer goods were hoarded and sold on the black market and that a university professor was unable to have buttons sewn on illustrates in an anecdotal way what economic historians, following Christoph Buchheim, call a “deformed economic order”. Even in “peacetime”, the National Socialist regime was unable to satisfy the simplest of consumer needs – a state of affairs that would have been unthinkable in Germany’s neighbouring countries at the same time. For producers, too, much had already changed by the end of 1934. They saw their scope for entrepreneurial decision-making restricted in many ways, especially in investment and pricing policy. After all, the regime sweetened their renunciation in many ways. The economy boomed, and wages and above all profits flowed abundantly. But in case of conflict the state had the upper hand, as some (few) entrepreneurs had to experience in an exemplary way, for example Hugo Junkers (Budraß 1998: 320-335). There has never been anything comparable in the Federal Republic.

In this respect, I think it can be said without any exaggeration that Germany’s economic policy regulations did not survive National Socialism (or at most only in part for
three years), that they underwent a fundamental transformation from 1948 onwards, and that the economic and competitive order in the 1950s was thus already much more influenced by Erhard than by Schacht – if one really wants to put this in terms of individual persons. Fortunately, a clear break occurred at the regulatory level in 1948-49. A strongly regulating economic system, which directed resources to the uses desired by a dictatorial regime, was replaced by a market economy-based system designed by politicians working towards re-election. Certainly, a structurally conservative early economic policy oriented towards the coal and steel industry delayed the structural change, but the economic order was in principle characterised from the beginning by the interplay of supply and demand. As a result, the Federal Republic definitely shows more continuity with the Weimar Republic than with the Third Reich in terms of economic and regulatory perspective.

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