

BEHEMOTH

THE STRUCTURE AND PRACTICE OF
NATIONAL SOCIALISM

1933-1944

FRANZ NEUMANN

With an Introduction by Peter Hayes



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of agricultural laborers. The census of 1939 showed that labor employed in agriculture and forestry dropped by 1,145,000, that is, by more than 10 per cent.¹¹² The gap had to be filled by war prisoners and foreign civilian workers.

Still the decisive question whether the average productivity of labor has increased cannot be answered. We believe that because of the exhaustion of the workers, the employment of too young or too old people, and of insufficiently trained workers, the average productivity of the worker will be lower than in 1929, despite rationalization and increased volume of production.

Labor has been delivered to authoritarian control, as completely as possible. The labor market is regimented.

7. CONCLUSION

We have come to the end of our tiresome journey through National Socialist economics. We have not explored every by-path. We have not touched the subjects of the agrarian market and the food estate. A discussion of the latter is today quite unnecessary, since it is now merely a governmental agency without any independence; the social position of the peasant will be dealt with in our next chapter.* We have not discussed war financing. Suffice it to say that the problems, although formidable, have been overcome. War financing is done by revenues consisting primarily of: the income tax plus a war surtax of 50 per cent, with the provision, however, that tax and surtax together must not exceed 65 per cent of the income; war surtaxes on consumption goods (beer, champagne, alcoholic beverages, tobacco); increased contributions by the states and municipalities to the federal government; the corporation tax, which had already been raised before the war; the issue of government bonds; the anticipation of future tax revenues; short-term borrowing. They all and more provide the financial basis for warfare. Full employment and the low exemptions in the income tax, the high liquidity of banks, mortgage banks, private and social insurance institutions, and the government's tight hold on the credit structure have made financing of the war not an exceedingly difficult task. Owing to full employment, national income rose consider-

* See p. 392.

ably.¹¹¹ It must be mentioned, however, that the surtax of 50 per cent does not affect the wage earners who earn less than 234 marks a month or 54 marks a week or 9 marks a day, and they are a huge section of the wage earners. In other words, the taxation policy has not shifted the burden of war financing upon the large masses, wage and salary earners. Indeed, the wage and salary tax levied since 1919 has not been increased by National Socialism. The contributions to social-insurance institutions have not been raised since 1930. Only the contributions to the party and its auxiliary organizations constitute a heavy burden, as shall be seen later. Anyhow, the curtailment of consumption has not been effected by taxation.

Though we have not aimed at completeness, we believe that we have covered the major phenomena of German economy and we are now able to piece the many parts together into a whole. Three problems have confronted us again and again.

How is the organization running?

What is the generating force of the economic system?

What is its structure?

EFFICIENCY

The present efficiency of the organization would have been impossible without the smoothness and completeness of the organizational structure of business already achieved under the Weimar Republic. The groups and chambers have here, for decades, acted as the centers in which industrial, commercial, financial, and technical knowledge has been pooled, deepened, and systematized. The groups and chambers are the mediators between the state bureaucracy and the individual enterprise. In the rationing of raw materials and of consumers' goods, in rationalization, in the allocation of public orders among businessmen, in price control, credit control, and foreign trade, the groups and chambers are active, partly as advisory bodies, partly as executive organs to which the state has delegated coercive power.

The completeness of the cartel organization, also achieved under the Weimar Republic, is another contributing factor. As marketing organizations, the cartels have for decades studied the markets closely, followed every fluctuation, and were thus able to place their long experience at the government's disposal. In consequence, the

cartels have, during the war, become privately controlled public organs, especially in the allocation of raw material.

The efficiency of the organization also owes much to the ministerial bureaucracy and the complete absence of the 'heavy hand of the treasury.' The German ministerial bureaucracy has always been highly competent, and the experience it has gained in the railroad and postal services, in the Reichsbank and other public financial institutions, in the currency-control offices, in the federal- and state-owned industrial organizations has prepared it for the gigantic task of running a war economy of such size. Credit must also be given—perhaps more than to any other factor—to the high training and skill of the German worker and the system of occupational training during apprenticeship, in trade schools, technical schools—all of which was achieved under the Weimar Republic by the states, the municipalities, the trade unions, and, to a lesser degree, by industry.

The contribution of the National Socialist party to the success of the war economy is nil. It has not furnished any man of outstanding merit, nor has it contributed any single ideology or organizational idea that was not fully developed under the Weimar Republic.

To show in detail how the machine is operating is, however, much more difficult. I shall try to analyze a few typical cases.

Let us take a medium-size entrepreneur. He must be a member of his group and of his local chamber of industry and commerce, and he may or may not be a member of the cartel. If he works unrationally, that is, if his production costs are too high, a number of things may happen. The general deputy* under the Four Year Plan may ask his group to investigate. The group will report and submit its recommendation, to close down the plant or to modernize it or to let it continue as it is. If the report condemns the plant, the general deputy may execute the sentence indirectly or directly. If the entrepreneur desires raw material, the *Reichsstelle* † or the distributing agency ‡ (cartel or group) or the quota office § (which is, as a rule, the group) will refuse it to him. Or the general deputy may execute it directly. He or the group may approach the minister of economics and the minister of economics may make use of the powers vested in him by the cartel decree. If the entrepreneur

* See p. 249.

† See p. 251.

‡ See p. 252.

§ See p. 250.

is not a member of the cartel, he may be forced to join it and the cartel may then give him no quota or an insufficient quota; or the minister of economics may close down the plant.*

If the report of the group recommends modernization of the plant, negotiations will take place with a bank to obtain the necessary capital, which may or may not be found. The same result may be achieved by a lowering of the price structure by the price commissioner or the price-forming offices.† If the entrepreneur desires, or is even dependent upon government orders, he may or may not receive a share in public orders by the clearing office of the provincial economic chambers,‡ or even if the clearing office is willing to allocate government orders to him, he may not be able to accept because he cannot produce profitably at the prices allowed by government decrees.§

If the entrepreneur runs a consumers' goods factory (let us say, a shoe factory), his stock in leather will have been attached by the leather *Reichsstelle*.¹¹⁴ If he wants to continue production, he has to apply to his quota agency, that is, to his *Reichsstelle* or to his branch group, for a leather cheque.¹¹⁵ If the plant is sufficiently big and is running efficiently, the application may be granted. If it is refused, he must close down and may receive community help.|| If he is a soap manufacturer, he has to produce one of four kinds of soap, either the 'federal standard soap' for bodily culture, or shaving soap, or one of the two existing types of laundry soap.¹¹⁶ If the *Reichsstelle* refuses him raw material because his group testifies that he is inefficient, he must cease production, but he may be allowed to continue as a trader living practically on a commission basis.¹¹⁷

But there are other ways by which the machine can be put into operation. If a new factory necessary for economic warfare must be established or if an existing one must be expanded, the labor exchange ¶ will make a survey within its territory in order to find out which other plants may be 'combed out.' It will ask the group to report, the defense commissioner ** will co-ordinate the activities, and some day the labor exchange will command workers in

* See p. 265.

† See p. 305.

‡ See p. 245.

§ See p. 310.

|| See p. 283.

¶ See p. 342.

** See p. 59.

unnecessary plants to leave employment and to start in another factory.*

If the entrepreneur is a shoe retailer and needs shoes for delivery to his customers, he will have to apply to his *Reichsstelle* for rationing cards, which will be given only in conjunction with the provincial economic office.† He may meet with refusal and be 'combed out' by the chamber of industry.‡ If he is a shoemaker and needs leather for repairs, he has to apply for order cards to the president of his handicraft guild, who may or may not give it to him.†† He might then be 'combed out' by the chamber of handicraft and then be transferred to the proletariat.§

If the need for new industrial plants arises, the general deputy under the Four Year Plan for his specific industry will investigate the situation in conjunction with the ministry of economics and perhaps in collaboration with the federal bureau of spatial research.|| The technical problems will be discussed with the group. The discussion will be continued with the leading combine. The combine may or may not desire to start construction of this new plant. If it expresses such a wish, the problem of financing will be discussed. The Reichsbank ¶ and private banks in conjunction with the combine will decide whether the plant should be financed out of undistributed profits** or whether banks should advance the money, or whether the capital market should be approached, or, finally, whether a decree should be issued for community financing of the new undertaking.†† Problems of technical equipment, of location, and of financing will be discussed by the groups and cartels and combines and federal officials. The *Reichsstelle* in question will be asked to clarify the problem of raw material supply, and the relevant labor exchange that of labor supply. Once the decision has been reached, the machinery will be set into motion.

From this summary it will be clear that the intertwining of business, self-governmental agencies, and governmental agencies achieved what appears outwardly as a higher amount of organizational efficiency, though, of course, antagonisms and conflicts will be operative under the surface.

* See p. 341.

† See p. 248.

‡ See p. 282.

§ See p. 282.

|| See p. 249.

¶ See p. 324.

** See p. 318.

†† See p. 280.

PROFIT MOTIVE

What, however, is the generating force of that economy: patriotism, power, or profits? We believe that we have shown that it is the profit motive that holds the machinery together. But in a monopolistic system profits cannot be made and retained without totalitarian political power, and that is the distinctive feature of National Socialism. If totalitarian political power had not abolished freedom of contract, the cartel system would have broken down. If the labor market were not controlled by authoritarian means, the monopolistic system would be endangered; if raw material, supply, price control, and rationalization agencies, if credit and exchange-control offices were in the hands of forces hostile to monopolies, the profit system would break down. The system has become so fully monopolized that it must by nature be hypersensitive to cyclical changes, and such disturbances must be avoided. To achieve that, the monopoly of political power over money, credit, labor, and prices is necessary.

In short, democracy would endanger the fully monopolized system. It is the essence of totalitarianism to stabilize and fortify it. This, of course, is not the sole function of the system. The National Socialist party is solely concerned with establishing the thousand-year rule, but to achieve this goal, they cannot but protect the monopolistic system, which provides them with the economic basis for political expansion. That is the situation today.

It is the aggressive, imperialist, expansionist spirit of German big business unhampered by considerations for small competitors, for the middle classes, free from control by the banks, delivered from the pressure of trade unions, which is the motivating force of the economic system. Profits and more profits are the motive power. It is, indeed, in the words of Major General Thomas, the most daring and the most enterprising industrialist who wins and shall win.* It is as though Mandeville's contention that private vices are public benefits had now been raised to the rank of supreme principle—not for the masses, not for the retailers, wholesalers, and handicraft men, not for the small and middle businessmen, but for the great industrial combines. As regimentation spreads, as price control becomes more efficient, as regulation of the credit and money market be-

* See p. 314.

comes more stringent, as the government strengthens the monopoly of the capital market, and as foreign trade evolves into a political operation, the need to make profits becomes increasingly urgent. Profits are not identical with dividends. Profits are, above all, salaries, bonuses, commissions for special services, over-valuated patents, licenses, connections and good will. Profits are especially undistributed profits.

Each of the regimenting measures tends to play into the hands of the monopoly profiteers. Each technological process, each invention, each rationalizing measure strengthens their power. German coal mining, for instance, seems to stand today before an industrial revolution, the introduction of the so-called 'iron miner,' but German periodicals insist¹¹⁹ that only big plants will be able to carry out full mechanization.

With all this the party does not interfere. The period of party interference in economics has ended long ago.

The organization of the economy is an institution below the state. It is not a group or an affiliated organization of the party. This does not mean an expression of lack of interest by the party. Such interest follows principally from the fact that the whole economy, too, has to follow the National Socialist philosophy of life. But it means that the party restricts itself to questions of philosophy of life and, the selection of leading personalities in the organization of the economy, and that it leaves all technical questions of detail of the economic policy to the state. Whether one allocates foreign currency and grants claims for international clearing, whether one furthers compensation trade or ordinary export business, how and whether one exports . . . whether borrowing or self-financing is to be preferred—all these and many other questions of technical and organizational expediency must be decided by the state.¹²⁰

That is the view of the official commentator of the National Socialist economic organization. The party receives a compliment, but it must not interfere with the economy. The relation between the party and the economy is identical with that between the party and the inner administration, which has found the best expression in the decree* that leaves the leadership of the morale of the people to the party and the coercive machinery to the civil service. It would, therefore, be wrong to assume that there exists a dual rule in the

* See p. 72.

economy, one of the party and one of the state. In our opinion, the very fact that the party is so completely excluded from the control of economic power positions led to the foundation of the Göring works.

STRUCTURE

What is the structure of the economic system? It might be instructive to translate an editorial in the *Deutsche Volkswirt*,¹²¹ written on the occasion of the foundation of the Continental Oil Corporation: *

The most competent representatives of the new German state and the most faithful guardians of the National Socialist ideals have, from the very beginning, stressed the principle that the state should merely steer the economy, but leave economy itself to the private initiative of the entrepreneur, based on private property and the efficiency principle. To invoke such declarations would be tiresome if the unequivocal clarity of the principle did not stand in strange contrast to the permanently arising doubts about the actual fate of private economy.

A realistic study of the situation confirms that small business and, in fact, the whole trade (perhaps with the exception of special tasks in foreign trade) and handicraft are the exclusive domain of private activity. But even in the industrial sector, the position of the private entrepreneur including large middle-sized plants is practically uncontested and not endangered; from the beginning, the isolated activity of public authorities in this field has always been the exception which confirms the rule. Only in the realm of big enterprises and giant plants do phenomena appear which could induce us to express a fundamental concern over the fate of private economy.

. . . Two developmental trends cause in many places skepticism about the durability of the principle of private economy in big industry. The first comes from above and concerns its direct relation to the state. To execute its . . . program the *grossdeutsche Reich* had to demand from the economy performances which . . . exceeded the ability even of big private enterprises . . . The Hermann Göring works, the people's car works, and now the people's tractor works may be quoted as examples. It is, however, so it is very often argued, the solution of *new* economic problems . . . which forms the very field of activity of private entrepreneurial initiative . . . If the demands which the state has to make upon the giant industry sector exceed the possibilities of private activity, does

* See p. 276.

this not spell the end of private big industry? Is it possible that the industrial enterprises of the state, despite their limited number, are not mere exceptions from the rule, but the first symptoms of a fundamentally new development?

The second developmental trend . . . comes from below. It concerns the relation between the enterprise and the share-holder . . . It is a fact that the living ties between . . . the joint stock corporation and the broad stratum of the small and free share-holders have gradually loosened. The sole remaining tie is the yearly distribution of profits; but dividend policy has become more and more independent of the actual economic policy. New blood and new shares could hardly flow into the corporations. The share-holders' interest in the enterprises has been deprived of its living character and reduced to a mere phantom of a juristic construction . . .

Thus we witness from above the taking over of entrepreneurial tasks by the state: from below, the dissolution of the ties between big industry and the public, which are based on the concept of property.

However, the announcement of the federal minister of economics at the shareholder's meeting of the Reichsbank signifies a break in the development threatening the existence of private big industry. The clarification of the capital structure of joint stock corporations will abolish the unclear conceptions of the broad public . . . and will thereby increase its interests in the corporations.* *This break will be strengthened and widened †* by a remarkable positive measure which National Socialist economic policy now makes with the establishment of a giant corporation, namely *Continental Oil Corporation*, † in which the chairmanship of the supervisory board has been taken over by the minister of economics, and in which private big industry and small capital owners form a *unified †* front.

The view that the foundation of the Continental Oil Corporation has strengthened private economy actively in the sector of big industry is not contradicted by the fact that the state itself has actively participated in this foundation, because of two facts. The Continental Oil Corporation will not be concerned with the production of fuel in the old federal territory in the hand of private industry. The tasks of the new corporation lie beyond the frontiers of the

* Meant is the speech which we mentioned on p. 317, where Funk made it appear likely that the nominal value of capital could be raised.

† Italicized in the original. F. N.

Reich . . . These tasks require a settlement among private . . . and political interests . . . In addition, the political importance of oil and geological . . . factors create *risks** which cannot be borne solely by the private economy . . .

The very reasons which justify the active participation of the state in the Continental Oil Corporation contribute additional clarity to the fundamental importance of the decisive participation of the German big enterprises in the oil and coal industry . . . For it is now obvious that the future *political** new order . . . will give [private industry] possibilities and tasks for far-reaching collaboration . . .

We apologize for so long a quotation. It has the merit of indicating the trend so clearly that no comments are necessary.

THE FAILURE OF DEMOCRATIC PLANNING

The question arises why such steered or controlled economy, why such 'planning,' if we may use the word, has not been carried out under democratic conditions and by democratic methods. The reasons for the failure of democratic planning and collectivism in Germany seem to be both economic and political. 'Planning' becomes necessary (this, too, is indicated in the quotation above) because industry refuses to make new investments that require huge capital and that are, moreover, extremely risky. The risks involved are twofold: political uncertainty, which leads to economic uncertainty, and economic depressions, which lead to the disintegration of political democracy.

The parliamentary system may at any time give rise to forces hostile to the monopolists, who are continually threatened by heavy taxes, above all, taxes on undistributed profit, by a loosening of the system of protection, by 'trust busting,' by the possibility of industrial disputes. All this leads to the well-known investors' strike, the refusal to expand because political uncertainty may endanger returns on the investment. Political uncertainty creates economic instability. If the state does not fully control money, credit, and the foreign trade, the business cycle cannot be stabilized. A downswing would lead to the collapse of the overcapitalized monopoly structure. In these conditions the co-ordination of all regimentation measures by the state seems inevitable and necessary.

* Italicized in the original. F. N.

There existed, of course, an abstract possibility of entrusting such co-ordination to parliament. The German trade unions proposed a number of such plans; the French Popular Front and the Belgian Labor party developed similar plans, and Roosevelt's New Deal partly carried them out. All European attempts failed and Roosevelt's New Deal succeeded in part because the country is rich and its reserves, which have been only partially tapped, are far from being exhausted.

Democratic planning failed because democratic planning must satisfy the needs of the large masses—and that is the very reason why democracy should take up planning. To satisfy the demands of the large masses, however, means to expand or at least maintain the consumers' goods industry; this necessarily restricts the profits of heavy industry. Moreover, in the dynamics of the democracy one achievement of the masses will lead to further demands. One example: under democratic conditions, an arch reactionary and industrial die-hard like Krupp would never have granted his workers the concessions they demanded. They would have infringed upon his being master in his own house. They would have given rise, so he feared, to more and more dangerous demands. Under totalitarian conditions, he will not hesitate to fulfil certain demands, because democratic automatism has ceased to function.

Democratic planning must co-ordinate the many particular interests of retail and handicraft, of small, middle, and big businessmen, of the peasants, civil servants, workers, and salaried employees. A democracy cannot simply annihilate, 'comb out,' the inefficient producer and trader. It cannot enslave the workers. It cannot simply transfer the middle class into the proletariat; this would merely strengthen the anti-democratic trends and contribute to the growth of fascism.

Democratic planning, also, enlarges the power of the state; it adds the monopoly of economic coercion to the monopoly of political coercion. The more powerful an instrument becomes, the more precious it is. The monopolists could fear that if democratic groups had control over the state they would strive to increase the welfare of the masses and cut down profits.

In the case of Germany, additional reasons were: the bankruptcy of the leading political parties, of the social democrats, and of the trade unions who were motivated by cowardice, led by incompe-

tent leaders, and who preferred abdication to a fight. We must remember that the Catholic Center party, never a homogeneous group, discovered in 1930 that it had a reactionary wing as well as a democratic; that political liberalism in Germany had died many years ago; that the Communist party, incompetently led, wavered between dictatorship of the proletariat, revolutionary syndicalism, and national bolshevism, and thereby weakened the working classes. It is also significant that the army, the judiciary, and the civil services organized a counter-revolution the very day on which the revolution of 1918 broke out.

The ruling classes refused to give the power over the economy to a democracy. To them, democracy appeared 'as a species of social luxury,' to use the words of Carl Becker¹²²—but they did not hesitate to give all economic power to a totalitarian regime. Thyssen,¹²³ Kirdorf, and others paid the debts of the National Socialist party in 1932, and today it is no secret that industry financed the party in the past; this is openly admitted by *Deutsche Volkswirt*.¹²⁴ The homes of the industrial leaders were open to Hitler and Ley, to Göring and Terboven. Baron von Schröder, the owner of the Cologne Banking house J. H. Stein, arranged the reconciliation between Hitler, Papen, and Hindenburg on 4 January 1933. It is, of course, correct to say that National Socialism failed to keep many of the promises to the industrial leaders. So it appeared at least to Thyssen, who, never very intelligent, accepted the nonsense of the guild state and social monarchy at its face value.

National Socialism has co-ordinated the diversified and contradictory state interferences into one system having but one aim: the preparation for imperialist war. This may now seem obvious. For years it did not appear so to the outside world, and it gives a certain satisfaction to the author that as early as 1935 he formulated the aim of National Socialism in the following terms: 'Fascism is the dictatorship of the Fascist [National Socialist] party, the bureaucracy, the army, and big business, the dictatorship over the whole of the people, for complete organization of the nation for imperialist war.'¹²⁵ Once this aim is recognized, the economic structure is clear. Preparation for totalitarian war requires a huge expansion of the production-goods industry, especially of the investment-goods industry, and makes it necessary to sacrifice every particular economic interest that contradicts this aim. That involves the organ-

ization of the economic system, the incorporation of the total economy into the monopolistic structure, and, though we use the word with reluctance, planning. This means that the automatism of free capitalism, precarious even under a democratic monopoly capitalism, has been severely restricted. But capitalism remains.

National Socialism could, of course, have nationalized private industry. That, it did not do and did not want to do. Why should it? With regard to imperialist expansion, National Socialism and big business have identical interests. National Socialism pursues glory and the stabilization of its rule, and industry, the full utilization of its capacity and the conquest of foreign markets. German industry was willing to co-operate to the fullest. It had never liked democracy, civil rights, trade unions, and public discussion. National Socialism utilized the daring, the knowledge, the aggressiveness of the industrial leadership, while the industrial leadership utilized the anti-democracy, anti-liberalism and anti-unionism of the National Socialist party, which had fully developed the techniques by which masses can be controlled and dominated. The bureaucracy marched as always with the victorious forces, and for the first time in the history of Germany the army got everything it wanted.

Four distinct groups are thus represented in the German ruling class: big industry, the party, the bureaucracy, and the armed forces. Have they merged into a unit? Is the ruling class one compact body? Is their rule integrated within and accepted by the masses? What are their methods of mass domination? These are the final problems that we must consider.