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Against the mainstream: Nazi privatization in 1930s Germany[1]

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Nationalization was particularly important in the early 1930s in Germany. The state took over a large industrial concern, large commercial banks, and other minor firms. In the mid-1930s, the Nazi regime transferred public ownership to the private sector. In doing so, they went against the mainstream trends in western capitalistic countries, none of which systematically reprivatized firms during the 1930s. Privatization was used as a political tool to enhance support for the government and for the Nazi Party. In addition, growing financial restrictions because of the cost of the rearmament programme provided additional motivations for privatization.

Privatization of large parts of the public sector was one of the defining policies of the last quarter of the twentieth century. Most scholars have understood privatization as the transfer of government-owned firms and assets to the private sector,[2] as well as the delegation to the private sector of the delivery of services previously delivered by the public sector.[3] Other scholars have adopted a much broader meaning of privatization, including (besides transfer of public assets and delegation of public services) deregulation, as well as the private funding of services previously delivered without charging the users.[4] In any case, modern privatization has been usually accompanied by the removal of state direction and a reliance on the free market. Thus, privatization and market liberalization have usually gone together.

Privatizations in Chile and the UK, which began to be implemented in the 1970s and 1980s, are usually considered the first privatization policies in modern history.[5] A few researchers have found earlier instances. Some economic analyses of privatization identify partial sales of state-owned firms implemented in Adenauer's Germany in the late 1950s and early 1960s as the first large-scale priva-

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[2] Kay and Thompson, 'Privatisation', p. 18; Bös, 'Privatization', p. 352; Vickers and Yarrow, *Privatization*, p. 7; Boardman and Vining, 'Ownership', p. 26.

[3] Domberger, Meadowcroft, and Thompson, 'Competitive tendering', p. 70; Sappington and Stiglitz, 'Privatization', p. 567; Donahue, *Privatization decision*, p. 3; Starr, 'Meaning of privatization', p. 22.

[4] Pirie, *Privatization*.

[5] Yergin and Stanislaw, *Commanding heights*, p. 115.

tization programme,[6] and others argue that, although confined to just one sector, the denationalization of steel in the UK in the early 1950s should be considered the first privatization.[7]

None of the contemporary economic analyses of privatization takes into account an important, earlier case: the privatization policy implemented by the National Socialist (Nazi) Party in Germany. Nonetheless, there were a number of studies on German privatization in the mid- and late 1930s and in the early 1940s, when many academic analyses of Nazi economic policy discussed privatization policies in Germany.[8] International interest was reflected in a change in the English language: in 1936 the German term '*reprivatisierung*', and the associated concept, were brought into English in the term 'reprivatization', and soon the term 'privatization' began to be used in the literature.[9] Surprisingly, modern literature on privatization, and recent literature on the twentieth-century German economy[10] and the history of Germany's publicly owned enterprises, all ignore this early privatization experience.[11] Some authors occasionally mention the privatization of banks, but offer no further comment or analysis.[12] Other works mention the sale of state ownership in Nazi Germany, but only to support the idea that the Nazi government opposed widespread state ownership of firms, and no analysis of these privatizations is undertaken.[13]

It is a fact that the Nazi government sold off public ownership in several state-owned firms in the mid-1930s. These firms belonged to a wide range of sectors; for example, steel, mining, banking, shipyard, ship-lines, and railways. It must be pointed out that, whereas modern privatization has run parallel to liberalization policies, in Nazi Germany privatization was applied within a framework of increasing state control of the whole economy through regulation and political interference.

Most of the enterprises transferred to the private sector at the Federal level had come into public hands in response to the economic consequences of the Great Depression. In this way, in 1932 the state took over the Gelsenkirchener Bergwerks (Gelsenkirchen Mining Company), the controlling group of the second-largest industrial concern in Germany, Vereignite Stahlwerke AG (United Steelworks),[14] because of the financial distress caused by the Great Depression.[15] In the same

[6] Megginson, *Financial economics*, p. 15.

[7] Burk, *First privatisation*; Megginson and Netter, 'History and methods of privatization', p. 31.

[8] Poole, *German financial policies*; Guillebaud, *Economic recovery*; Stolper, *German economy*; Sweezy, *Structure*; Merlin, 'Trends'; Neumann, *Behemoth*; Nathan, *Nazi economic system*; Schweitzer, 'Big business'; Lurie, *Private investment*. Other less academic works from this period also comment on privatization in Nazi Germany (for example, Reimann, *Vampire economy*; Heiden, *Fuehrer*).

[9] Bel, ' "Coining" of privatization', pp. 190–1.

[10] For example, Braun, *German economy*.

[11] For example, Wengenroth, 'Rise and fall'.

[12] Barkai, *Nazi economics*, p. 216; James, 'Deutsche Bank and the dictatorship', p. 291.

[13] Hardach, *Political economy of Germany*, p. 66; Buchheim and Scherner, 'Role of private property', p. 406.

[14] Vereinigte Stahlwerke (AG)—or United Steelworks in English—was an industrial conglomerate that produced coal, steel, and iron from the mid-1920s until the end of the Second World War. This conglomerate included several companies such as Thyssen AG, Phoenix AG für Bergbau und Hüttenbetrieb, Rheinische Stahlweke AG, Rhein-Elbe-Union GmbH, Deutsch-Luxemburgische Bergwerks- und Hütten-AG, Bochumer Verein fur Bergbau und Guss-stahlfabrikation, and Gelsenkirchener Bergwerks-AG. This last company, Gelsenkirchener Bergwerks-AG, was the strongest firm within Vereinigte Stahlwerke (R. Kühlmann, 'The German Steel Trust I', *The Economist*, 25 Aug. 1934, p. 346).

[15] Neumann, *Behemoth, 1933–1944*, p. 297; Wengenroth, 'Rise and fall', p. 115.

way, the state took over three out of the five largest commercial banks in Germany, because of the great banking crisis of 1931: the Darmstädter und Nationalbank (Danat Bank) collapsed in July 1931, and was soon followed by the Dresdner Bank. The Danat Bank was merged with the Dresdner Bank in the course of a state rescue operation.[16] The Deutsche Bank, even if not as badly affected by the crisis, also became dependent on government money, and a large fraction of its shares was deposited with the Deutsche Golddiskontbank (a subsidiary of the Deutsche Reichsbank, the central bank).[17] Yet another example of nationalization is found in the shipping-line sector: in 1932 Norddeutscher Lloyd (part of the Vereignite Industrie Unternehmungen AG of Berlin (VIAG) public holding)[18] took over the majority of the shares of Hamburg-SüdAmerika and of Hansa Dampf, as a consequence of state rescue operations encouraged by the effects of the Great Depression.[19] All these firms were reprivatized later, between 1935 and 1937.

Nationalization promoted state ownership in several western capitalist countries in the 1930s. Nationalization was particularly important in those countries most affected by the Great Depression,[20] such as Germany; Italy, where the Istituto per la Ricostruzione Industriale (IRI) was created in 1933;[21] and the Netherlands, where the number of state-owned firms increased rapidly in several declining industries.[22] Some other countries experienced nationalization in the 1930s; this did not arise because of the Great Depression, but because of policies related mainly to the performance of different transportation services in several countries. In the UK the state took over the London Passenger Transport Board in 1933,[23] and took over air transport with the establishment of the British Overseas Airways Corporation in 1939.[24] In France, air transport was partially placed under state control in 1933, when Air France was created,[25] and the state took over the railways in 1937.[26] In Sweden, railroads were nationalized in 1939.[27]

As shown, nationalization was an important issue in Germany in the early 1930s, and other countries also experienced nationalization in that decade, whether it was related to the Great Depression or not. But Germany was alone in developing a policy of privatization in the mid-1930s. Therefore a central question remains: why did the Nazi regime depart from mainstream policies regarding state

[16] Feldman, 'Financial institutions', p. 19; James, 'Banks and business', p. 44.

[17] James, 'Banks and business', p. 45.

[18] The VIAG was the holding concern by which the German government controlled its ownership in banking and industrial undertakings. These companies comprised the Reichs-Kredit-Gesellschaft; various electrical concerns which made the government the second largest producer of electricity in Germany; the Vereignite Aluminium-Werke, one of the biggest aluminium producers of the world; and a number of other concerns producing bicycles, gun metal, nitrogen, ships, and so on. According to *The Economist* (16 June 1934, p. 1308), in contrast to many Government enterprises elsewhere, the subsidiaries of VIAG were run on strictly commercial lines, and most of the companies always made a profit.

[19] *The Economist*, 29 April 1933, p. 909; *Der Deutsche Volkswirt*, 9 July 1937, p. 2021.

[20] Aharoni, *Evolution and management*, pp. 72–4; Clifton, Comín, and Díaz Fuentes, *Privatisation*, p. 16; Megginson, *Financial economics*, pp. 9–10; Toninelli, 'Rise and fall', p. 11.

[21] Amatori, 'Beyond state and market', p. 129.

[22] Davids and van Zanden, 'Reluctant state', p. 257.

[23] Crompton, 'Railway companies', p. 139. It is worth noting that prior to the LPTB, two important public corporations had been established in the 1920s: the British Broadcasting Corporation (1926) and the Central Electricity Board (1927) (Millward, 'State enterprise', p. 158).

[24] Millward, 'State enterprise', p. 165; Lyth, 'Changing role', pp. 76–7.

[25] Toninelli, 'Rise and fall', p. 17.

[26] Harcavi, 'Nationalization', p. 224.

[27] Millward, *Private and public*, p. 146.

ownership of firms? Why did Germany's government transfer firms to the private sector while the other western countries did not?

Answering these questions requires an analysis of the objectives of Nazi privatization. While some of the analyses carried out in the 1930s and 1940s are valuable, their authors lacked the theories, concepts, and tools that are available to us today. Recent economic literature has shown the multiplicity of objectives usually targeted by privatization policies.[28] In addition, modern theoretical developments have provided valuable insights into the motives of politicians in choosing between public ownership and privatization[29] and the consequences of each option on political rent seeking, through either excess employment or corruption and financial support.[30] The theoretical literature has provided interesting results concerning the use of privatization to obtain political support.[31] In addition, international evidence shows that financial motivations have been important in recent privatization, although the relevance of sales receipts in motivating privatization has varied over time and between countries.

By providing an analysis of privatization in Nazi Germany, this article seeks to fill a gap in the economic literature. The article extensively documents the course of privatization in the period from the Nazi takeover of government until 1937.[32] These limits are sensible because all of the relevant reprivatization operations had been concluded before the end of 1937. Some of the privatization operations explained in this paper have not been previously noted in the literature (the sale of state-owned shares in Vereinigte Oberschleschische Hüttenwerke AG and in Hansa Dampf, both in 1937).[33] Analysing Nazi privatization using modern tools and concepts allows us to conclude that the objectives pursued by the Nazi government were multiple, with their aim of increasing political support being especially noteworthy. Besides this, an additional motivation can be seen in obtaining increased revenue for the German Treasury within a context of growing financial restrictions since 1934/5, mainly because of the armament programme.

The rest of the article is organized as follows. First, the Nazi privatization policy is documented, and its quantitative relevance is assessed. This is followed by discussion of analyses of Nazi privatization found in economic literature of the late 1930s and 1940s. Then the objectives of the privatization policy in Nazi Germany are analysed. Finally, some conclusions are offered.

I

This section provides a summary of all privatization operations in the mid-1930s in Germany that it has been possible to document. Discussion of privatization

[28] Vickers and Yarrow, *Privatization*; Vickers and Yarrow, 'Economic perspectives'.
[29] Shleifer and Vishny, 'Politicians and firms'.
[30] Hart, Shleifer, and Vishny , 'Proper scope'.
[31] Perotti, 'Credible privatization'; Biais and Perotti, 'Machiavellian privatization'.
[32] Studying this period is also very useful because this allows us to avoid confusion between privatization and the aryanization process. As explained by James (*Deutsche Bank and the Nazi economic war*, pp. 38–51), after 1936–7 there was an intensification of the aryanization process, which became a 'state-driven aryanization'. Many of the largest Jewish-owned businesses had survived until 1938. The anti-Jewish apogee was reached in Nov. 1938, in the pogrom of the so-called *Reichskristallnacht*. In addition, analysing Nazi privatization until 1937 allows us to avoid confusion with the business processes put forward after the annexation of successive territories, beginning with Austria in 1938.
[33] *Der Deutsche Volkswirt*, 9 July 1937, pp. 2020–1.

became increasingly prominent soon after the Nazi government took office early in 1933, and privatizations soon followed. In an article published in *Der Deutsche Volkswirt* in February 1934, Heinz Marschner proposed 'The reprivatization of urban transportation, which after the period of inflation came under public control, especially in the hands of local governments'.[34] This proposal was related to the Nazi government's support for returning the ownership of urban transportation back to the private sector.[35] Several months later, in June 1934, in an article discussing banking policy in Germany (also published in *Der Deutsche Volkswirt*), Hans Baumgarten analysed the conditions required for the reprivatization in the German banking sector.[36]

Two years later, in November 1936, an article by Max Kruk in *Der Deutsche Volkswirt* provided brief information about several privatization operations conducted in 1935 and 1936.[37] Only two months later, in January 1937, a new article in *Der Deutsche Volskwirt* by Baumgarten commented on several privatization operations already implemented in the banking sector, and discussed the likelihood of additional privatizations. He noted that 'generally speaking there is a consensus between the respective departments that also in the case of Dresdner Bank the ultimate objective should be its eventual reprivatization'.[38] Indeed, between 1934 and 1937, several privatization operations had been implemented in Germany.[39] The privatization operations can be categorized into five different sectors: railways; steel and mining; banking; ship building; and shipping lines, which will now be discussed in turn.

In the 1930s the Deutsche Reichsbahn (German Railways) was the largest single public enterprise in the world, bringing together most of the railways services operating within Germany.[40] According to the German budget for the fiscal year 1934/5, the last one published,[41] railway preference shares were sold by the state. The motivation for this sale was commented on in *The Economist:* 'As revenue remains about the same figure as last year, increased expenditure is being met by selling Rm. [Reichsmarks] 220 million of state railway preference shares, as against Rm. 100 millions' worth last year'.[42] The state remained as the most important shareholder in Deutsche Reichsbahn, and retained full control of the company. It

[34] H. Marschner, 'Zur Neugestaltung des deutschen Nahverkehrs', *Der Deutsche Volkswirt* (16 Feb. 1934, pp. 857–60), p. 857.

[35] Sweezy, 'German corporate profits', p. 394, and eadem, *Structure*, p. 33, suggests that privatization of local public utilities was also important from 1935 onwards. However, no detailed information is provided on specific sales of local public utilities.

[36] H. Baumgarten, 'Widerschein der Bankbilanzen', *Der Deutsche Volkswirt* (15 June 1934, pp. 1642–5), p. 1645.

[37] M. Kruk, 'Konsolidierungs-Wege', *Der Deutsche Volkswirt* (13 Nov. 1936, pp. 319–20), p. 319.

[38] H. Baumgarten, 'Großbanken auf dem Weg der Reprivatisierung', *Der Deutsche Volkswirt* (22 Jan. 1937, pp. 826–7) (author's translation).

[39] It is interesting to take into account the profile of these German journalists writing on privatization in *Der Deutsche Volkswirt*. Hans Baumgarten (1900–68) was one of the leading writers in *Der Deutsche Volkswirt*, and his articles had some impact on contemporary academic literature (for example, Pumphrey, 'Planning for economic warfare'). After the war, he was the co-founder and editor of the *Deutsche Zeitung und Wirtschaftszeitung*. Later he joined the *Frankfurter Allgemeine Zeitung*, and was a member of its supervisory board between 1965 and 1968. Max Kruk (1914–92) was a journalist for *Der Deutsche Volkswirt*. From 1952 he was editor of the economy section in the *Frankfurter Allgemeine Zeitung*. Less information exists on Heinz Marschner, who published in 1937 the economic encyclopaedia *Deutschland in der Wirschaft der Welt* (Berlin: Dt. Verl. Politik und Wirschaft).

[40] Macmahon and Dittmar, 'Autonomous public enterprise', pt. 1, p. 484.

[41] Pollock, *Government of greater Germany*, p. 121.

[42] *The Economist*, 31 March 1934, p. 694.

is worth noting that the selling of a minority of shares without relinquishing state control was a different type of operation from those that are documented below.

We now turn to the steel and mining sector. In 1932, the German government bought more than 120 million marks of shares of Gelsenkirchener Bergwerks, the strongest firm within Vereignite Stahlwerke AG (United Steelworks).[43] At that time, United Steelworks was the second-largest joint-stock company in Germany (the largest was Farben Industrie AG). The state took over the shares at 364 per cent of their market value.[44] Several reasons have been offered to explain this nationalization: (a) to have effective control over United Steelworks;[45] (b) to socialize costs derived from the effects of the Great Depression;[46] and (c) to prevent foreign capital taking over the firm.[47]

Soon after the Nazi Party took power, United Steelworks was reorganized so that the government majority stake of 52 per cent was converted into a stake of less than 25 per cent, no longer sufficient in German law to give the government any privileges in company control.[48] Fritz Thyssen, who held the leading position in United Steelworks, had been one of only two leading industrialists to give support to the Nazi Party before it achieved political dominance.[49] In 1936, the government sold its block of shares, amounting to about 100 million Rm., to United Steelworks.[50] According to Kruk, this operation was the largest single sale—until the end of 1936—within the process of 'indirect consolidation' (of the public debt), in which privatization was used as a tool for debt consolidation.[51] The state did not retain ownership in United Steelworks after this privatization operation was completed.

The company Vereinigte Oberschleschische Hüttenwerke AG concentrated all metal production in the Upper Silesian coal and steel industry. The *Seehandlung* (a Prussian state bank dependent on the Reichsbank) owned 45 per cent of this firm; these shares had been received in exchange for the offsetting of debt caused by company restructuring. The remaining shares were owned by Castellengo-Abwerh, one of the most significant Upper Silesian coal mines. Castellengo's capital was owned by Ballestrem. By mid-1937, the state's 6.75 million Rm. of shares were sold to Castellengo, and the company was fully private thereafter. No particular motivation can be identified for this sale, and with this privatization ended the financial state intervention in the Upper Silesian coal and steel industry.[52]

Moving on to the banking sector, before the crash of 1929, state-owned commercial banks accounted for at least 40 per cent of the total assets of all banks, and one of the five big commercial banks, the Reichs-Kredit-Gesellschaft, was publicly owned.[53] The state was involved in the reorganization of the sector after the bank

[43] *The Economist*, 28 March 1936, p. 701.
[44] Wengenroth, 'Rise and fall', p. 115.
[45] *The Economist*, 8 July 1933, p. 73.
[46] Neumann, *Behemoth, 1933–1944*, p. 297.
[47] Wengenroth, 'Rise and fall', p. 115.
[48] Details of this reorganization are provided in R. Kühlmann, 'The German Steel Trust II', *The Economist* (1 Sept. 1934), pp. 391–2.
[49] Barkai, *Nazi economics*, p. 10.
[50] M. Kruk, 'Konsolidierungs-Wege', *Der Deutsche Volkswirt* (13 Nov. 1936, pp. 319–20), p. 319; Reichs-Kredit-Gesellschaft, *Germany's economic situation 1936/37*, p. 55.
[51] M. Kruk, 'Konsolidierungs-Wege', *Der Deutsche Volkswirt* (13 Nov. 1936, pp. 319–20), p. 319.
[52] *Der Deutsche Volkswirt*, 9 July 1937, pp. 2020–1.
[53] Stolper, *German economy*, p. 207.

crash in 1931 with an investment of about 500 million Rm., and most of the big banks came under state control, as noted in the introduction.[54] Estimates made before the Banking Inquiry Committee in 1934 by Hjalmar Schacht, president of the Reichsbank and Minister of Economy, stated that around 70 per cent of all German corporate banks were controlled by the Reich.[55] Through the Reichsbank or the Golddiskontbank, the government owned significant stakes in the largest banks:[56] 38.5 per cent of Deutsche Bank und Disconto-Gesellschaft (Deutsche Bank henceforth), 71 per cent of the Commerz- und Privatbank (Commerz-Bank henceforth), and 97 per cent of the capital of the Dresdner Bank.[57]

After the banking sector became subject to new and strict regulatory and institutional constraints (see section III for details of the works of the Banking Committee and of the regulatory process), the government was eager to raise money from privatization, as pointed out in *The Economist* and in *The Banker*.[58] Then, state ownership in the large commercial banks was sold in successive operations. The Commerz-Bank was reprivatized through several shares sales in 1936–7. These shares amounted to 57 million Rm., and the largest single transaction was a sale of 22 million Rm. in October 1936.[59] Deutsche Bank was reprivatized in several operations effectively implemented in 1935–7. The largest was the repurchase in March 1937 of shares still held by the Golddiskontbank. These shares amounted to 35 million Rm. and Deutsche Bank placed them among its clients. In total, the reprivatization of Deutsche Bank shares amounted to 50 million Rm.[60] Finally, the Dresdner Bank was also reprivatized in several shares sales in 1936–7. These shares amounted to 141 million Rm., and the largest single sale was of 120 million Rm. in September 1937.[61] At the end of all of these operations, the state did not retain ownership in these three banks.

A further example of privatization can be found in the ship building sector. In March 1936, a group of Bremen merchants purchased a block of shares of the Deutschen Schiff-und Machisnenbau AG Bremen 'Deschimag' (German Ship-

[54] Ellis, 'German exchange', p. 22.

[55] Sweezy, *Structure*, p. 31.

[56] The degree of control exercised by the state over the big commercial banks by means of public ownership is open to discussion. Most likely, state interference through ownership varied according to the relevance of the publicly owned stake. Whereas interference in the Deutsche Bank was relatively light (Feldman, 'Deutsche Bank', p. 272; James, 'Banks and business', pp. 45–9), intervention in the Dresdner Bank was very intense (James, *Deutsche Bank and the Nazi economic war*, p. 16; Feldman, 'Financial institutions', p. 23). In any case, the reform of banking regulation that began with the German Bank Act of 1934 allowed the government to exercise tight control over private banks. Dessauer ('German Bank Act') provides an extensive explanation of the German Bank Act of 1934; O. Nathan, 'Nazi war finance and banking', NBER occasional paper 20 (New York, 1944) adds information on subsequent changes in regulation.

[57] H. Baumgarten, 'Großbanken auf dem Weg der Reprivatisierung', *Der Deutsche Volkswirt* (22 Jan. 1937, pp. 826–7). Other relevant stakes held by the state in banks were 70% of the *Allgemeine Deutsche Kreditantstalt*, and 66.6% of the *Norddeutsche Kreditbank* (Sweezy, *Structure*, p. 31). Russell ('Reich', pp. 204–8) offers a detailed analysis of ownership relations between the Reich and the commercial banks.

[58] *The Economist*, 1 Aug. 1936, p. 220; *The Banker*, 'Germany', p. 131.

[59] M. Kruk, 'Konsolidierungs-Wege', *Der Deutsche Volkswirt* (13 Nov. 1936, pp. 319–20), p. 319; *The Economist*, 3 April 1937, p. 16; Reichs-Kredit-Gesellschaft, *Germany's economic situation 1936/37*, p. 55; League of Nations, *Money and banking 1936/37*, p. 77; League of Nations, *Money and banking 1937/38*, p. 92.

[60] H. Baumgarten, 'Großbanken auf dem Weg der Reprivatisierung', *Der Deutsche Volkswirt* (22 Jan. 1937, pp. 826–7); *The Economist*, 3 April 1937, p. 16; League of Nations, *Money and banking 1937/38*, p. 92.

[61] H. Baumgarten, 'Großbanken auf dem Weg der Reprivatisierung', *Der Deutsche Volkswirt* (22 Jan. 1937, pp. 826–7); League of Nations, *Money and banking 1937/38*, p. 92; Reimann, *Vampire economy*, p. 181; Barkai, *Nazi economics*, p. 216.

building and Engineering Co.). These shares had passed into state ownership because of a convertible loan. The sale amounted to 3.6 million Rm., and no state ownership was retained.[62] Kruk includes this operation within the 'indirect consolidation' process.[63]

We now turn to the last category, that of shipping lines. In 1932, the publicly owned Norddeutscher Lloyd had taken over the majority of sales of the shipping companies Hamburg-SüdAmerika and Hansa Dampf. In September 1936, the publicly owned shares of the Hamburg-SüdAmerika shipping company were sold to a Hamburg syndicate.[64] The sale of shares amounted to 8.2 million Rm.[65] As in the case of the sale of Deschimag, Kruk includes this sale within the debt consolidation process.[66] In mid-1937, Norddeutscher Lloyd sold its remaining shares in Hansa Dampf to a consortium made up of the Deutsche Bank and Berliner Handels-Gesellschaft. The sale of shares amounted to 5 million Rm.[67] After these sales, no state ownership was retained either in Hamburg-SüdAmerika or in Hansa Dampf.

The extensive list of privatizations documented above makes clear that selling public ownership was an important policy in Nazi Germany, but what was its quantitative relevance? In the late 1930s and the early 1940s, academic works that mentioned instances of privatization in some detail[68] used basically one source of documentation: *Germany's economic situation at the turn of 1936/37*, a report published in English in 1937 by Reichs-Kredit-Gesellschaft, a German state-owned bank.[69] Page 55 of this report displays a summary of information about four reprivatizations, affecting the German Shipbuilding and Engineering Co., United Steelworks, the Hamburg-South American Shipping Company, and the Commerz-Bank. The information includes the approximate date of the operations and, in two cases (United Steelworks and the Hamburg-South American Shipping Company), the amount of Reichsmarks involved.

As mentioned, the German budget for the fiscal year 1934/5 was the last one for which detailed information was published, and no detailed information on financial operations was published thereafter.[70] With the end of detailed public budgets in 1935, *Der Deutsche Volkswirt* became the primary source of information about

[62] M. Kruk, 'Konsolidierungs-Wege', *Der Deutsche Volkswirt* (13 Nov. 1936, pp. 319–20), p. 319; Reichs-Kredit-Gesellschaft, *Germany's economic situation 1936/37*, p. 55. No detailed information on the percentage of state ownership is available. Peter Müller (*Seebeckwerft 1933–1945*; available at http://werften.fischtown.de/archiv/ssw5.html, accessed 16 July 2008) provides detailed information on the characteristics (private partners) of the privatization operation, and the amount of Rm. that each private investor committed to the operation (adding up 3.6 million Rm.).

[63] M. Kruk, 'Konsolidierungs-Wege', *Der Deutsche Volkswirt* (13 Nov. 1936, pp. 319–20), p. 319.

[64] The ship-owners of Hamburg joined the Nazi Party as a group. The head of the oldest shipping concern in Hamburg explained that the decision by the ship-owners to join the Nazi Party was not taken because of ideological conviction, but in order to avoid interference from the Nazis in their business (Lochner, *Tycoons and tyrant*, pp. 220–1).

[65] M. Kruk, 'Konsolidierungs-Wege', *Der Deutsche Volkswirt* (13 Nov. 1936, pp. 319–20), p. 319; Reichs-Kredit-Gesellschaft, *Germany's economic situation 1936/37*, p. 55.

[66] M. Kruk, 'Konsolidierungs-Wege', *Der Deutsche Volkswirt* (13 Nov. 1936, pp. 319–20), p. 319.

[67] *Der Deutsche Volkswirt*, 9 July 1937, p. 2021.

[68] Poole, *German financial policies*; Sweezy, *Structure*; Lurie, *Private investment*.

[69] Along with this Reichs-Kredit-Gesellschaft report, Sweezy (*Structure*, p. 32) also used the 1938 report of the League of Nations, *Money and banking 1937/38*, which provided additional information on reprivatization of banks. As in the case of data published in the Reichs-Kredit-Gesellschaft report, the information provided by the League of Nations was based on news and analysis published in *Der Deutsche Volkswirt*.

[70] Pollock, *Government of greater Germany*, p. 121.

privatization in Germany. The editorial page for that paper was considered a mouthpiece for Hjalmar Schacht, appointed head of the Reichsbank by Adolf Hitler in 1933 and then, in 1934, Minister of Economy;[71] *Der Deutsche Volkswirt* provided detailed information on the Ministry's position on reprivatization and its implementation.[72]

Since *Der Deutsche Volkswirt* was the primary source of information on privatization in Germany, it is worth noting that two articles published by Kruk in late 1936 provided the information later mentioned in the 1937 report by Reichs-Kredit-Gesellschaft.[73] In fact, the information provided by Kruk in his article 'Konsolidierungs-Wege' provides fuller coverage of the financial characteristics of the operations. Thus, here it is possible to find information on the amount of Reichsmarks involved in all four privatization operations later mentioned in *Germany's economic situation at the turn of 1936/37* (whereas most contemporary scholars and analysts who relied only on *Germany's economic situation* knew only the amounts for two of the operations). In addition to this, several articles and news reports published in 1937 in *Der Deutsche Volkswirt* provide information on cases of privatization implemented during that year.[74] On the basis of all this material, it has been possible to compile quantitative information on many of the privatizations implemented at the Reich level after the 1934/5 budget up to the end of 1937. Table 1 presents a list of all privatization operations for which it has been possible to gather financial and corporate information.

Table 2 presents an estimate of the proceeds from privatization, and its relative dimension. This estimate inevitably presents minimum amounts, since (1) no detailed information is available from the budget after 1934/5, and (2) some operations may have been implemented but would not have appeared in the sources of information used. Estimates presented in table 2 show that between the fiscal years 1934/5 and 1937/8 privatization was an important source of revenue for Germany's Treasury. In the period as a whole, privatization proceeds were at least 1.37 per cent of total fiscal revenues. The fiscal relevance of privatization proceeds to Germany in 1934–7 can hardly be denied, particularly since the estimate provided here is a minimum.

II

We can now turn our attention to the discussion of Nazi privatization in the late 1930s and the 1940s. Privatization policy in Germany was discussed in several academic works.[75] Most of them analysed these issues within the framework of the controversy between two positions[76] that held either that private property and property rights were left untouched by the Nazis or that the Nazis destroyed such rights.

[71] *The Economist*, 18 April 1936, p. 127.

[72] See, for instance, the editorial page in *Der Deutsche Volkswirt*, 9 April 1936, p. 1315.

[73] M. Kruk, 'Konsolidierungs-Wege', *Der Deutsche Volkswirt* (13 Nov. 1936, pp. 319–20); idem, 'Die Kreditmärkte im Konsolidierungsprozeß', *Der Deutsche Volkswirt* (24 Dec. 1936), pp. 671–3.

[74] For instance, *Der Deutsche Volkswirt*, 9 July 1937, pp. 2020–1, and H. Baumgarten, 'Großbanken auf dem Weg der Reprivatisierung', *Der Deutsche Volkswirt* (22 Jan. 1937, pp. 826–7).

[75] Poole, *German financial policies*; Guillebaud, *Economic recovery*; Stolper, *German economy*; Sweezy, *Structure*; Merlin, 'Trends'; Neumann, *Behemoth*; Nathan, *Nazi economic system*; Schweitzer, 'Big business'; Lurie, *Private investment*.

[76] Schweitzer, 'Big business', pp. 99–100.

Table 1. *Sales of state ownership in Germany, 1934–7*

Firm	*Sector*	*Year(s) of sale(s)*	*Amount (million Rm.)*	*Motivation**	*Position of the state after the sale(s)*
Deutsche Reichbahn	Railways	1934	220	Financial	State retained majority and full control
Vereignite Stahlwerke	Steel	1936	100	Financial and political	State did not remain as shareholder
Vereinigte Oberschleschische Hüttenwerke AG	Steel	1937	6.75	No detailed information available	State did not remain as shareholder
Deutsche Bank und Disconto-Gesellschaft	Banking	1935–7	50	Financial	State did not remain as shareholder
Commerz- und Privatbank	Banking	1936–7	57	Financial	State did not remain as shareholder
Dresdner Bank	Banking	1936–7	141	Financial	State did not remain as shareholder
Deutschen Schiff-und Machisnenbau AG Bremen	Ship-building	1936	3.6	Financial	State did not remain as shareholder
Hamburg-SüdAmerika	Shipping lines	1936	8.2	Financial and political	State did not remain as shareholder
Hansa Dampf	Shipping lines	1937	5	No detailed information available	State did not remain as shareholder

Notes: * Motivations stated in the literature (by either scholars or analysts) for these operations.
Sources: Author's estimation, based on information published in *Der Deutsche Volkswirt*; Reichs-Kredit-Gesellschaft, *Germany's economic situation 1936/37*, p. 55; League of Nations, *Money and banking 1937/38*, p. 92; H. Baumgarten, 'Großbanken auf dem Weg der Reprivatisierung', *Der Deutsche Volkswirt* (22 Jan. 1937, pp. 826–7); M. Kruk, 'Konsolidierungs-Wege', *Der Deutsche Volkswirt* (13 Nov. 1936, pp. 319–20), p. 319; idem, 'Die Kreditmärkte im Konsolidierungsprozeß', *Der Deutsche Volkswirt* (24 Dec. 1936, pp. 671–3).

Table 2. *Privatization proceeds in Nazi Germany, April 1934–March 1938*

Period	*Proceeds from privatization (million Rm.) (1)*	*Fiscal revenues (million Rm.) (2)*	*(1)/(2) in %*
1934/5–1935/6	238.6	17,877	1.33%
1936/7–1937/8	352.9	25,456	1.39%
April 1934–March 1938	591.5	43,333	1.37%

Notes: Fiscal years begin in April and end in March. Data are aggregated in biannual periods because original information does not allow distinguishing the precise fiscal year in which some operations were effective.
Sources: Privatization revenues: author's estimation, based on information published in *Der Deutsche Volkswirt*; Reichs-Kredit-Gesellschaft, *Germany's economic situation 1936/37*, p. 55; League of Nations, *Money and banking 1937/38*, p. 92; H. Baumgarten, 'Großbanken auf dem Weg der Reprivatisierung', *Der Deutsche Volkswirt* (22 Jan. 1937, pp. 826–7); M. Kruk, 'Konsolidierungs-Wege', *Der Deutsche Volkswirt* (13 Nov. 1936, pp. 319–20), p. 319; idem, 'Die Kreditmärkte im Konsolidierungsprozeß', *Der Deutsche Volkswirt* (24 Dec. 1936, pp. 671–3).
Fiscal revenues: Reichs-Kredit-Gesellschaft, *Germany's economic situation 1938/39*, p. 98. Yearly figures are as follows (millions of Reichsmarks): 1934/5: Rm. 8,223; 1935/6: Rm. 9,654; 1936/7: Rm. 11,492; 1937/8: Rm. 13,964.

On one hand, the intense growth of governmental regulation of markets, which heavily restricted economic freedom, suggests that the rights inherent to private property were destroyed. As a result, privatization would be of no practical consequence, since the state assumed full control of the economic system.[77] On the other hand, the activities of private business organizations and the fact that big businesses had some power seem to be grounds for inferring that the Nazis promoted private property. Privatization, according to this analysis, was intended to promote the interests of the business sectors supportive of the Nazi regime, as well as the interests of the top echelons in the Nazi Party.[78]

Guillebaud stresses that the Nazi regime wanted to leave management and risk in business in the sphere of private enterprise, subject to the general direction of the government. Thus, 'the State in fact divested itself of a great deal of its previous direct participation in industry . . . But at the same time state control, regulation and interference in the conduct of economic affairs was enormously extended'.[79] Guillebaud felt that National Socialism was opposed to state management, and saw it as 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 state'.[80] This can be seen as the basic rationale for privatization, according to Guillebaud's analysis.

Perhaps the most suggestive work on privatization in Nazi Germany is Sweezy's *The structure of the Nazi economy*. On one hand, Sweezy endorses the idea that Nazi privatization was a policy applied in return for business assistance. In Sweezy's view, the Nazis paid back industrialists who supported Hitler's accession to power and his economic policies 'by restoring to private capitalism a number of monopolies held or controlled by the state'.[81] This policy implied a large-scale programme by which 'the government transferred ownership to private hands'.[82]

[77] Stolper, *German economy*, p. 207.
[78] Sweezy, *Structure*, pp. 27–8; Merlin, 'Trends', p. 207; Neumann, *Behemoth, 1933–1944*, p. 298.
[79] Guillebaud, *Economic recovery*, p. 55.
[80] Ibid., p. 219.
[81] Sweezy, *Structure*, p. 27.
[82] Ibid., p. 28.

On the other hand, in order to explain Nazi privatization, Sweezy puts forward an interesting hypothesis consistent with the macroeconomic design of Nazi economic policy. She argues that one of the main objectives for the privatization policy was to stimulate the propensity to save, since a war economy required low levels of private consumption.[83] This, according to Sweezy, 'was thus secured by "reprivatization" . . . The practical significance of the transference of government enterprises into private hands was thus that the capitalist class continued to serve as a vessel for the accumulation of income'.[84]

Consistent with Sweezy's approach, Merlin states that Germany's Nazi Party was looking not only for business support, but also for increased Nazi control over the economy. In this way, privatization was seen as a tool in the hands of the Nazi Party to 'facilitate the accumulation of private fortunes and industrial empires by its foremost members and collaborators'. This would have intensified the centralization of economic affairs and government with an increasingly narrow group that Merlin termed 'the national socialist elite'.[85]

Other contemporary analyses put much more emphasis on financial budgetary restrictions as a primary driver of privatization. Thus, while commenting on an editorial on reprivatization published in *Der Deutsche Volkswirt* (9 April 1936), *The Economist* wrote: 'Also, the Reich wants money; and it has shown a tendency to shed its interests in other private concerns, having recently sold back its steel trust shares. In the banks the Reich and the Gold Discount Bank still have an interest of some 150–200 million Rm. "Re-privatization", as it is called, has, however, been under way in the cases of all three banks'.[86] Similarly, Kruk wrote that 'Such a form of "indirect consolidation" [of the public debt] could be observed in two different forms. One of them is known under the term "privatization", which has been frequently present . . . The process of selling the Reich's participation in private companies is recognized as important'.[87]

In addition to this, *The Banker* made explicit connections between increasing financial constraints experienced by the Treasury (especially since the fiscal year 1935/6) and the sale of government shares.[88] In December 1936, *The Economist* wrote: 'An official report implies that the Reich may alienate more of its industrial and other undertakings in order to obtain cash for extraordinary expenditure. Certain Reich holdings acquired during the 1931 crisis have already been sold, but there remain valuable industrial participations'.[89] Also, other more scholarly works stressed the relevance of privatization for funding public expenditure. For example, Poole wrote that 'more and more of the public debt has passed into private hands as the regime has found itself in need of funds. The government has sold its participation in a number of public enterprises'.[90]

[83] In fact, private consumption in terms of national income decreased from 83% in 1932 to 59% in 1938 (Overy, *Nazi economic recovery*, p. 34).

[84] Sweezy, *Structure*, p. 28. This hypothesis is interesting, but the relative dimension of the privatization programme does not seem to be large enough to be effective for such an ambitious purpose.

[85] Merlin, 'Trends', p. 207.

[86] *The Economist*, 1 Aug. 1936, p. 220.

[87] M. Kruk, 'Konsolidierungs-Wege', *Der Deutsche Volkswirt* (13 Nov. 1936, pp. 319–20), p. 319 (author's translation).

[88] *The Banker*, 'Germany', p. 112.

[89] *The Economist*, 5 Dec. 1936, pp. 466–7.

[90] Poole, *German financial policies*, p. 168.

Early analysis of Nazi privatization explicitly stated that German privatization of the 1930s was intended to benefit the wealthiest sectors and enhance their economic position, in order to gain their political support. This interpretation reflected the predominant idea (at that time) that leading industrialists strongly supported the Nazi Party and Hitler's accession to power. Also, the financial restrictions imposed on the Treasury by increasing public expenditure, particularly since 1935/6, were seen by several analysts and scholars as a driver for privatization. The next section discusses these issues. Thus far, regardless of specific interpretations, it is clear that a wide-ranging privatization policy was applied in Germany in the mid-1930s, and that analysts and researchers of the time recognized its importance. Even international organizations, such as the League of Nations, took note, and international interest was reflected in a change in the English language.[91] In 1936, the German term '*reprivatisierung*', and the associated concept, were brought into English in the term 'reprivatization'.[92]

III

Modern economic literature and recent privatization experiences provide concepts and tools that are useful for a richer analysis of the objectives of Nazi privatization. Recent literature has shown the multiplicity of objectives at which privatization policies are aimed.[93] Analysis of privatization usually identifies three types of objectives in recent privatization processes: (1) ideological motivations; (2) political motivations; and (3) pragmatic (economic) motivations. Were any (or all) of these objectives relevant in Nazi privatization?

(1) Did the Nazi government use privatization to change the way in which society was organized? Privatization was not included either in the Nazi Party electoral manifestoes or in the successive revisions of the Economic and Social Programme approved in 1920 by the Nazi Party.[94] On the contrary, points 13 and 14 of the 25 points of this Programme included proposals for the nationalization of trusts and banks.[95] Proposals for nationalization were also recurrent in the Nazi electoral manifestoes. Hence, the privatization of state-owned firms was contrary to the Nazi economic programme and election proposals.

Nazi policy was heavily dependent on Hitler's decisions. Hitler did not make specific comments on nationalization or denationalization in *Mein Kampf*. Even if Hitler was an enemy of free market economies,[96] he could by no means be considered sympathetic to economic socialism or the nationalization of private firms.[97] The Nazi regime rejected liberalism, and was strongly opposed to free

[91] Thus, the 1937/8 League of Nations report on banking and finance conditions commented that 'The process known as "reprivatisation" of the big Berlin banks by the purchase on behalf of private persons of their shares held by the State of public corporations since the reconstruction following the 1931 crisis was completed by the end of 1937' (League of Nations, *Money and banking 1937/38*, p. 92).

[92] Bel, ' "Coining" of privatization', pp. 190–1.

[93] Vickers and Yarrow, *Privatization;* Vickers and Yarrow, 'Economic perspectives'.

[94] According to Stolper (*German economy*, p. 231), 'this program has remained the spiritual foundation of the movement. It is being taught in every school, referred to in all training courses of all the various units of the party. It constitutes, together with *Mein Kampf* by Hitler, the directing force of the intellectual concept and trend of the party'.

[95] Ibid., p. 232; Barkai, *Nazi economics*, p. 23.

[96] Overy, *War and economy*, p. 1.

[97] Heiden, *Fuehrer*, p. 642.

competition and regulation of the economy by market mechanisms.[98] Still, as a social Darwinist, Hitler was reluctant to dispense totally with private property and competition.[99] Hitler's solution was to combine autonomy and a large role for private initiative and ownership rights within firms with the total subjection of property rights outside the firm to state control. As pointed out by Nathan, 'It was a totalitarian system of government control within the framework of private property and private profit. It maintained private enterprise and provided profit incentives as spurs to efficient management. But the traditional freedom of the entrepreneur was narrowly circumscribed'.[100] In other words, there was private initiative in the production process, but no private initiative was allowed in the distribution of the product. Owners could act freely within their firms, but they were extremely restricted in the market.

Given this combination of private ownership within the firm and extreme state control outside the firm, the core question here is whether Hitler was opposed to public property, or ideologically favoured privatization. On this issue, it is interesting to note two interviews in May and June 1931, in which Hitler explained his aims and plans to Richard Breiting, editor of the *Leipziger Neueste Nachrichten*, on the condition that it remained confidential.[101] With respect to his position regarding private ownership, Hitler explained that 'I want everyone to keep what he has earned subject to the principle that the good of the community takes priority over that of the individual. But the state should retain control; every owner should feel himself to be an agent of the State . . . The Third Reich will always retain the right to control property owners'.[102] Another indication of Hitler's position on state ownership of the means of production is found in Rauschning's *Voice of destruction*, which reports the following answer by Hitler when questioned on socialization: 'Why bother with such half-measures when I have far more important matters in hand, such as the people themselves? . . . Why need we trouble to socialize banks and factories? We socialize human beings'.[103]

It seems clear that neither the Nazi Party nor Hitler was ideologically devoted to private ownership. In fact, Nazis used nationalization when they considered it necessary. The case of the nationalization of two aircraft companies, the Arado and Junkers firms, is widely known.[104] As Wengenroth explains, 'uncooperative industrialists such as the aircraft manufacturer Hugo Junkers were removed from their positions and replaced with Nazi governors. This was not an explicit nationalization policy, but simply an attempt to control production and investment policies in the interest of rearmament'.[105] In fact, as stated by Overy, Hugo Junkers 'refused to produce warplanes for Göering and found his business nationalized'.[106] Indeed, Buchheim and Scherner note that state-owned plants were seen as necessary when

[98] Barkai, *Nazi economics*, p. 10.
[99] Turner, ed., *Hitler*, p. 71; Hayes, *Industry*, p. 71.
[100] Nathan, *Nazi economic system*, p. 5.
[101] Calic, *Unmasked*, p. 11.
[102] Ibid., pp. 32–3.
[103] Rauschning, *Voice of destruction*, pp. 192–3. Hermann Rauschning was National Socialist President of the Danzig Senate in 1933–4. Later, he was expelled from the Nazi Party.
[104] Homze, *Arming*, pp. 192–3.
[105] Wengenroth, 'Rise and fall', p. 115.
[106] Overy, *Nazi economic recovery*, p. 40.

private industry was not prepared to realize a war investment on its own.[107] Less well-known than Junkers's case is that of the nationalization of the private Lübeck-Büchener and Brunswick Landes railways in 1937 for incorporation into the Reich Railways Company. Nationalization of these railways was carried out because of the financial distress faced by both companies, and was well received by the Stock Exchange.[108] However, these types of nationalization operations were scarce, and followed armament-related problems and financial distress experienced by declining sectors, such as railways. Hence, they fit well with our analysis of the relevance of the reprivatization process and its drivers.

To sum up, in their theoretical work on the relationship between politicians and firms, Shleifer and Vishny stress that anti-market governments are compatible with privatization, as long as they can retain control over firms through strong regulation.[109] Nazi privatization in the mid-1930s is consistent with Shleifer and Vishny's proposition 15, which states that when politicians can have control of a firm—even without direct ownership—they will prefer private ownership to public ownership.[110] The Nazi government could establish stronger regulation over the markets, and could use all tools at hand in a dictatorial regime to enforce regulation strictly. According to Thyssen, 'government regulation of commerce and industry in Germany had led to total state control'.[111] As suggested by Temin, property ownership was instrumental for Nazis.[112] Hence, it is not likely that ideological motivations played a relevant role as a rationale for Nazi privatization. After all, in Hitler's view, the dilemma between public and private property was not of primary order, since he could rely on the control of property owners.[113]

(2) Did the Nazi government use privatization as a tool to obtain political support? The idea that industrialists massively supported the Nazi accession to power was widely accepted in the early literature on Hitler's rise to power. Nonetheless, this view was by no means unanimous, and there was early opposition to it.[114] Following Turner's more recent work,[115] it is generally accepted that Hitler only achieved widespread support among industrialists when his accession to power was seen as unavoidable, from about mid-1932 onwards.[116]

The fact is that the Nazis came into power with limited parliamentary support and faced great difficulty in establishing stable alliances.[117] In addition, fighting unemployment was their top priority, and that required big business coopera-

[107] Buchheim and Scherner, 'Role of private property', p. 406.

[108] *The Economist*, 20 Nov. 1937, p. 369.

[109] Shleifer and Vishny, 'Politicians and firms', p. 1015.

[110] Ibid., p. 1021.

[111] Thyssen, *I paid Hitler*, p. 147. Many scholars have endorsed the view that the Nazi regime strongly increased regulation: Barkai, *Nazi economics*, p. 3; Guillebaud, *Economic recovery*, p. 219; James, 'Banks and business', p. 43; Nathan, *Nazi economic system*, p. 51; Overy, *War and economy*, p. 16.

[112] Temin, 'Soviet and Nazi'.

[113] This is consistent with the idea, expressed by Buchheim and Scherner ('Role of private property', p. 411), that 'the relationship between state and industry in the Nazi period can therefore be best interpreted as a temporary partnership where the state was the principal and the industry the agent'.

[114] Drucker, *End of economic man*, pp. 130–1; Lochner, *Tycoons and tyrant.*

[115] Particularly Turner, *German big business.*

[116] Barkai, *Nazi economics*, p. 10.

[117] The Nazi Parliamentary Group gathered 196 out of 584 seats (33.6%) when Hitler was appointed Chancellor in Jan. 1933. Subsequent elections in March 1933 gave the Nazi Party 288 out of 647 seats (44.5%). Data on Nazi parliamentary representation can be found in Lochner, *Tycoons and tyrant*, p. 23.

tion.[118] As stressed by Barkai, Hitler did not want to frighten the economy.[119] Consequently, the new regime tried hard to break down business mistrust.[120]

Once the Nazis came into power, it did not take long for the government to produce official statements against nationalization. On 12 February 1933, Mr Bang, an important advisor within the team of Alfred Hugenberg, the State Secretary of Public Economics, publicly stated that 'The policy of nationalization pursued in the last years will be stopped. The state owned enterprises will be transformed again into private firms'.[121] It is worth noting that Hugenberg was not a member of the Nazi Party. In fact, most of the members of Hitler's first cabinets did not belong to the Nazi Party. These cabinet members belonged to conventional right-wing parties (before they were suppressed in July 1933) and had strong ties with German industrialists.

No doubt, the paradigmatic example of the non-Nazi and business connected policymaker was Hjalmar Schacht, head of the Reichsbank and Minister of Economy. Schacht was considered the 'economic fuehrer' in the first Hitler governments.[122] Commenting on his own position in the government, Schacht recalled that 'Inside the party there was a strong movement to bring more and more industries into the hands of the state . . . Private insurance companies were particularly conscious of this threat and they approached me to secure my intervention with Hitler in the matter . . . Here, too, my intervention was successful'.[123] It is clear that Schacht's power was based on a warranty given by Hitler to the big business community of friendly economic policies and governmental attitudes towards big business interests.

It is likely that privatization—as a policy favourable to private property—was used as a tool for fostering the alliance between the Nazi government and big industrialists. The government sought to win support for its policies from big business, even if most industrialists had been reluctant to support the Nazi Party before it came to power.

The policies implemented in the financial sector provide evidence of the potential of privatization as a tool to enhance political support. Schacht (president of the Reichsbank at that time) created a Banking Inquiry Committee in 1933. The Committee, headed by Schacht himself, convened for the first time in September 1933 and developed its work over the course of a whole year.[124] The Committee's objectives were to conduct research into the banking system and to analyse the reorganization of the sector. Several radical officers of the Nazi Party appearing before the Banking Committee proposed the nationalization of the entire banking system in accordance with the Nazi economic and social programme and the Nazi

[118] Overy, *Nazi economic recovery*, p. 40.
[119] Barkai, *Nazi economics*, p. 114.
[120] Hayes, *Industry*, p. 33.
[121] *Le Temps*, 12 Feb. 1933, p. 2.
[122] Schacht's power was at its peak at the time of his public speeches in 1935 defending the principles of capitalism: in Königsberg in Aug. (*The Economist*, 24 Aug. 1935, p. 366) and at the Academy for German Law in Dec. (*The Economist*, 7 Dec. 1935, p. 1124). The period when Schacht's strength was at its peak coincided with the period in which most privatization operations were implemented. Schacht's power decreased throughout 1937, and finally came to an end when Hermann Göring took control of economic policy. Schweitzer, *Big business in the Third Reich*, p. 610, contains a detailed chronogram of the rise and decline of Schacht's power. When his resignation was officially announced in Nov. 1937, the reprivatization process was already over.
[123] Schacht, *Account*, p. 78.
[124] Barkai, *Nazi economics*, p. 208.

electoral manifesto. On the other side, the top echelons of the Nazi government's finance offices joined representatives of private banks in proposing the strengthening of the regulation of the banking system while preserving private property. Feldman has stressed the hypothesis of an alliance between Nazi leadership and private financial groups to fill governmental positions and preserve the system of private property.[125]

In the end, the Banking Inquiry Committee recommended strengthening public supervision and control of private banking and introducing new restrictions on the creation of credit institutions and the exercise of the banking profession.[126] These recommendations were implemented through the German Bank Act of 1934 (December 1934), which allowed the government to exercise tight control over private banks, and greatly enhanced the stringency of control regulations.[127] To the regime, the regulation of banking appeared to be a safe and economically sound alternative to proposals by party radicals for controlling finance through socialization.[128] Afterwards, and consistent with the theoretical insights of Shleifer and Vishny,[129] the reprivatization of the big commercial banks (Deutsche Bank, Commerz-Bank, and Dresdner Bank) was implemented within the new regulatory framework. The alliance of financial interests and the top economic echelons in the government held the reprivatization of state-owned banks as one of its top priorities.

The reprivatization of United Steelworks, which put Fritz Thyssen in the leading position in the company, appears to be an example of the use of privatization to increase political support. It is worth recalling that Thyssen was one of only two leading industrialists to support the Nazi Party before it became the most powerful party on the political scene. Another privatization that can be linked to politics is the sale of publicly owned shares in Hamburg-SüdAmerika to a Hamburg syndicate in September 1936 when the Hamburg ship-owners had joined the Nazi Party as a group.

Biais and Perotti analyse the use of privatization to obtain political benefits within a framework in which governments choose between privatization and fiscal redistribution as tools to obtain political support.[130] Nazi macroeconomic policy implied an intense increase of taxation, so there was not much opportunity to use fiscal policy to provide benefits in exchange for political support. In fact, fiscal revenues from corporate tax grew by 1,365 per cent between 1932/3 and 1937/8, whereas total fiscal revenues grew by 110 per cent in the same period.[131] Undoubtedly, a large-scale policy of nationalization of private firms would have deprived the Nazi government of support from industrialists and business sectors. Instead, increasing support from these groups was one of the motivations for Nazi privatization.

(3) Did the Nazi government use privatization to advance its economic policy? In general terms, the main characteristics of Nazi economic policy were, firstly, the

[125] Feldman, 'Financial institutions', p. 21.
[126] Lurie, *Private investment*, p. 62.
[127] Barkai, *Nazi economics*, p. 208, provides a detailed account of the regulations implemented, and concludes that the Reichsbank was the principal victor following the Committee's conclusions (p. 211).
[128] James, 'Deutsche Bank and the dictatorship', p. 291.
[129] Shleifer and Vishny, 'Politicians and firms'.
[130] Biais and Perotti, 'Machiavellian privatization'.
[131] Reichs-Kredit-Gesellschaft, *Germany's economic situation 1938/39*, p. 62.

Table 3. *Public expenditure and fiscal revenue, 1932/3–1936/7 (thousand million (billion) Rm.)*

Fiscal year	*(1) Public expenditure*	*(2) Fiscal revenues*	*(2)/(1) in %*	*(2)–(1)*	*(3) National income*	*(2)–(1)/(3) in %*
1932/3	6.7	6.65	99.2%	–0.05	45.2	0.0%
1933/4	9.7	6.85	70.6%	–2.85	46.5	6.1%
1934/5	12.2	8.22	67.4%	–3.98	52.7	7.6%
1935/6	16.7	9.65	57.8%	–7.05	58.6	12.0%
1936/7	18.8	11.49	61.1%	–7.31	64.9	11.3%

Notes: Data of public expenditure for 1936/7 are estimated. Data for national income refer to the year in which most of the fiscal year takes place (that is, the national income of 1932 is for the fiscal year 1932/3).
Sources: (1) Public expenditure: *Banker*, 'Germany', p. 113; (2) fiscal revenues: Reichs-Kredit-Gesellschaft, *Germany's economic situation 1938/39*, p. 98; (3) national income: Reichs-Kredit-Gesellschaft, *Germany's economic situation 1938/39*, p. 61.

growth of government fiscal intervention in the German economy through ambitious programmes that involved huge public expenditure, and secondly, a tightly regulated economy, involving more intense restrictions and controls on markets. The first shock of public expenditure was a result of public works—particularly the construction of highways—intended to fight unemployment. Soon after these projects were set up, expenditure on armaments began to increase. According to *The Banker*, increased expenditure after 1933/4 was basically a result of armament programmes.[132] These are the main policies that explain the evolution of public expenditure in Nazi Germany. As early as April 1934, *The Economist* reported that military expenditure was forcing the Minister of Finance to look for new resources; this need was met by selling public ownership.[133]

As mentioned above, 1934/5 was the last year for which detailed information on the budget was officially published. Nonetheless, pieces of financial information were randomly published in various outlets. By putting together these pieces, *The Banker* published data on public expenditures, including its own calculations for 1935/6 and 1936/7 based on official figures.[134] Column 1 in table 3 shows these estimates. Column 2 shows data on fiscal revenues for these fiscal years. Column 3 shows national income in the year in which most of the fiscal year took place.

Table 3 shows that the increase in public expenditure sharply reduced the ability of fiscal revenues to cover expenditures. The public deficit as a percentage of national income increased dramatically, putting the German Treasury under intense pressure. Nathan distinguished between three different periods in prewar Nazi financial policy: (1) the period of short-term financing, 1933–5; (2) the period of 'debt consolidation', 1935–8; and (3) the period of maximum mobilization, 1938–9.[135] There were two possible ways to proceed with debt consolidation. One was turning short-term debt into long-term debt. The second was to obtain additional resources from, for instance, the sale of state-owned shares in firms. Indeed, it was during the second period identified by Nathan (1935–8) that the sale of state-owned shares in most public enterprises took place.

[132] *The Banker*, 'Germany', p. 114.
[133] *The Economist*, 31 March 1934, p. 694.
[134] *The Banker*, 'Germany', p. 113.
[135] Nathan, 'Nazi war finance', pp. 41–9 (see above, n. 56).

The Banker made explicit connections between increasing financial constraints and the sale of government shares. For instance, when noting that in the fiscal year 1935/6 demands on the Treasury increased rapidly because of the huge increase in expenditure on armaments, *The Banker* wrote that 'about 500 million marks was obtained by contributions from the unemployment insurance, by more or less forced gifts, and by the sale of government shares'.[136] Later in the same issue the report added that, 'Now that the control over the banks is complete and final the Government is no longer interested in holding their shares. Rising prices have enabled the Government to dispose of large amounts of Commerzbank shares and the Golddiskontbank has sold some of its Deutsche Bank shares'.[137]

Nazi economic policy implied a sharp rise in public expenditure. The intensity of this increase was unique among western capitalist countries in the prewar period. Consistent with this, financial policy was subject to tight restrictions, and many methods were devised to obtain resources. In fact, Schacht was considered more a financial technician than an economist.[138] Privatization was one of several methods used. Thus, within a framework of multiple and coexisting objectives, financial objectives played a role in privatization as well, as several analysts and scholars had already stressed in the 1930s and 1940s.

IV

Although modern economic literature usually fails to notice it, the Nazi government in 1930s Germany implemented a large-scale privatization policy. The government sold public ownership in several state-owned firms in different sectors. Ideological motivations do not explain Nazi privatization. However, political motivations were important. The Nazi government used privatization as a tool to improve its relationship with big industrialists and to increase support among this group for its policies. Privatization was also probably used to foster more widespread political support for the Nazi Party. Finally, financial motivations also played an important role in Nazi privatization, since receipts from selling the public firms contributed (together with other fiscal measures) towards financing huge public expenditure, particularly attributable to the armament programme.

Discussion of the influence of ideological and political motivations on Nazi privatization also sheds light on an interesting issue in Nazi economic policy; namely, why the Nazis refrained from implementing a policy of wide-scale nationalization of private firms, even though the Nazi's official economic programme and their electoral manifestos regularly included this proposal. On the one hand, the Nazi dilemma between public and private property was not of primary order, since the regime could rely on control of property owners. On the other hand, a large-scale policy of nationalization of private firms would have deprived the Nazi government of support from industrialists and business sectors. The desire to increase support from those groups was a key motivating factor in Nazi privatization.

[136] *The Banker*, 'Germany', p. 112.
[137] Ibid., p. 131.
[138] Thyssen, *I paid Hitler*, p. 138.

Of course, Nazi privatization does not provide lessons in understanding the phenomenon of recent privatization, since the economic situation and the political institutions in 1930s Germany were dramatically different. However, Nazi privatization provides an illustration of how different and compatible objectives can be pursued through privatization. Interestingly, the Nazi government used privatization and regulation as partial substitutes. Privatization was used as a tool to pursue political objectives and to foster alliances with big industrialists, as well as to obtain resources to help fund public expenditure. However, even when relinquishing control over the privatized firms' ownership, the Nazi government retained control over the markets by means of establishing more restrictive regulations and government-dependent institutions. All in all, Nazi privatization did not imply a reduction of government control over the market.

Nazi economic policy in the mid-1930s was unique in several ways, and privatization was just one of these instances. Nazi Germany privatized systematically, and was the only country to do so at the time. This drove Nazi policy against the mainstream, which flowed against the privatization of state ownership or public services until the last quarter of the twentieth century.

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