Against the mainstream: Nazi privatization in 1930s Germany

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AGAINST THE MAINSTREAM: NAZI PRIVATIZATION IN 1930S GERMANY

Abstract:
The Great Depression spurred State ownership in Western capitalist countries. Germany was no exception; the last governments of the Weimar Republic took over firms in diverse sectors. Later, the Nazi regime transferred public ownership and public services to the private sector. In doing so, they went against the mainstream trends in the Western capitalist countries, none of which systematically reprivatized firms during the 1930s. Privatization in Nazi Germany was also unique in transferring to private hands the delivery of public services previously provided by government. The firms and the services transferred to private ownership belonged to diverse sectors. Privatization was part of an intentional policy with multiple objectives and was not ideologically driven. As in many recent privatizations, particularly within the European Union, strong financial restrictions were a central motivation. In addition, privatization was used as a political tool to enhance support for the government and for the Nazi Party.

Key Words: Privatization, Public Enterprise, Nazi Economy, Germany.
JEL Codes: G38, L32, L33, N44

I. Introduction

Privatization of large parts of the public sector was one of the defining policies of the last quarter of the twentieth century. The privatizations in Chile and the United Kingdom, implemented in the 1970s and 1980s, are usually considered the first privatization policies in modern history (e.g. Yergin and Stanislaw, 1998, p.115). A few researchers find earlier instances: Some economic analyses of privatization (e.g. Megginson, 2005, p. 15) identify partial sales of state-owned firms in Adenauer's Germany in the late 1950s and early 1960s as the first large-scale privatization program, and others argue that, though confined to just one sector, the denationalization of steel and coal in the United Kingdom during the early 1950s should be considered the first privatization (e.g. Burk, 1988; Megginson and Netter, 2003, p. 31).

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. The modern literature on privatization, the recent literature on the twentieth-century German economy (e.g. Braun, 2003) and the history of Germany's publicly owned enterprises (e.g. Wengenroth, 2000) all ignore this early privatization experience. Some authors occasionally mention the re-privatization of banks but make no further comment or analysis (e.g. Barkai, 1990, p. 216; James, 1995, p. 291). Other works, like Hardach (1980, p. 66) and Buchheim and Scherner (2005, p. 17), mention the sale of State-owned firms in Nazi Germany only to support the idea that the Nazi government opposed widespread state ownership of firms and do not carry out any analysis of these privatizations.

It is a fact that the government of the Nazi Party sold off public ownership in several State-owned firms in the mid-1930s. These firms belonged to a wide range of sectors: steel, mining, banking, local public utilities, shipyards, ship-lines, railways, etc. In addition, the delivery of some public services that were produced by government prior to the 1930s, especially social and labor-related services, was transferred to the private sector, mainly to organizations within the party. In the 1930s and 1940s, many academic analyses of Nazi economic policy discussed privatization in Germany (e.g. Poole, 1939; Guillebaud, 1939; Stolper, 1940; Sweezy, 1941; Merlin, 1943; Neumann, 1942, 1944; Nathan, 1944a; Schweitzer, 1946; Lurie,1947).[1]

[1] Other less academic works from this period also comment on the privatization in Nazi Germany [e.g. Reimann (1939) and Heiden (1944)].

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. Many scholars have pointed out that the Great Depression spurred State ownership in Western capitalist countries (e.g. Aharoni, 1986, pp. 72 and ff.; Clifton, Comín and Díaz Fuentes, 2003, p. 16; Megginson, 2005, pp. 9-10), and Germany was no exception. But Germany was alone in developing a policy of privatization in the 1930s. Therefore a central question remains: Why did the Nazi regime depart from the mainstream policies regarding State ownership of firms? [2] Why did Germany's government transfer firms and public functions 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 in the 1930s and 1940s are valuable, their authors lacked the theories, concepts and tools available to us today. The recent economic literature has shown the multiplicity of objectives usually targeted by privatization policies (Vickers and Yarrow, 1988, 1991) and the general and widespread priority of financial objectives within the larger framework of multiple and coexisting objectives (Yarrow, 1999). In addition, modern theoretical developments have provided valuable insights into the motives of politicians choosing between public ownership and privatization (Shleifer and Vishny, 1994) and the consequences of each option for political rent seeking, through either excess employment or corruption and financial support (Hart, Shleifer and Vishny, 1997). Also, the theoretical literature has provided interesting results concerning the use of privatization to obtain political support (Perotti, 1995; Biais and Perotti, 2002).

With the analysis of privatization in Nazi Germany this paper seeks to fill a gap in the economic literature. On the one hand, I document in detail the course of privatization in the period from the Nazi take-over until 1937.[3] These limits are chosen because all the major

[2] A recurring question in the literature on Nazi economic policy is why the Nazis refrained from implementing a policy of wide-scale nationalization of private firms [See Buchheim and Scherner (2005) for a recent example]. Indeed, this question is interesting since the Nazis' official economic program and their electoral manifestos regularly included this proposal. However, it is not a central concern of this paper. It is worth noting that by rejecting large-scale nationalization, the Nazi government joined the mainstream in Western capitalist countries, which were, in the 1930s, more given to intervention through regulation and fiscal policy. As explained in Megginson (2005, p. 10), nationalization of private firms was not a major policy in Western capitalist countries once the worst of the Great Depression was over.

[3] Choosing this period is also very useful because it permits us to avoid confusion between the processes of privatization and Aryanization. As explained by James (2001, p. 38-51), after 1936-37 there was an intensification of the Aryanization process, in what was a "state-driven aryanization." Many of the largest

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. On the other hand, analyzing the Nazi privatization with modern tools and concepts allows us to conclude that the objectives pursued by the Nazi government were multiple. Of particular relevance were the increased political support and, especially, a combination of increased revenue and expenditure relief for the German Treasury. In short, these motives are quite similar to those that have driven privatization policies in most EU countries.

The rest of the paper is organized as follows. First, I document the Nazi privatization policy, and present a quantitative comparison with more recent privatizations. Then, I discuss the analyses of Nazi privatization in the economic literature of the late 1930s and 1940s. After this, I analyze the objectives of privatization policy in Nazi Germany. Finally, I conclude.

II. Selling public ownership.

In an article published in the *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." (Marschner 1934, p. 587, author's translation). This proposal was related to the Nazi government's support for returning the ownership of urban transportation back to the private sector. Several months later, in an article discussing banking policy in Germany, Hans Baumgarten (1934, p. 1645) analyzed the conditions required for the reprivatization in the German banking sector. Discussion of privatization was increasingly common soon after the Nazi government took office early in 1933, and privatizations soon followed.

Railways: In the 1930s The *Deutsche Reichsbahn* (German Railways) was the largest single public enterprise in the world (Macmahon and Dittmar 1939, p. 484), bringing together most of the railways services operating within Germany. The German Budget for fiscal year 1934/35, the last one published (Pollock, 1938, p. 121), established that Railway preference shares[4] worth Reichsmark (Rm.) 224 million were to be sold.[5]

Jewish-owned businesses had survived until 1938. The anti-Jewish apogee was reached in November 1938, with the pogrom of the *Reichskristallnacht*. In addition, analyzing Nazi privatization until 1937 avoids confusion with the business processes implemented after the annexation of successive territories, beginning with Austria in 1938.

[4] After the I World War, the Reichsbahn had been reorganized as independent institution and its capital had been formally detached from the Reich's property (Wengenroth, 2000, p. 111). Within this context,

Steel and mining: In 1932, the German government bought more than 120 million marks of shares in *Gelsenkirchen Bergbau* (Gelsenkirchen Mining Company), the strongest firm inside the *Vereinigte Stahlwerke A.G.* (United Steelworks).[6] At that time, the United Steel Trust was the second largest joint-stock company in Germany (the largest was Farben Industrie A.G.). The state took over the shares at 364 percent of their market value (Wengenroth, 2000, p. 115). A range of reasons has been given for the nationalization: a) to have effective control over the United Steel Trust (*The Economist,* July 8, 1933, 117 (4689), p. 73), b) to socialize costs derived from the effects of the Great Depression (Neumann, 1944, p. 297): and c) to prevent foreign capital taking over the firm (Wengenroth, 2000, p. 115).

Soon after the Nazi party came to power, United Steel 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.[7] Fritz Thyssen, who held the leading position in the Trust, had been one of only two big industrialists to give support to the Nazi Party before it won political dominance (Barkai, 1990, p. 10). In 1936, the Government sold its block of shares, amounting to about Rm. 100 million, to the United Steel Association.[8]

The company *Vereinigte Oberschlesische Hüttenwerke AG* had control of all metal production in the Upper Silesian coal and steel industry. The *Seehandlung* (Prussian state bank) owned 45 per cent of this firm. The remaining shares were owned by *Castellengo-Abwehr*, one of the major Upper Silesian coal mines. *Castellengo's* capital was owned by *Ballestrem.* In mid 1937, the state's Rm. 6.75 million of shares were sold to *Castellengo*.[9]

Banking: Before the crash of 1929, publicly owned commercial banks accounted for at least 40 per cent of the total assets of all banks (Stolper 1940, p. 207), and one of the five big commercial banks, the Reichs-Kredit-Gesellschaft, was publicly owned. The state was involved

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common shares and preference shares were issued. Common shares were direct ownership of the Reich, and most of preferred shares were allocated initially to the Reich. The government could then sell these preferred shares (Macmahon and Dittmar, 1940, pp. 35-38).

[5] *The Economist*, April 7, 1934 [118 (4728), p. 763]. Besides the sale of German Railway shares, *The Economist* also mentioned another sale of public property to be done: "The Reich property, which is to be "liquidated" to yield Rm. 300 millions, is not defined."

[6] *The Economist,* March 28, 1936 [122 (4831), p. 701].

[7] Külhmann (1934, pp. 391-392) explains the reorganization in detail.

[8] Kruk (1936a, p. 319) and Reich-Kredit-Gesellschaft (1937, p. 55)

[9] *Der Deutsche Volkswirt*, July 9, 1937 [11 (41), pp. 2020-21].

in the reorganization of the sector after the bank crash in 1931 with an investment of about Rm. 500 million (Ellis, 1940, p. 22), and most of the big banks came under state control. 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 (Sweezy, 1941, p. 31). Through the Reich or the *Golddiskontbank*, the government owned significant stakes in the largest banks:[10] 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 *Dresdner-Bank*.[11]

The Commerz-Bank was reprivatized through several share sales in 1936-37. These shares amounted to Rm. 57 million, and the largest single transaction was a sale of Rm. 22 million in October 1936.[12] Deutsche Bank was reprivatized in several operations effectively implemented in 1935-37. The largest was the repurchase in March 1937 of shares still held by the Golddiskontbank. These shares amounted to Rm. 35 million and Deutsche Bank placed them among its clients. In total, the reprivatization of Deutsche Bank shares amounted to Rm. 50 million.[13] Finally, the Dresdner Bank was also reprivatized in several shares sale in 1936-37. These shares amounted to Rm. 141 million, and the largest single sale was of Rm. 120 million in September 1937.[14]

[10] The degree of control exercised by the state in the large commercial banks by means of public ownership is open to discussion. Most probably, state interference through ownership varied according to the relevance of the publicly owned stake. Whereas interference in the Deutsche Bank was relatively slight [Feldman (1995, p. 272), James (2004, p. 45-49)], intervention in the Dresdner Bank was intense [James (2001, p. 16), Feldman (2004, p. 23)]. In any case, the reform of banking regulation that began with the German Bank Act of 1934 allowed the government to exercise a tight control over private banks. Dessauer (1935) provides an extensive explanation of the German Bank Act of 1934; Nathan (1944b) adds information on subsequent changes in regulation.

[11] Baumgarten (1937, pp. 826-827). Other relevant stakes of the state in banks were 70 per cent of the *Allgemeine Deutsche Kreditantstalt*, and 66.6 per cent of the *Norddeutsche Kreditbank* (Sweezy, 1941, p. 31). Russell (1935, p. 204-208) offers a detailed analysis of the ownership relations between the Reich and the commercial banks.

[12] Kruk (1936a, p. 319), *The Economist,* April 3, 1937 [127 (4884), p. 16], Reichs-Kredit-Gesellschaft (1937, p. 55), League of Nations (1937, p. 77), League of Nations (1938, p. 92).

[13] Baumgarten (1937, pp. 826-7)], *The Economist,* April 3, 1937 [127 (4884), p. 16], League of Nations (1938, p. 92).

[14] Baumgarten (1937, pp. 826-7), League of Nations (1938, p. 92), Reimann (1939, p. 181), Barkai (1990, p. 216).

Ship building. In March 1936, a group of Bremen merchants purchased a block of shares in the *Deutsche Schiff-und Machinenbau AG Bremen "Deschimag"* (German Shipbuilding and Engineering Co.). The sale amounted to Rm. 3.6 million.[15]

Shipping lines. In September 1936 publicly owned shares of the *Hamburg-SüdAmerika* shipping company were sold to a Hamburg syndicate.[16] The sale of shares amounted to Rm. 8.2 million.[17] In mid 1937, the publicly owned *Norddeutscher Lloyd* (North German Lloyd), part of the VIAG public holding,[18] sold its remaining shares in the steamship company *Hansa Dampf* to a consortium made up of the Deutsche Bank & Berliner Handels-Gesellschaft. The sale of shares amounted to Rm. 5 million.[19]

Local public utilities. The Nazi government imposed several types of limitations and obstacles on municipally owned enterprises. Since 1935 the municipal firms were subject to taxation (Sweezy, 1941, p. 32). Administrative and financial requirements were made more restrictive (Marx, 1937, p. 142; Pollock, 1938, p. 145). Privatization of local public utilities was important from 1935 onwards (Sweezy 1940, 394). Data presented in Sweezy (1941, p. 33) on income from enterprises owned by municipalities show that in 1934 the revenue was Rm. 494 million, up from Rm. 481 million in 1933. In 1935 the revenue decreased to Rm. 456 million, and the decline continued in 1936 to Rm. 360 million. The decrease in revenues in 1935 and 1936 occurred while the economy grew. Therefore, it must have been the result of a reduction in the number and business of local public utilities as a consequence of privatization (Sweezy, 1941, p. 33).

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[15] Kruk (1936a, p. 319) and Reichs-Kredit-Gesellschaft (1937, p. 55).

[16] The ship-owners of Hamburg joined the Nazi party as a group. The head of the oldest shipping concern in Hamburg explained to Lochner (1954, p. 220-221) that the decision by the ship-owners of Hamburg to join the Nazi Party was not out of ideological conviction but to avoid interference from the Nazi Party in the business.

[17] Kruk (1936a, p. 319) and Reichs-Kredit-Gesellschaft (1937, p. 55).

[18] *The Vereinigte Industrie Unternehmungen A. G.* of Berlin (VIAG) was the holding concern by which the German government controlled its property in banking and industrial undertakings. These undertakings comprised the Reichs-Kredit-Gesellschaft, various electrical concerns which make the German Government the second largest producer of electricity in Germany; the *Vereinigte Aluminium-Werke*, one of the biggest aluminum producers of the world; and a number of other concerns producing bicycles, gun metal, nitrogen, ships, etc. According to *The Economist* [June 16 1934, 118(4738), 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 profits.

[19] *Der Deutsche Volkswirt*, July 9, 1937 [11 (41), p. 2021].

III. Transferring to private hands the delivery of public services.

Besides the transfer to the private sector of public ownership in firms, the Nazi government also transferred many public services (some long established, others newly created) to special organizations: either the Nazi party and its affiliates[20] or other allegedly independent organizations which were set up for a specific purpose (Nathan, 1944a, p. 321). In this way, delivery of these services was privatized.[21]

Work related services. *Die Deutsche Arbeitsfront* (German Labor Front) was not part of the machinery of the State, but a legally independent organization of the Nazi Party (Guillebaud, 1939, p. 194).[22] It was in charge of delivering services –some of them previously delivered by the public administration – such as supervision of vocational training, inspection of factories regarding issues of health in the workplace, amenities, etc.[23] Its 'recommendations' were compulsory (Guillebaud, 1939, p. 195). Membership, also theoretically voluntary, was in fact compulsory. The fees received from the workers and the employees made substantial resources available for use by the Labor Front. According to Guillebaud (1941, p. 37) its revenue in 1937 was Rm. 360 million. Estimates in Nathan (1944b, p. 94) are lower: Rm. 240 million in 1937. Either scenario gave the Labor Front huge wealth and political power.

Social services. Public welfare, largely under the jurisdiction of local and district authorities before 1933, was partly transferred by the Nazi government to affiliates of the Nazi party, particularly to the *Nationalsozialistiche Volkswohlfahrt* (National Socialist People's Welfare Organization–*NSV*). The most important activity was the *Winterhilfe* (Winter Help), the distribution of money and goods among the poor. NSV was funded with a fee charged on the earnings of employed workers, and with quasi-compulsory levies in cash or in kind from farmers, peasants, employers and the middle classes generally (Guillebaud, 1941, pp. 96). Financial control of Winter Help was in the hands of the Treasurer of the Nazi Party (Pollock, 1938, p. 164), and the compulsory character of the contributions was so clear that they have been considered an additional source of fiscal revenues (Balogh 1938, 472). In 1933/34 the NSV

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[20] Pollock (1938, p. 43-68) provides an extensive revision of the organizational characteristics of the Nazi Party holding of organizations.

[21] Nathan (1944a, p. 321) also points out that Education no longer remained the exclusive function of the public school system, but was moved in part to the Hitler Youth Organization.

[22] Völtzer (135, pp. 4-6) offers a thorough review of the legal configuration of the German Labor Front.

[23] It also delivered new services such as the leisure program *Strength through Joy* (*Kraft durch Freude*). These are of less interest to our analysis.

raised 350 million marks, a figure that rose to 408.3 million marks in 1936/37 (Pollock, 1938, p. 138; Guillebaud, 1941, pp. 97). Estimates in Nathan (1944b, p. 94) give figures of Rm. 340 in 1934/35 and Rm. 370 after 1937. Reichs-Kredit-Gesellschaft (1939, p. 101) gives an estimate of Rm. 400 million in 1938, according to official statistics.

As explained in *The Banker* (1937, p. 171), the German government had provided Winter Help before the Nazi regime. A comparison between the expenditures of the Reich Winter Relief in 1931 and the Nazi Winter Relief in 1933 "shows that this new Nazi organisation has not provided in Winter Help more than the former contribution made by the Reich alone….Under the Nazi system …. a huge apparatus has been created to carry out a service formerly provided as a 'side-line' by private and public bodies." (p. 171). In short, delivered by private and public bodies before the Nazi regime, Winter Help was privatized completely by the Nazi government and was transferred to a Party Organization. The funding of the service was based on a compulsory scheme of fees and levies. As a result, the Reich Budget was relieved of the expenditure that this social service program represented.

IV. An assessment of the quantitative relevance of Nazi privatization.

In the late 1930s and the early 1940s, academic works that mentioned operations of privatization in some detail (e.g. Poole, 1939; Sweezy, 1941; Lurie, 1947) used basically one source of documentation: The report *Germany's Economic Situation at the Turn of 1936/37*, published in English in 1937 by the German State-owned bank Reichs-Kredit-Gesellschaft.[24] Page 55 of this report displays summarized information about four reprivatizations, affecting the German Shipbuilding and Engineering Co., the United Steel Trust, the Hamburg-South American Shipping Company, and the Commerz –und Privatbank. The information included the approximate date of the operations and, in some cases, the amount of Reichsmarks involved.

As mentioned, the German budget for the fiscal year 1934/35 was the last one for which detailed information was published (Pollock, 1938, p. 121) and no detailed information on financial operations was published thereafter. With the end of detailed public budgets in 1935, *Der Deutsche Volkswirt* became the primary source for information about privatization in

[24] Along with the Reichs-Kredit-Gesellschaft (1937) report, Sweezy (1941, p. 32) also used the League of Nations' 1938 report *Money and Banking 1938*, which provided some additional information on the reprivatization of banks. As with the information published in Reichs-Kredit-Gesellschaft (1937), the information provided by the League of Nations usually took news and analysis published in *Der Deutsche Volkswirt* as its source.

Germany. The paper's editorial page was considered a mouthpiece for Hjalmar Schacht,[25] appointed head of the Reichsbank by Adolf Hitler and then, in 1934, Minister of Economy. *Der Deutsche Volkswirt* provided detailed information on the Ministry's position on reprivatization and its implementation.[26]

In fact, two articles published by Max Kruk (1936a, 1936b) in late 1936 provided the information mentioned in the Reichs-Kredit-Gesellschaft (1937). The information in the earlier article (1936a) provides fuller coverage of the financial characteristics of the operations. In addition to this, several articles and news reports published in *Der Deutsche Volkswirt* in 1937 provide information on operations of privatization implemented during that year.[27] Based on all this material, I have been able to compile quantitative information on many of the privatizations implemented at the Reich level after the 1934/35 Budget up to the end of 1937.

Table 1 presents an estimate of the proceeds from privatization. This estimate inevitably presents minimum amounts, since (1) no detailed information is available from the Budget after 1934/35, and (2) some operations may have been implemented but would not have appeared in the sources of information used.

Table 1. Privatization proceeds in Nazi Germany. April 1934- March 1938.

Period	Proceeds from privatization Million Reichsmark (1)	Fiscal revenues Million Reichsmark (2)	(1) / (2) in %
1934/35 & 1935/36	242.6	17,877	1.36%
1936/37 & 1937/38	352.9	25,456	1.39%
April 1934/March 1938	595.5	43,333	1.37%

Notes: * Fiscal years begin in April and end in March

* Data are aggregated in biannual periods because the original information does not identify the precise fiscal year in which some operations were effective.

Sources: * Privatization revenues: Author's estimates, based on information published in *Der Deutsche Volkswirt,* Reichs-Kredit-Gesellschaft (1937), League of Nations (1938), Baumgarten (1937) and Kruk (1936a, 1936b).

* Fiscal revenues: Reichs-Kredit-Gesellschaft (1939, p. 98). Yearly figures are as follows (million Reichsmark): 1934/35: RM 8,223; 1935/36: RM 9,654; 1936/37: RM 11,492; 1937/38: RM 13,964.

[25] *The Economist*, April 18, 1936 [123 (4834), p. 127]

[26] See, for instance, the editorial page in *Der Deutsche Volkswirt*, April 9, 1936 [10 (28), p. 1315].

[27] For instance, *Der Deutsche Volkswirt*, July 9, 1937 [11 (41), pp. 2020-21] and Baumgarten (1937).

Estimates presented in table 1 show that between the fiscal years 1934/35 and 1937/38 privatization was an important source of revenue for Germany's Treasury. In the period as a whole, privatization proceeds represented almost 1.4 per cent of total fiscal revenues.

How important were privatization proceeds in 1930s Germany? It is not possible to compare them with those in other European countries, since German privatization policy was an exception. However, it is possible to compare Germany's figures in the mid-thirties with figures from European Union countries (the former EU-15) in the late 1990s. For purposes of comparison, we can take the period of four fiscal years 1997-2000. We should note that this 4-year period saw the highest proceeds from privatization in all the former EU-15 countries except the United Kingdom, where privatization had almost finished by the mid-nineties.

Figure 1 shows the ratio (privatization proceeds/fiscal revenues) in all countries in the former EU-15 for the period 1997-2000, as well as for 1934-1937 Germany. The ratio is presented as a percentage, and the raw data is presented in table A-1 in the appendix. The ratios obtained for Luxembourg, the United Kingdom, the Netherlands,[28] Belgium and Germany in this period are well below the Nazi Germany figure. Denmark's ratio is slightly above, and the other nine countries clearly exceed Germany's. Interestingly, in the case of Germany, even though 1997-2000 was the period with largest absolute proceeds, the ratio is 0.65, which is less than half the ratio for Germany in 1934-37. Overall, the relative dimension of privatization proceeds in 1934-37 Germany is close to the ratio for the EU-15 in 1997-2000, at 1.79 per cent.[29]

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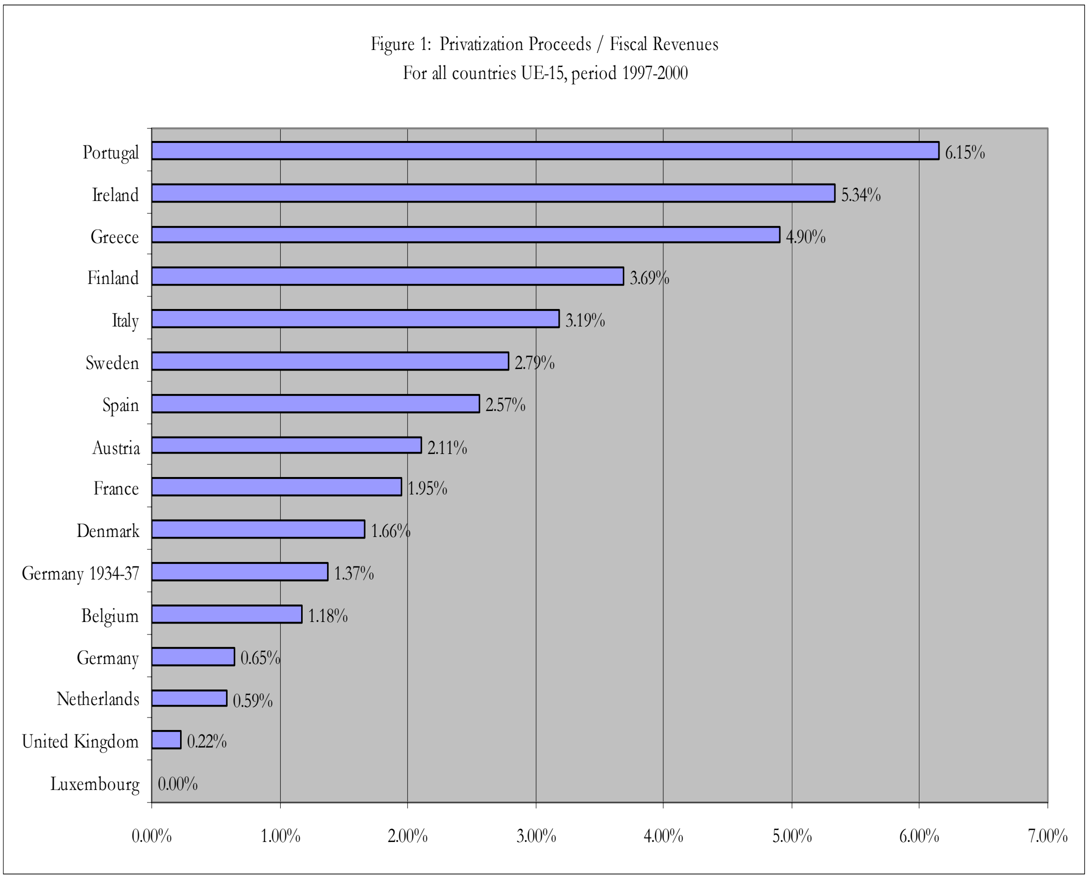
[28] In the case of the Netherlands, there had been major privatization proceeds in 1996. Hence, taking a period larger than 1997-2000 would increase the ratio in the Netherlands. This is not the case in the other countries in figure 1. As already mentioned, the UK ratio is not comparable.

[29] Leaving out the UK, the EU-14 ratio would be 2.05 per cent.



While sales of public ownership provided revenue, privatization of public services was an important source of fiscal relief for the German Treasury, since, as explained above, funding for these programs was based on an effectively compulsory scheme of fees and levies. Table 2 shows the relative dimension of the funds privately managed through programs related to work and to social services. Indeed, as a percentage of fiscal revenues the expenditures avoided to the Treasury were quite relevant.

Table 2 Funds privately managed for delivery of public services.

Public Service	Delivered by	Millions of Reichsmarks	Equivalent to % Fiscal Revenues	Equivalent to % National Income
Work related services	Labor Front	(Min) [A] 240 (Max) [B] 360	2.1% 3.1%	0.34% 0.51%
Social services	National Socialist Welfare Organization NSV	(Min) [A] 370 (Max) [B,C] 408	3.2% 3.6%	0.52% 0.57%

Notes: Estimates are for 1937.
Sources: Author's estimate, based on:
Funds managed: [A] Nathan (1944b); [B] Guillebaud (1941); [C] Pollock (1938).
Fiscal revenues and National Income: Reichs-Kredit-Gesellschaft (1939).

The fiscal importance of privatization proceeds to 1934-37 Germany can hardly be denied, particularly in comparison to modern privatizations like those applied recently in the European Union countries. However, it is worth noting that the general orientation of the Nazi economic policy was the exact opposite of that of the EU countries in the late 1990s: Whereas the modern privatization in the EU has been parallel to liberalization policies, in Nazi Germany privatization was applied within a framework of increasing control of the state over the whole economy through regulation and political interference.

V. Visions of Nazi privatization in the economic literature of the late 1930s and 1940s

Privatization policy in Germany was discussed in the late 1930s and the 1940s in academic works such as Poole (1939), Guillebaud (1939), Stolper (1940), Sweezy (1941), Merlin (1943), Neumann (1942, 1944), Nathan (1944a), Schweitzer (1946), and Lurie (1947). Most of these works analyzed these issues within the framework of the controversy between two positions (Schweitzer, 1946, pp. 99-100) that held either that private property and property rights were left untouched by the Nazis, or that the Nazis destroyed such rights.

On one hand, the intense growth of governmental regulations on 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 consequences since the state assumed full control of the economic system (e.g. Stolper, 1940, p. 207). On the other hand, the activities of private business organizations and the fact that big business had some power seemed to be grounds for inferring that the Nazis promoted private property. Privatization, in this analysis, was intended to promote the interests of the business sectors that supported the Nazi regime, as well as the interests of the Nazi elites (e.g. Sweezy, 1941, pp. 27-28; Merlin, 1943, p. 207; Neumann, 1944, p. 298).

Guillebaud (1939, p. 55) 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 the economy affairs was enormously extended.” Guillebaud (1939, p. 219) 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.” This can be seen as the basic rationale for privatization in Guillebaud’s analysis.

Perhaps the most suggestive work on privatization in Nazi Germany was Maxine Sweezy’s (1941) *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” (Sweezy, 1941, p. 27). 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” (p. 27). This policy implied a large-scale program by which “the government transferred ownership to private hands” (p. 28).

On the other hand, 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.[30] High levels of savings were thought to depend on inequality of income, which would be increased by inequality of wealth. 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.” (Sweezy, 1941, p. 28).

[30] In fact, private consumption in terms of national income decreased from 83 per cent in 1932 to 59 per cent in 1938 [Overy, 1982, p. 34].

Consistent with Sweezy's approach, Merlin (1943, p. 207) states that the Nazi Party was looking not only for business support, but also for increased 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 centralization of economic affairs and government in an increasingly narrow group that Merlin termed "the national socialist elite." (p. 207).

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 search of their political support. This interpretation reflected the predominant idea that big industrialists strongly supported the Nazi Party and Hitler's accession to power. The next section discusses these issues. Thus far, regardless of specific interpretations, it is clear that a wide privatization policy was applied in Germany in the mid-thirties and that analysts and researchers of the time recognized its importance. Even international organizations such as the League of Nations took note,[31] and international interest was reflected in a change in the English language: in the mid-1930s the German term '*Reprivatisierung*', and the associated concept, were brought into English in the term 'reprivatization' (Bel, 2006).

VI. Analyzing the Objectives of Nazi Privatization

Contemporary economic literature has shown the multiplicity of objectives targeted with privatization policies (Vickers and Yarrow, 1988, 1991). The analysis of privatization usually identifies three types of objectives in the recent privatization processes: (1) Ideological motivations; (2) Political motivations; (3) Pragmatic (economic) motivations.

VI.a. Ideological motivations: 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 manifestos or in the successive revisions of the Economic and Social Program approved in 1920 by the Nazi Party.[32] In fact, among the 25 points in this Program, points 13 and 14 included

[31] Thus, the 1937/38 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, 1938, p. 92]

[32] According to Stolper (1940, 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

proposals of nationalization of trusts and banks (Stolper, 1940, p. 232; Barkai, 1990, p. 23). Proposals of nationalization were also recurrent in the Nazi electoral manifestos. Hence, privatizing State-owned firms was contrary to the Nazi economic program and election proposals.

Nazi policy was heavily dependent on Hitler's decisions. Hitler made no specific comments on nationalization or denationalization in *Mein Kampf*. Even if Hitler was an enemy of free market economies (Overy, 1994, p. 1), he could by no means be considered a sympathizer of economic socialism or nationalization of private firms (Heiden, 1944, p. 642). The Nazi regime rejected liberalism, and was strongly against free competition and regulation of the economy by market mechanisms (Barkai, 1990, p. 10). Still, as a social Darwinist, Hitler was reluctant to totally dispense with private property and competition (Turner, 1985a, p. 71; Hayes, 1987, p. 71). 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 Nathan pointed out (1944a, p. 5) "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." 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 faced tight restrictions in the market.

Given this combination of private ownership within the firm and extreme State control outside it, the core question here is whether Hitler was against public property or ideologically favorable to 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 condition of confidentiality (Calic, 1971, p. 11). With respect to his position with regard to 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." (Calic, 1971, p. 32-33). Another indication of Hitler's position on the state ownership of the means of

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the party. It constitutes, together with *Mein Kampf* by Hitler, the directing force of the intellectual concept and trend of the party" production is found in Rauschning [33] (1940, pp. 192-3), 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.”

It seems clear that neither the Nazi Party nor Hitler had any ideological devotion to private ownership. [34] In their theoretical work on the relationship between politicians and firms, Shleifer and Vishny (1994, p. 1,015) stress that anti-market governments are compatible with privatization, as long as they can retain control over the firms through strong regulation. Nazi privatization in the mid-1930s is consistent with Shleifer and Vishny’s proposition 15 (1994, p. 1,021). As suggested in Temin (1991), property ownership was instrumental for the Nazis. Hence, it is not likely that ideological motivations played a major role as a rationale for Nazi privatization.

VI.b. Political motivations. 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 position was by no means unanimous, and there was early opposition to it (e.g. Drucker, 1939, pp. 130-131; Lochner, 1954). Following Turner’s more recent work (especially, Turner 1985b) it is generally accepted that Hitler only achieved wide support among industrialists when his accession to power was seen as unavoidable, from about mid-1932 onwards (Barkai, 1990, p. 10).

The fact is that Nazis came into power with limited parliamentary support[35] and faced great difficulty in establishing stable alliances. In addition, fighting unemployment was their top priority, and that required big business cooperation (Overy, 1982, p. 40). As stressed in Barkai

[33] Hermann Rauschning was National Socialist President of the Danzig Senate in 1933-34. He was later expelled from the Nazi Party.

[34] In fact, the Nazis used nationalization when they considered it convenient. It is widely known the case of the nationalization of two aircraft companies, the Arado and Junkers firms [Homze (1976, p. 192-3)]. Less known is the case of the nationalization, for incorporation in the Reich Railways Company, of the private Lübeck-Büchener and Brunswick Landes Railways [*The Economist,* November 20, 1937, 129 (4917), p. 369].

[35] The Nazi Parliamentary Group won 196 out of 584 seats (33.6 per cent) when Hitler was appointed Chancellor in January 1933. Subsequent elections in March 1933 gave the Nazi Party 288 out of 647 seats (44.5 per cent). Data on Nazi parliamentarian representation can be found in Lochner (1954, p. 23).

(1990, p. 114) Hitler did not want to frighten the economy. Consequently, the new regime tried hard to break down business mistrust (Hayes, 1987, p. 33).

Once the Nazis came to power, it did not take long for the government to produce official statements against nationalization. In 12 February 1933, Mr. Bang, an important advisor in the team of the State Secretary of Public Economics, Alfred Hugenberg, 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."[36] It is worth noting that Hugenberg was not a member of the Nazi Party. In fact, most of the members of the Hitler's first cabinets were not Nazis. Indeed, these cabinet members were representative of the 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 policymaker with business connections was Hjalmar Schacht, head of the Reichsbank and Minister of Economy. Schacht was considered the 'economic fuehrer' [37] in the first Hitler governments. Commenting on his own position in the government, Schacht (1949, p. 78) 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." 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 favorable to private property – was used as a tool for fostering the alliance between Nazi government and industrialists. The government sought to win support for its policies from big business, even though most industrialists had been reluctant to support the Nazi party before it took power.

The policies implemented in the financial sector provide evidence of the potential of privatization as a tool to enhance political support. Several radical officers of the Nazi Party

[36] *Le Temps*, 12 February 1933, p. 2.

[37] Schacht's power was at its peak at the time of his public speeches in 1935 defending the principles of capitalism: in Königsberg in August (*The Economist*, August 24 1935, 121 (4800), p. 366) and in the Academy for German Law in December (*The Economist*, December 7 1935, 121 (4815), p. 1124). The period of Schacht's maximum strength coincided with the period in which most privatization operations were implemented. His power waned in 1937, and came to an end when Hermann Göring took control over economic policy. Schweitzer (1964, p. 610) contains a detailed chronogram of Schacht's rise and fall. When his resignation was officially announced in November 1937, the reprivatization process was already over.

appearing before the Banking Investigation Committee, which analyzed the reorganization of the banking sector, proposed the nationalization of the entire banking system in accordance with the Nazi Economic and Social Program and the Nazi 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. The hypothesis of an alliance between the Nazi leadership and private financial groups to fill governmental positions and save the private property system has been stressed in Feldman (2004, p. 21).

In the end, the Banking Investigation 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 (Lurie, 1947, p. 62). These recommendations were implemented through the German Bank Act of 1934, which allowed the government to exercise tight control over private banks. Regulating banking appeared to the regime as a safe and economically sound alternative to proposals by party radicals for controlling finance through socialization (James, 1995, p. 291). Afterwards, and consistent with the theoretical insights of Shleifer and Vishny (1994), 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 top economic echelons in the government held the reprivatization of State-owned banks as one of its top priorities.

The reprivatization of United Steel Works, which put Fritz Thyssen in the leading position in the trust, appears to be an example of the use of privatization to increase political support. It is worth remembering that Thyssen had been one of the only two big industrialists to support the Nazi Party before it became the most powerful party in the political scene. Another privatization that can be linked to politics is the sale of publicly owned shares of *Hamburg-SüdAmerika* to a Hamburg syndicate in September 1936, when the ship-owners of Hamburg had joined the Nazi party as a group.[38]

[38] Biais and Perotti (2002) analyze the use of privatization to obtain political benefits within a framework in which, in order to obtain political support, governments choose between privatization and fiscal redistribution. The Nazi macroeconomic policy involved a sharp increase in taxation, so there was not much room for using fiscal policy to provide benefits in exchange for political support. In fact, fiscal revenues from corporate tax grew by 1,365 per cent between 1932/33 and 1937/38, whereas total fiscal revenues grew by 110 per cent in the same period. [Reichs-Kredit-Gesellschaft (1939, p.62)]

Finally, it is clear that the privatization of public services such as work related services and social services had political objectives. Several Nazi organizations were put in charge of delivering these services. This no doubt fostered support for Nazi Party among the beneficiaries of those services. In addition, the Nazi Party and its members could use the huge volume of resources passing through these programs for political patronage and corruption.[39]

VI. Pragmatic (economic) motivations. Did the Nazi Government use privatization to advance its economic policy? In general terms, the main characteristics of Nazi economic policy were (1) the growth of government fiscal intervention in the German economy through ambitious programs that involved huge public expenditure, and (2) a tightly regulated economy, through more intense restrictions and controls on markets. The first shock of public expenditure came in public works – particularly the construction of highways – intended to fight unemployment. Soon after these projects were in place, expenditure on armaments began to grow. According to *The Banker* (1937, p. 114), increased expenditures after 1933/34 were basically taken up by armament programs. These are the main policies that explain the evolution of public expenditure in Nazi Germany.

As early as in April 1934, *The Economist* reported that military expenditure was forcing the Minister of Finance to look for new resources. At that time, "Railway preference shares are to be sold to the extent of Rm. 224 millions. The Reich property, which is to be 'liquidated' to yield Rm. 300 millions, is not identified."[40]

As mentioned above, 1934/1935 was the last fiscal year for which detailed information on the Budget was officially published. Nonetheless, pieces of financial information were randomly published in various outlets. Putting together these pieces, *The Banker* (1937, p. 113) published data on public expenditure, including its own calculations for 1935/36 and 1936/37 based on official figures. 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.

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[39] Theoretical work on privatization in Hart, Shleifer and Vishny (1997) suggests that rent seeking politicians are more likely to use political patronage with public production, whereas contracting out and private production are more likely to provide financial rents. Interestingly enough, privatization of public services by franchising to Nazi organizations placed both ways of extracting rents in the hands of the Nazi elite.

[40] *The Economist*, April 7, 1934 [118 (4728), p. 763]

Table 3. Public Expenditure and Fiscal Revenue 1932/33–1936/37. Thousand million Reichmark

Fiscal year	(1) Public Expenditure	(2) Fiscal Revenues	(2)/(1) in %	(2) – (1)	(3) National Income	(2)-(1)/(3) in │%│
1932/33	6.7	6.65	99.2%	- 0.05	45.2	0.0%
1933/34	9.7	6.85	70.6%	- 2.85	46.5	6.1%
1934/35	12.2	8.22	67.4%	- 3.98	52.7	7.6%
1935/36	16.7	9.65	57.8%	- 7.05	58.6	12.0%
1936/37	18.8	11.49	61.1%	- 7.31	64.9	11.3%

Notes: Data of Public Expenditure for 1936/37 are estimated.
Data for National Income refer to the year in which most of the fiscal year takes place (e.g. National income of 1932 for fiscal year 1932/33).

Sources: (1) Public Expenditure: The Banker (1937, p. 113).
(2) Fiscal revenues: Reichs-Kredit-Gesellschaft (1939, p.98).
(3) National income: Reichs-Kredit-Gesellschaft (1939, p.61)

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 to exceptional figures, putting the German Treasury under intense pressure. Nathan (1944b, p. 41-ff) distinguished between three different periods in pre-war Nazi financial policy: (1) The period of short-term financing, 1933-35; (2) The period of "Debt Consolidation", 1935-38; and (3) The period of maximum mobilization. Of the two ways of the 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 Nathan's second period (1935-38) that the sale of State-owned shares in most public enterprises took place.

The Banker made explicit connections between increasing financial constrains and the sale of government shares. For instance, when noting that in the fiscal year 1935/36 the demands on the Treasury increased rapidly because of the huge increase in expenditure on armaments, *The Banker* (1937, p. 112) 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" (p. 112). Later in the same issue (1937, p. 131) 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."

The franchising of public services to Nazi organizations shows a similar relationship between financial constraints and increasing revenues from privatization. Nathan (1944a, p. 322) notes that all these organizations derived most of their income from special contributions, collections fees, etc. which fell outside the public budgets. Indeed "They were important as a source of public revenue since they relieved the government of expenditures which it itself otherwise would have had to carry." Undoubtedly, this was consistent with Nazi fiscal policy, since "Without the revenue of these unusual sources, the total amount of public borrowing would necessarily have been considerably higher – a development which the government was very eager to avoid" (1944a, p. 331).

Nazi economic policy implied a sharp rise in public expenditure. The intensity of this increase was unique among the Western capitalist countries in the pre-war period. Consistent with this, financial policy was subject to strong restrictions, and exceptional methods were devised to obtain resources. In fact, Schacht was considered more a financial technician than an economist (Thyssen, 1941, p. 138). Privatization was one of the exceptional methods used. In his useful panoramic analysis of modern privatization processes, Yarrow (1999) notes the general and widespread priority given to financial objectives within this framework of multiple and coexisting objectives. Nazi privatization in the mid-thirties was similar to the modern experience, in that financial objectives played a central role.

VII. Conclusions

Although modern economic literature usually ignores the fact, the Nazi government in 1930s Germany undertook a wide scale privatization policy. The government sold public ownership in several State-owned firms in different sectors. In addition, delivery of some public services previously produced by the public sector was transferred to the private sector, mainly to organizations within the Nazi Party.

Ideological motivations do not explain Nazi privatization. However, political motivations were important. The Nazi government may have 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 likely used to foster more widespread political support for the party. Finally, financial motivations played a central role in Nazi privatization. The proceeds from privatization in 1934-37 had relevant fiscal significance: No less than 1.37 per cent of total fiscal revenues were obtained from selling shares in public firms. Moreover, the government avoided including a huge expenditure in the budget by using outside-of-the-budget tools to finance the public services franchised to Nazi organizations.

Nazi economic policy in the mid-thirties went against the mainstream in several dimensions. The huge increase in public expenditure programs was unique, as was the increase in the armament programs, and together they heavily constrained the budget. Exceptional policies were put in place to finance this exceptional expenditure, and privatization was just one among them. 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 privatization of state ownership or public services until the last quarter of the twentieth century.

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Table A-1. Privatization proceeds and fiscal revenues in the EU countries (former EU-15) 1997/2000. Thousand million (billion) US$

Country	Privatization proceeds (1)	Fiscal revenues (2)	(1) / (2) in %
Austria	7.13	338.65	2.11%
Belgium	5.35	454.22	1.18%
Denmark	4.68	281.24	1.66%
Finland	8.39	227.61	3.69%
France	50.63	2,600.10	1.95%
Germany	18.97	2,915.75	0.65%
Greece	11.62	237.05	4.90%
Ireland	6.31	118.25	5.34%
Italy	74.41	2,335.85	3.19%
Luxembourg	0.00	29.28	0.00%
Netherlands	3.87	654.98	0.59%
Portugal	14.09	229.04	6.15%
Spain	26.35	1,026.71	2.57%
Sweden	12.71	455.98	2.79%
United Kingdom	4.54	2,023.55	0.22%

Sources: Author's elaboration, based on:

(1) Privatization proceeds: Clifton, Comín and Díaz Fuentes (2003, p. 95).

(2) Fiscal revenues: Organization for Economic Cooperation and Development (2005).