



# GERMAN ECONOMIC AND BUSINESS HISTORY IN THE 19th AND 20th CENTURIES

Werner Plumpe



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# 1

## German Economic and Business History from the Nineteenth Century to the Present Day: Introductory Remarks

If we look back over the last 200 years of Germany's economic and business history in an attempt to identify its essential features, two points stand out. One is the comparatively stable business and industrial structure that characterized the German economy from the mid-nineteenth century onward. The other is the astonishing resilience involved in those structures holding their own despite the crises and upheavals that marked the period between 1900 and the present. Indeed, to judge by every measurable index of an export-oriented industrial sector, they have performed with great success to this day. Moreover, such durability suggests an amazing ability to adapt. On the one hand, the structural change affecting industry also impacted directly on German firms. The sorts of heavy industry that dominated the economic picture from the mid-nineteenth century until well into the modern period (mining particularly but also iron and steel) have largely vanished, as have most textile manufacturers of note—certainly in comparison with the importance of that branch in the years before 1914. On the other hand, the overwhelming majority of the larger German firms (but also of the firms in the small- and medium-sized business sector that were established between the 1850s and the 1880s) have over the last 150 years shown themselves to be highly flexible

technologically without in the process forfeiting their industrial character. Business and business firms in Germany have undoubtedly undergone change. The point is that industrial character and the associated technological and marketing strategies have largely proved their worth.

Recent German historical writing, in thrall to the events of the twentieth century, has never, deep down, paid proper attention either to that astonishing continuity or to the economic and business structures that not only went with it but also actually made it possible. For modern historians, the distinguishing characteristics of the modern German economy have been its closeness to power, its political availability, its policy of trying to organize and dominate markets—in short, all the things that are supposedly conveyed by the terms ‘coordinated capitalism’, ‘organized capitalism’, and ‘corporatism’. This German version of capitalism (regardless of how accurately such terms describe it) has largely disappeared in the globalization of the past 30 years, though its business strategies and allied industrial structures have shown themselves to be stable, not to say (given the 2008–09 economic and financial crisis) remarkably tough and at the same time dynamic. It is inaccurate, in fact, to call it a separate ‘pathway’ [*Sonderweg*], either in good times or in bad. Many historians (Hans-Ulrich Wehler among them) did so for a long time, and indeed the description seems self-evident when only individual aspects or limited time frames are examined. Granted, the economic division of labor that happened gradually in Europe over the course of the nineteenth century was a constant process of reciprocal exchange between different locations. However, considered overall it did have a certain stability, albeit with changes and adjustments in response to economic structural change. Something of a special case was the industrial dominance of Britain around mid-century, although by 1914 this had already been overtaken by the status of London as one of the world’s main financial nodes. France, too, had given its business structures a stronger orientation toward the domestic market and (compared to Germany) toward consumer goods while at the same time also committing itself financially on a global scale—all of this well before 1914. Viewed in this light, Germany’s specializing in a specific industrial structure with its chief points of emphasis in the area of investment goods not only makes sense in the context of this division of labor but also becomes more understandable in the long term. The fact

is, it was this parallel development of locations in Europe that simultaneously enabled and gave shape to the peculiarities of that structure as well as to its longevity.

Meanwhile, by concentrating on long-term structural formations, this approach was also to throw into sharper focus differences that undoubtedly existed. Indeed, those differences found formative expression in Europe's economic division of labor. Looked at over the entire span of the last 150 years, the economic dynamics of Europe (certainly among the major countries of Western and Central Europe) were largely similar. In that connection, only in the years before the First World War does the German economy fall out of the picture in that it contrived, within half a century, to break out of its state of relative backwardness to conquer and hold on to a leading role in the European economy of the time. Since then, very little has changed in this quantitative picture as it took shape in the years before 1914. Quantitatively, at least, despite all the wars, crises, catastrophes, and territorial losses suffered since that date, Germany has maintained and continues to maintain its position as Europe's foremost economic power. In the 1990s and in the early years of the new century, it seemed at times that the country was going to fall permanently behind as a result of making only a hesitant contribution to the changeover to a service economy. Ireland and Spain were among nations celebrating major successes, even at times coming out ahead of Germany in accounting terms, notably in per-capita income. The financial crisis put an end to those great expectations, enabling Germany, with its stronger emphasis on industry, to make an amazing comeback. As a result, the traditional economic size relationships have been provisionally restored, but that neither need nor will remain the case for all time. However, so far as economic history is concerned, the real point to be grasped here is: how are we to explain the circumstances that have made such stability possible?

And that undoubtedly directs attention toward a closer examination of German economic and specifically business history. This applies particularly to its special forms and features as these have emerged over the past 150 years. During that time they have shown a stability so remarkable as almost to constitute path dependence. However, simply listing these special features is not enough; we must first clarify where and how they

can be located. Economic change occurs gradually, as three factors interact or evolve alongside one another. One factor has to do with semantics (i.e. with the guiding ideas of the time that help to create institutions and establish standards of behavior); a second factor embraces those institutions themselves and how they change; and the third relates to everyday economic practices as they occur in (though without being determined by) specific semantic contexts and institutional situations. Such co-evolution is an open process of change. Of course, as Niklas Luhmann says, it possesses its own causal contingency insofar as each fresh change is defined by its historical starting conditions.<sup>1</sup> Weaker than path dependence in the strict sense, causal contingency describes a phenomenon of historical succession that nevertheless, on the basis of its historicity, possesses a certain logic, but without that logic setting it in stone so far as the future is concerned. Such openness is a key factor in the change we are talking about, whereas strict ideas of path dependence leave too little room for complexity. The question, therefore, is this: in the guiding ideas, institutional formations, and everyday business practices as well as the ways in which they interact in Germany, can any special features be identified?

Here we are dealing with a strictly historical phenomenon in the sense that chronology plays a crucial role in it. Nothing is fixed as such; change is always a response to the peculiar features of the historical situation concerned. So when it comes to understanding the peculiar features of German economic and business history, the first thing to note is that the industrial transformation of the German territories began relatively late in comparison with the rest of Europe. German firms were therefore entering an already well-developed competitive landscape when from the 1860s onward they increasingly pushed forward into international markets. It was of crucial importance that a rapidly evolving German industry encountered not only stiff competition but also, with its own economic crash (the *Gründerkrach* of 1873, when many firms, having risen rapidly from their mass establishment in 1871, suddenly ran out of steam), met with a threat to such firms' very existence. The capacities they had built up were far too large for the limited German market, and

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<sup>1</sup> Niklas Luhmann, *Evolution und Geschichte*, in: *Geschichte und Gesellschaft* 2 (1976), 284–309.



in the international markets that could be accessed they were not really competitive. For major investors, for the publicly owned banks that had sprung up in such numbers since the early 1870s, but also for many firms, the question was twofold: ought a large part of their investments to be written off (in other words, should capacities be brought into line with the limited purchasing power of the German market), or should a more or less aggressive export strategy be adopted, aiming to exploit all available capacity (as survival required) in such foreign markets as could be reached? In most cases, both parties (investors and managements) opted for the export strategy. To avoid massive write-offs, many banks and capital providers turned their financial commitments to the firms concerned into equity by taking shares in place of loans. Conversely, many a firm sought under cover of the crisis to escape the straitjacket of high quotas of borrowed capital. That is how big banks (in the main) became a fixed component, either as shareholders or as permanent bond procurers, of the development of the firms they underpinned. At the same time, their actual financing role progressively lessened. Up until the turn of the century, most of Germany's larger firms reduced their borrowed capital quotas, increasing them once more only in the years of rapid expansion that preceded the First World War. This is the core of the export strategy pursued by German firms and of the close connection between banks and industrial enterprises. Rather than emerging from any ideological ideas to do with 'organized capitalism', both developments were solutions to specific problems of the 1870s and 1880s. They emerged, in fact, from certain traditions of economic thought as well as from a certain semantics that seized upon and generalized from a piece of problem-solving that was tied to a particular time. We shall have more to say about this later.

Initially, this export strategy was by no means so simple or so swiftly successful as hindsight may suggest. In many markets, German firms met with only limited success because of the poor quality of their products, and where they did it was because their prices were low. Foreign industries and their various national economic and commercial policies took a very dubious view of this strategy, but the UK, unlike many other countries, refrained even then from resorting to customs protection. It preferred to use compulsory labeling of German imports as having been 'Made in Germany' to identify the alleged junk that was being dumped

on its market. For German firms, which found themselves being viewed dismissively at international trade fairs, this was a problem. Clearly, a straight dumping strategy involving poor-quality products was not going to help them gain access to major international markets. In already established markets, they came up against substantial competition. One result of this was a major boost in product quality, brought about notably through Germany's switching from the 1880s onward (in such important branches of industry as chemicals, electrical engineering, precision mechanics, optics, and machine building) to a new kind of product development as well as to production processes based on scientific principles. And as product quality rose and new products were developed for international markets, Germany continued to enjoy the relative price advantage that stemmed from its comparatively low wage and cost levels. With improved product quality, the country's export strategy worked to maximum effect. German firms were now supplying high-value goods at relatively low prices. The successes achieved in the field of chemicals and by mechanical engineering (to take just two examples) helped in turn to promote further advances along the country's chosen path and to expand business structures and product portfolios accordingly. Because of the heterogeneous nature of their markets and the sheer size of those portfolios, in the run-up to the First World War, the larger firms developed complex entrepreneurial headquarters. These included the new research and development departments. They also reflected the conditions of the different markets they served with a correspondingly sophisticated system of business organization. To that extent, the intricate bureaucratic structures of German firms had little to do with what is too readily assumed to be a 'typically German' love of bureaucracy and hierarchy. They flowed more or less logically (if, as must be admitted, with some conscious help) from the market situation that most German firms faced. This differed greatly from the one that firms in other countries found themselves dealing with. The American domestic market was very homogeneous, for instance. It called for and indeed created quite different bureaucratic structures, with flatter hierarchies and a higher degree of regional differentiation. Thus, the particular situation on the German market really led to the kinds of business strategy that still characterize German firms today, at least as regards the country's industrial giants. It was not (although many will

swear that it was) German entrepreneurs' greater sense of responsibility and habit of long-term thinking that launched what has come to be called 'German capitalism'. It was a specific market situation—and one that offered little alternative. And since such an approach proved successful, it came to be detached from the conditions that had engendered it and was eventually described in general terms as the 'typically German' entrepreneurial strategy. Later, of course, it acquired almost mythological status, but in essence it was strictly pragmatic. The same was true of an allegedly marked tendency on the part of German firms to hold off competition by means of cartels and combines. Forming trusts is not a German specialty but a worldwide phenomenon. There were plenty of cartels, but at no time (with the sole exception of mining in the Ruhr District) did they shape structures. Their importance has always been and continues to be exaggerated in a section of the literature although (or perhaps precisely because) their actual economic significance has never been objectively researched. In any case, the idea of a kind of 'corporate capitalism' in Germany is largely incorrect. There may have been the beginnings of one, but only in response to market conditions. Any initial signs vanished in the wake of advancing globalization.

So the success of German industry in international markets was from the start dependent on its production being simultaneously high standard and low cost. This gave rise to a second special feature of the German economy that has shown remarkable stability to this day—namely, its tendency to use skilled labor where business called for it and to create social-partnership structures to give workforces an interest in the business success of 'their' firms. However, only to a limited extent was guaranteeing appropriately qualified labor an entrepreneurial principle; the interests of German firms were primarily dictated by business requirements. Wherever it was technically feasible and economically advantageous, German industry too would opt for inexpensive unskilled labor. Nevertheless, interest in skilled labor chimed with the educational-policy ideas of at least parts of the political public as well as with older, artisanal traditions that (in a climate of increased industrialization, of course) enjoyed something of a revival in pre-1914 Germany. In some respects at least, this basically reactionary orientation toward the world of the old craft trades became an important factor in establishing the German

system of dual vocational training, with its emphasis on a combination of theoretical and in-work instruction. A key ingredient of the German educational system to this day, influencing both it and the structure of workforce qualification, namely the dual approach to blue-collar worker training does indeed confer a major competitive advantage. An even more decisive factor was the way in which social-partnership structures became embedded in the German economy. This enabled a productivity-oriented wage-development model to become established at an early stage. By tying wage levels to the economic success of the firm concerned, the new model made the high investment quotas of the pre-1914 years possible in the first place. The reward for wage restraint by the workforce was a substantial expansion of in-house social policy. This varied from branch to branch and from one firm to another, but basically it applied to German industry as a whole. In the period before 1914, organized labor in the form of the big unions seemed to be against this kind of productivity-based wage policy, but the hostility between the two sides at negotiating level had more to do with polemical rhetoric. After the First World War, it soon emerged that, within the guaranteed bounds of industrial codetermination (after the Second War, also within the bounds of in-house codetermination), the unions were prepared to back this course on a permanent basis, despite a certain amount of class-struggle rhetoric. Consequently, it became possible (post-1945, i.e.) to secure self-financing by firms through equity capital and the covering of wage development. The unions thus became guarantors not only that profits received would be reinvested but also that such reinvestment would be for the benefit of the workforce. This kind of ‘confidential cooperation’ survives to this day and is undoubtedly among the most striking special features of the German economy.

The fact is, occupational training and social-partnership/codetermination have always benefited from the fact that class-struggle semantics and a preference for combative behavior have never found majority support among the German public. On the contrary, the political world strove constantly to create conditions that would foster a ‘harmonious’ way of dealing with capital and labor. Before the First World War, this had led to a generalized turning away from Marxist-influenced Social Democracy, promoting repressive attitudes in dealings with labor

organizations. However, after 1918, it became evident that repression was no longer required. In fact, there was an excellent chance that, given the right opportunities, large sections of every labor organization would wish to participate in the system. Only the Communists refused, but they remained a minority—albeit a noisy one. Later, when the new country of East Germany had been created, their attempts to set up their own viable model of industrial relations proved a miserable failure. Not even the National Socialist government had seriously wished to change the existing model beyond depriving the workers of a voice and reducing and placing restrictions upon the system's institutional structures, in part from racial motives. After 1945, therefore, it was a simple matter to revive the codetermination traditions that had grown up in the 1920s and keep them in place until the 1970s. Currently, they have rather dropped out of the picture. Some firms take the view that in the context of globalization, they can do without the German rules, which they experience as restricting. Most firms have come to terms with arrangements as they are. In the public mind, however, 'social partnership' remains firmly embedded. The same holds true for national social policy, which can also be dated back to the 1870s. The terms *Zuckerbrot* ['sugarloaf'—of which the Anglophone equivalent is 'carrot'] and *Peitsche* ['whip'—or 'stick'] are often used to describe the blend of support and repression that characterized government social policy in the years before 1914. While Social Democracy was suppressed, Germany's federal government simultaneously introduced a system of compulsory national insurance. Relatively unique at the time, in principle this is the system that survives to this day. Its purpose (then as now) is to cushion the risks that can arise in a situation of mass industrial employment. Aside from the liberal parties and certain conservative groups that considered such compulsory insurance against sickness, accident, and penury in old age to be too expensive, most public criticism of Bismarck's welfare policy was to the effect that it did not go far enough. That was the attitude that in the 1920s led to the extension of compulsory insurance to unemployment benefit and after 1945 prompted a further broadening of government social policy, notably in the field of pensions. In the light of globalization, that policy has met with increased criticism. Its incentive effects clearly produce some paradoxical results, encouraging people to put up with things (unemployment, for instance) whose

social consequences policymakers were trying to alleviate. However, only marginal corrections have been made up to now.

This is partly because in Germany (unlike Britain, say, or the USA), neither academically nor among the (political) public has there been any vigorous advocacy of economically liberal institution-building. Reaction to Adam Smith's work back in the late-eighteenth and early-nineteenth centuries had already featured a number of skeptical voices saying that a free market only encouraged opportunistic behavior on the part of firms, these having no spontaneous interest in fair competition and good social relations. A 'free market' (it was argued) would soon fall victim to battling egotisms. Above all, it jeopardized social cohesion. Various motives came together in this kind of market criticism. Some were philosophical in nature, others stemmed from a predominantly left-wing stance, yet others bore the stamp of conservative nostalgia for an earlier, more ordered world when business ties had bound more securely. The later phenomenon of Manchester liberalism never found a positive echo in Germany—with the exception of a brief period in the 1850s and 1860s. By the time of the 1873 *Gründerkrach* economic liberalism was very much on the back foot, although it continued to set standards in the everyday economic and political life of the empire, even dictating terms until the world economic crisis. In the areas of social and structural policy, however, it had ceased to rule by the 1870s, and so far as economic policy was concerned, it lost its hegemony completely in the late 1920s. After 1945, it gained further ground with the concept (albeit couched in very German terms) of the 'social market economy'. This was basically a competitive economy that national government secured against cartels and trusts and that by its efficiency also produced the best social outcomes. Ludwig Erhard came to symbolize a form of national government that, though firmly structured, intervened little in day-to-day business affairs. In the 1970s, this lost some of its shine, but German Keynesianism remained a brief episode, ensuring that in the later 1970s and in the 1980s the country did not experience a comparable 'neoliberal' upheaval to that suffered by Britain, for instance.

In that respect, taking the longer-term view of guiding semantics, institution-building, and day-to-day business practices, one understands why the term 'Rhenish capitalism' is used to describe the German variety

of the modern economy. However, the differences should not be exaggerated, and they should certainly not be made a matter of principle. In any case, given the empirically heterogeneous nature of Germany's economic and business landscape, one questions whether it is at all possible or even begins to make sense to use it to support what is far too homogenous a model. Very much more determinative were the market conditions and flexibility of supply (as shaped and promoted by specific factors and traditions) that characterized the economy in shifting circumstances. It is probably more plausible, in other words, to think of the German economy and German firms as responding in a specific fashion to specific market challenges. Eventually, being successful, those responses achieved lasting status and invited explanations—which were then looked for in an alleged 'national character'. Yet 'national character' is quite simply misleading. The fact is, as market conditions changed, responses to them changed also and continue to change. Those responses are by no means set in stone so far as the future is concerned; they are certainly not determined by 'character' of any sort. As we have seen, there is such a thing as contingent causality. It makes sense, in this connection, to look for historical peculiarities. These are historical phenomena. As such, they possess no character of any sort that exists outside time.

\* \* \*

The following pages offer a series of chapters that throw light on those peculiarities, those 'special features', from various angles. The chapters were written at different times. Their present arrangement stems, as I summarized above, from an overall line of argumentation,<sup>2</sup> but the individual texts, as originally written, aim at no such synthesis. They revolve around the author's research interests at the time. Their points of emphasis shift over the course of time by both period and methodology. Ultimately, though, they spring from a single question: what have been the determinative factors behind modern German economic and business history? My account offers a kind of sketch of that development and at the same time an attempt to shed light on the specific forces driving it forward. Both undertakings are based consciously on the interplay

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<sup>2</sup>The evidence for and confirmations of such an overall view will be found in the relevant chapters, as they arise.

between and changing nature of semantic, institutional, and practical standpoints as they have found specific historical expression in Germany. However, this is not yet another discussion of the politically determined catastrophes of the twentieth century. Those catastrophes have their economic dimension, but they are not to be explained on that basis; they are essentially political occurrences. Economic change obeys other rhythms, other influences. Moreover, these cannot be seen in exclusively national terms. The only way to understand them is to see the German economy as one element in the international division of labor.

\* \* \*

The idea of presenting this collection of texts in translation came from Jan-Otmar Hesse, Christian Kleinschmidt, and Andrea H. Schneider. They felt that my thoughts on Germany's economic and business history should be made more readily available to an international public. They not only made a preliminary selection but also convinced the publisher of the merits of their idea and commissioned the translations. I am grateful to them. I would probably never have had the idea myself, and I am glad that a wider debate can now take place. My thanks are also due to the three translators. J.A. Underwood (Chaps. 1, 4, 6, 7, 8, 10, and 13), Kirsten Petrak (Chaps. 3, 5, and 11), and Jeremy Gaines (Chaps. 2 and 9) have translated the sometimes very demanding texts magnificently. Lastly, I owe a great debt of gratitude to the Carl-Zeiss-Foundation, the Alfred und Cläre Pott-Foundation, and not least to the *Gesellschaft für Unternehmensgeschichte*, who together financed the translation.



# Part I

## Economic Ideas

# 2

## Economic Thought and Economic Development: On the Linkage of Economic History and the Historical Semantics of the Economy

### The Issue

The history of economic thought has to date played only a subordinate role in economic historiography. There are many reasons for this, the main one being the dominance of neo-classical thinking in the usually implicit assumptions underlying the models deployed in economic history, according to which the economic process is the result of actions by actors seeking an advantage that are coordinated by the market and structured by prices. Economic change would then be demonstrated to exist with sufficient plausibility if corresponding phenomena (growth, stagnation, structural change) can be associated with corresponding behavior by individual actors seeking to maximize their benefits. The respective authors do not deny that these models rest on a plethora of assumptions that are not in fact covered by them, indeed that structural change in economic history is itself far more complex; yet the experts are as a rule

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*First Publication:* Werner Plumpe, *Ökonomisches Denken und wirtschaftliche Entwicklung. Zum Zusammenhang von Wirtschaftsgeschichte und historischer Semantik der Ökonomie*, in: Jahrbuch für Wirtschaftsgeschichte 2009/1, 27–52.

satisfied if economic occurrences can be described as the result of personally motivated actions. This tends to suffice as an explanation, while questions of economic thinking tend to be confined to the ambit of the history of ideas and of science.<sup>1</sup>

It is not as if this purism as regards models ever went unchallenged. The historical school, followed by US institutionalism, Marxism, and finally New Institutional Economics all emphasized that even as an institution the market cannot be explained in this way, meaning the assumptions for the model are up in the air, and not just in general, but also as regards the very core of economic analysis, for the market and its institutions most definitely played an at times decisive role in the question as to the reasons for economic developments and structural change. The neo-classical Platonism concerning models never denied this; it simply did not conduct the institutional analysis itself—and did not consider it a task of economic analysis, either. From its viewpoint, all that counts is the efficiency or inefficiency of institutions, less their respective background. And the historical school, institutionalism, and Marxism do indeed all tend to explain the structure and change of institutions not economically, but politically, socially, culturally, and thus historically. New Institutional Economics attempts admittedly to avoid such an essentially non-economic explanation and address the institutions themselves as the object of economic analysis, but swiftly had to concede the failure of an approach that wanted to give a plausible account of institutional change solely in terms of the players' personal motivations and opportunistic actions.<sup>2</sup> This failure was driven both by the broad concept of institution (formal/informal, explicit/implicit, and so on) and by the recalcitrance of

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<sup>1</sup>There are countless contributions to viewing economics through the prism of the history of science, many of which in the German world arose in relation to the *Dogmenhistorischer Ausschuss* [committee on the history of dogmas] of the *Verein für Socialpolitik*. The focus there is usually on the history of economic thought in the disciplinary view, less on its meaning for social and economic structural change. Literature on the latter is very rare; see, for example, Wolf-Hagen Krauth, *Disziplingeschichte als Form wissenschaftlicher Selbstreflexion—am Beispiel der deutschen Nationalökonomie*, in: *Geschichte und Gesellschaft* 4 (1978), 498–519. In the English-speaking world, there is a far more advanced body of work on the history of economic thought; in particular, for some time now the focus has been more on the historical contextualization of the economic tradition; see Warren J. Samuels/Jeff E. Biddle/John B. Davis, *A Companion to the History of Economic Thought*, Oxford 2003.

<sup>2</sup>Most recently: Douglass C. North, *Understanding the Process of Economic Change*, Princeton 2005.

empirical evidence that refused to be squeezed into the Procrustean bed of anthropological assumptions on human behavior. This also applies to the advances to New Institutional Economics encouraged by Douglass C. North. Most recently, in a study with an explicit institutional economic thrust, Avner Greif re-assessed the bases of New Institutional Economics and the older version of institutionalism before returning sobered to the arms of cultural sociology: 'A significant conclusion of this book is that culture influences institutional development.'<sup>3</sup> He maintains that there is no general deductive economic theory of institutions and for this reason at least to date institutions have only been explained historically (in case studies), with three pillars of research emerging: the historical institutionalism of political theory, within which the formation of institutions is grasped as an historical process; the concept of path dependency in evolutionary economics; and finally 'the study of culture as a "tool kit" for the reconstruction of society in new situations'.<sup>4</sup> Greif's study shows quite clearly that an approach founded on institutional economics does not bear fruit, and conclusions Greif draws are only to be welcomed.

If the assumption is correct that institutions greatly influence the economic performance of a country's economy,<sup>5</sup> then in terms of economics and economic history, the problem becomes all the more acute: what are the causes underlying the emergence, structure, and change of institutions? This is a key question for economic historiography and can precisely not be answered using the narrow neo-classical notion of the economy. An economic explanation of institutional change from the neo-classical viewpoint evidently does not work. In other words, either a broader notion of the 'economy' is required or the institutions that first enable an economy in the modern sense must, assuming they cannot be attributed to general laws, be considered themselves historical and by extension can then only be explained historically and thus not eco-

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<sup>3</sup> Avner Greif, *Institutions and the Path to the Modern Economy. Lessons from Medieval Trade*, New York 2006, 22.

<sup>4</sup> Greif, *Institutions and the Path* (see note 3), 23.

<sup>5</sup> The linkage of institutional setting and economic performance is factually now beyond controversy; indeed, currently those explanations of structural change in economic history that refer to its cultural and institutional dimension are definitely en vogue. See Gregory Clarke, *A Farewell to Alms. A Brief Economic History of the World*, Princeton 2007; see also Erik Reinert, *How Rich Countries got Rich and why Poor Countries stay Poor*, New York 2007.

nomically. I believe both are necessary: first, the modern economy or the economy in the modern sense is indeed a historical phenomenon that has arisen gradually since Classical Antiquity and since the sixteenth century has over time become predominant and is itself the product of structural change that can only be explained historically. In this regard, the 'modern economy' is a unique Western cultural entity that started here and over time spread around the world. The current picture of the Western economy as a universal law would be absurd in historical terms.<sup>6</sup> Moreover, the 'modern economy' then needs to be construed in more complex terms; it is by no means only the sum of transactions valued in prices that results from the rationality of price-sensitive actors who focus on their own interests, but a co-evolutionary complex of semantics, institutions, and practices<sup>7</sup> that together first make possible what we then abstractly consider the *economy*. Such an expanded concept would also make it far easier to study the historical side to economic change, because reducing the explanation to a certain kind of economic action is no longer a necessity, even though it is still quite possible.<sup>8</sup> Here, the economy always takes place in a space defined by meanings, rules, and regulations as well as everyday modes of behavior that are mutually referential without being reducible to each other. This space can take on different configurations<sup>9</sup> through time, of which the rational economy of the Occident

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<sup>6</sup>On the change in the meaning of the term 'economy', see Otto Brunner, *Das 'ganze Haus' und die alteuropäische Ökonomik*, in: Otto Brunner, *Neue Wege der Verfassungs- und Sozialgeschichte*, Göttingen 1968, 103–27. On the way the (modern) economy functions as a differentiated subsystem of society, see Niklas Luhmann, *Die Wirtschaft der Gesellschaft*, Frankfurt a.M. 1988. On economics as a means of reflection for modern economy, see Niklas Luhmann, *Die Wissenschaft der Gesellschaft*, Frankfurt a.M. 1992.

<sup>7</sup>Werner Sombart speaks in very similar terms of mind, order, and technology, without however exactly hitting upon what shall be discussed below. See, for example, Werner Sombart, *Economic History and Economic Theory*, in: Werner Plumpe (ed.), *Wirtschaftsgeschichte. Basistexte*, Stuttgart 2008, 73–88.

<sup>8</sup>Methodological individualism, which has never been convincing in terms of the historical dimension, thus shifts from being an analytical instrument to being an object of historical analysis. It is then more interesting what consequences economic thought based on it has for the process of institution formation and less whether it is an accurate way of plausibilizing the economy.

<sup>9</sup>We can use the concept of 'economic style' (historically by Arthur Spiethoff, currently Bertram Schefold) to label these, respectively, specific configurations, or Sombart's notion of 'economic system', which covers the entire uniqueness of a particular configuration. On this, see the currently decisive works by Bertram Schefold, *Wirtschaftsstile*, 2 vols., Frankfurt a.M. 1994–95. See also specifically Marion Gottschalk/Sylvain Broyer, *Einleitung*, in: Bertram Schefold (ed.),

is but one version. Economic historiography has to do with plausibilizing the change in configurations and within the configurations, which refers it logically to including the history of economic thought or, to be more precise, the historical semantics of the economy.<sup>10</sup>

In the remarks below, I shall initially present the heuristic model of a historically complex concept of the economy and assess to what extent it is open to grasping phenomena of economic structural change and can help explain them. I will then, albeit for reasons of space in condensed form only, give these deliberations greater precision by outlining the state of research on institutional change from the seventeenth to the nineteenth centuries, in order to show which relationship of economic semantics and institutional change is plausible and what benefit analyses of economic history stand to gain from it.

## The Economy as a Complex of Semantics, Institutions, and Practices

Before addressing the meaning of the history of economic thought more closely for the design of those institutions that historically enabled the modern economy to arise and then within it became generalized as universal properties, I shall initially define the concept of economy used

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Wirtschaftssysteme im historischen Vergleich, Stuttgart 2004, 15–68, which is clearly indebted to Bertram Schefold.

<sup>10</sup>Traditionally, this complex has formed the object of the history of dogmas within economic studies. The term only shows that this is mainly a history of the various teaching disciplines, which usually by the yardstick of the assumptions of the day reconstruct and judge the historical course of economic thought; typical examples are Joseph A. Schumpeter, *Geschichte der ökonomischen Analyse*, 2 vols., Göttingen 1965; also Karl Pribram, *Geschichte des ökonomischen Denkens*, 2 vols., Frankfurt a.M. 1992. Here, the focus is on reconstructing social change and economic thought in terms of how they mutually facilitated each other; the emphasis is therefore not on whether the respective historical thought corresponds to current expectations of the plausibility of economic theory. See, for example, Wolf-Hagen Krauth, *Wirtschaftsstruktur und Semantik. Wissenssoziologische Studien zum wirtschaftlichen Denken in Deutschland zwischen dem 13. und dem 17. Jahrhundert*, Berlin 1984. In the English-speaking world, these linkages have been strongly emphasized for some time now; compare, for example, Bruna Ingraio/Giorgio Israel, *The invisible hand*, Cambridge 1990. The ‘history of ideas’ (or ‘ideas in context’) tends to be confined to the framework of traditional intellectual history; a typical example: Keith Tribe, *Strategies of Economic Order. German Economic Discourse, 1750–1950*, Cambridge 1995.

here more closely in order to then make it clear how in that framework change can become a topic.

As stated, the economy or, to be more precise, the overall complex of modes of behavior used to secure the material survival of humanity is understood here as a configurative complex that consists of three mutually enabling elements, namely an element of assigning meaning (semantics), an element of rules and sanctions (institutions), and finally an element of everyday procedural modes (practices). The element of semantics initially defines the entire complex of descriptions of world and society that exist at each particular historical moment in time, predominate or compete. Semantics always has a cosmological and an ethical (normative) dimension; in other words, it says not only how the world is, but also always how it should be. *The economy* is construed in various, very different ways in the context of these descriptions of world. The older semantics relied here on a closed and uniform cosmology and to this extent also represented closed ideas of life; here, *the economy* was not yet a separate domain of life with its own laws, but part of an 'embedded' order constituted by rulership, with the behavioral ideal therefore being to confirm it.<sup>11</sup> By contrast, modern semantics construes *the economy* as an independent domain of human action that obeys its own rules, and while presupposing other domains (politics, law, and so on) faced by it asserts its own intrinsic logic (which can be couched in the binary code of economics: pay/not-pay<sup>12</sup>). This notion of an autonomous *economy* corresponds to the gradual differentiation of a previously unknown,<sup>13</sup> uniquely economic semantics that is nurtured in Luhmann's sense—in particular from the eighteenth century onward through university institutes, journals, and patterns of meaning. The notion of the rationality of an actor pursuing his own interests and therefore (mediated by the market, price, and competition) also raising general prosperity, and thus likewise constituting the economy as a self-regulating system, forms the

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<sup>11</sup> Rémi Brague, *Die Weisheit der Welt. Kosmos und Welterfahrung im westlichen Denken*, Munich 2006. See also Otto Brunner, *Adeliges Landleben und europäischer Geist. Leben und Werk Wolf Helmhards von Hobberg 1612–1688*, Salzburg 1949, 61–138.

<sup>12</sup> Luhmann, *Die Wirtschaft der Gesellschaft* (see above, note 6).

<sup>13</sup> Old European economics has little in common with modern economics; see Brunner, *Das 'ganze Haus'* (see above, note 6).

core of this nurtured semantics of the economy. Accordingly, in this sense, *the economy* does not just designate the forever existing domain in society handling its material reproduction, but also its specifically modern form, namely that of an allocation mode for production factors that is directed by monetary stimuli and coupled to the actors' own interests. Self-interest, rationality, and self-regulation, mediated or indeed enforced by the market mechanism and the competition, are key elements of the economic semantics of modernity.

This notion of *the economy* is not just descriptive, even if part of the modern study of economics hinges on seeing itself as the study of facts. It also entails an at least implicit normativity, according to which what is economically meaningful is also what is ethically imperative, as a violation of what is economically meaningful would at any rate come at the cost of forfeited prosperity. However, the modern semantics of the economy possesses this dual character of being both description and norm not only given its origins in practical philosophy but also its contemporary function in the eighteenth century, when the focus was on a critique of the customary institutions of the premodern world.<sup>14</sup> This dual thrust in modern economic semantics eventually enabled different subsequent forms of communication and therefore different programmatic differentiations. A description of economic 'realities' that is critical in thrust culminates in a specific normativity of change, while an affirmative view is geared more strongly to adaptive behavior—although both evidently share the notions of an autonomous economy. Irrespective of the programmatic agenda, then, what is significant in that context is that no institutions then appear justifiable that contradict the economic description of the world—or, if at all, only at the price of this triggering disregard for 'economic circumstances'. It is thus also obvious that in modern semantics, there is no longer a consistent hierarchy of values as derived from a uniform cosmology which was still typical of the old European semantics with its notions of harmony based on rulership. While the older semantics could simply describe an institution such as the 'entire household' under the rule of the *paterfamilias* as economically rational in the sense

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<sup>14</sup>For fundamental insights on this, see Emma Rothschild, *Economic sentiments. Adam Smith, Condorcet and the Enlightenment*, Cambridge 2002.



that it confirmed the existing order, modern economic semantics links all economic rationality to the individual's self-interest that needs heed no other values. Its ethical dimension is left to the market,<sup>15</sup> or is simply forgone. In other words, while the earlier semantics was not able to justify a world without an ethical order, in fact could not even conceive of it, more recent semantics can only consider those institutions meaningful that provide positive sanctions for personal interest—and otherwise hope the market will handle things. By contrast, everything else appears, if it does not obey the 'rules of the market', to entail a loss in prosperity, however ethically desirable it might seem. It is therefore initially important to state here that semantics essentially stakes out the horizon of possibility in which institution formation occurs. It does not determine the institution formation, but considerably constrains it just as in the present under conditions of globalization (itself a semantic pattern with descriptive and normative content) institutions are no longer justifiable which actually had been a complete matter of course in the nineteenth century or during the days of post-war economic reconstruction.<sup>16</sup>

The element of institutions<sup>17</sup> initially refers to the fact that in every society, there are restrictions on and sanctions to economically relevant action. No social constellation is known, let alone conceivable, in which economic activity would be completely without restrictions; there are admittedly such liberal utopias, but even they argue that in the course of evolution, behavioral rules arise as it were spontaneous that discriminate between desirable and undesirable behavior. In other words, even in these liberal utopias, the idea by no means prevails that institutions cannot be

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<sup>15</sup> It bears emphasizing here that the notion of the market essentially comprises an ethical concept of trade-offs that is prefigured in many respects in Adam Smith's thought on the theory of ethical feelings; see Adam Smith, *Theorie der ethischen Gefühle*, special edition, ed. by Walther Eckstein, Frankfurt a.M. 2004. Modern economic semantics is in fact no less normative than older concepts; it simply structures its ethical rules differently—and no longer claims to be part of an ethical central perspective and to always at the same time be confirming this.

<sup>16</sup> On the importance of economic thought, see also the relevant passages in Michel Foucault, *Geschichte der Gouvernementalität*, 2 vols., ed. by Michel Sennelart, Frankfurt a.M. 2004.

<sup>17</sup> In the present essay, a relatively narrow concept of institutions is used; all social, explicit, formal rules for action and their sanctioning as rest on collective will formation are construed as institutions, whereby collective will formation is not limited to the 'sphere of the state', which would be meaningless if applied to earlier economic history anyway; organizations and corporate bodies are included.

(or are not) meaningful, for here there is simply clear mistrust toward all forms of political institution formation.<sup>18</sup> Institutions are simply ubiquitous, although they take highly different forms down through history. This form, or so the assumption, is not semantically determined, but tied to semantics. The older cosmologies excluded an institutional order not built around rulership structures that were construed as hierarchical, and indeed justified precisely institutions in order to compel activities to be geared to these rulership and value hierarchies. The yardstick for what was right was its place within Creation as revealed by God, not the pursuit of personal interests, which were considered sinful or even sanctioned as they were inimical to the order.<sup>19</sup> Lists of virtues and strict rules for market behavior as well as the insistence that everyone bow down to the given form of rulership were therefore a matter of course and indeed in older natural law were considered natural or perfect modes of behavior, while departures from this norm were persecuted as being corrupt. Modernity, by contrast, is characterized by a set of institutions that takes its cue from the key idea of enabling individual 'rationality', and therefore continually criticizes and reforms the entire institutional set from this angle. In this way, all institutions are constantly assessed to establish the viability of the rationality they apply, a process that involves permanent discontinuations of institutions, as rationality within the dimension of time is always geared to the present future and therefore the rationality of the past is directly turned into tradition. Moreover, modern economic semantics forgoing any uniform descriptions of the world also forgoes a uniform order of institutions that instead can actually turn out very differently depending on the respective social sub-segment involved. As a result, specific economic institutions become differentiated (corporate law, commercial law, copyright laws covering commercial and intellectual

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<sup>18</sup> Liberalism's aporia of institutions would require a more thorough discussion: The liberal dilemma that those institutions that let the market rule freely cannot be spontaneously asserted but have to be politically shaped, meaning the market does not function of its own volition, has not essentially been solved to this day. German *ordo-liberalism* concluded from this fact, at any rate, that a state capable of action must guarantee the framework for the economy even against its intrinsic developmental dynamics, which is basically a completely anti-liberal idea; see Dieter Haselbach, *Autoritärer Liberalismus und soziale Marktwirtschaft. Gesellschaft und Politik im Ordoliberalismus*, Baden-Baden 1991.

<sup>19</sup> On this quite generally Henry Kamen, *Early Modern European Society*, London 2000, 207–9.

property, and so on) that no longer need to be referred to a binding social ethics canon, which no longer exists anyway. Instead, the institutions that have thus become possible have to face up to constantly changing everyday practices that precisely do not align solely to what is institutionally permissible. For while in the Old European world there were still strict institutional behavioral classifications, modern institutions stand out for their greater openness, in fact for a certain diffuseness, as it is definitely not always clear what behavior is sanctioned by which institution and how. While there are institutions that are shored up by statute, so-called informal institutions also play a part and can sanction permissible behavior all the same. The institutional order simply always has to expect that there will be practical violations of it—the problem of its validity is thus completely unlike that in the older world, especially as institutions are only accepted if they are *rational*.<sup>20</sup>

The economic practices, the third element, always occur in the context of dominant semantics and valid institutions; however, they are by no means bound by these, but also at the same time follow all emerging *opportunities*—which can be considered the dynamic element of economic structural change per se (and in a world of existential shortages may under certain conditions also invariably have to be seized!). In this regard, modernity is characterized first by the replacement/supplementing of material by monetary transactions/budgets, and second by the successive increase in technically induced opportunities for action, which owing to their growing need for capital in turn advance the monetization/commodification of economic everyday practices. At the same time, they constantly unsettle the level of world descriptions and ascribed meanings as well as the institutions, such as can be seen not least in the current debate on genetic engineering and the alteration of our DNA this makes possible. Practically speaking, today we can act (and this may under certain circumstances be economically rational) such as to place our entire seman-

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<sup>20</sup> Without being able to further elaborate on this here, Greif's further development of North's economics of institutions bears mentioning. While North concerns himself quite generally with institutions and tends to neglect how they assert themselves, Greif focuses on institutions that, as it were, asserted themselves and thus, he says, became the foundations of Western modernity. The eventual superiority of Western development can be explained, so Greif, from the prevalence of such 'self-enforcing institutions', meaning he again resorts to their cultural context—and essentially confirms Max Weber's history of the Occidental process of rationalization.

tic tradition on its head and also raise the question of institutional formation (prohibitions, commands, restrictions) with unprecedented acuity. Practices are also not free, however, but bound semantically and institutionally. It is just the breadth of their variants that is a constant source of irritations that have to be processed semantically and institutionally.

This concept of the economy as an enabling structure, constituted by semantic, institutional, and practical elements, in each instance in a historically specific configuration, lays claim neither to be complete nor to be comprehensively coherent, as each element can be translated into the respective other (there are thus semantic institutions, semantic practices, just as there are institutional semantics and practices, and so on); the model is intended here initially only for heuristic purposes and to render complex historical structural change plausible, thus preventing any overly simple argument and in particular overly simple causal links. The model is, moreover, not simple to use as on closer consideration it swiftly becomes 'over-complex'—and thus refers inevitably to the historical view of 'real change'.

Before turning to a consideration of 'real change', we must first devise a notion of economic structural change in the context of the model outlined above. In terms of the model, different change dynamics are conceivable, each of which needs to be assessed with historical studies. Change can first be seen as the result of external shocks (e.g. climate change, which for some time now has been seen as internal and therefore triggered historically quite unprecedented madness!) or external events that occur which challenge the complex 'economy' as a whole. Change can also, and this would appear to be the rule historically speaking, result from the inner dynamics of the complex, in two different ways: first, each of the elements can itself have an inner dynamism, and second the elements can mutually irritate one another, prompting a response. Historically, there would seem to have been not only different constellations, with phases of intense change alternating with those of relative stability, the respective dynamism of change evidently varied greatly, too. The sharpest overall change would seem to have occurred during the transitional period from the old European, traditional order to the modern economic system, which is such a long period (from about 1450 to 1850) that it makes sense to speak of an independent phase here.

By contrast, modernity is characterized by a strong inner dynamic that clearly sets it apart from the traditional patterns, but this dynamic for change does not involve the sharp ruptures typical of the period prior to 1850. It therefore seems worth distinguishing between change phenomena with a quantitative thrust and qualitative ruptures, especially as this distinction also helps make it plausible why under the conditions of modernity the economy's self-perception is increasingly a mathematical matter—presumably also because it no longer needs to expect or expects decisive variations to its own conditions.

These questions are admittedly highly speculative at least for the moment. We shall address phenomena of change such as the model suggests and first consider change owing to the inner dynamisms of the individual elements. Taking Luhmann's evolutionary schema<sup>21</sup> of variation, selection and (re-)stabilization as heuristic tools, a number of autonomous processes can unfurl within each of the three elements. Semantic emphasis can vary, the variants then get tested and if they prove their worth rendered permanent, especially since the emergence in the eighteenth century of a carefully nurtured semantics of economics, when university chairs, textbooks, journals, and encyclopedias first gave economic communications in the narrower sense permanence and formulated rules on who was part of it. This 'system formation' boosted the inner complexity of the communications emphatically, rendering it dynamic. Before that, the relevant communications consisted of mixed publications and more or less authority-based enterprises (council to lords, submissions, projects, and so on) as well as in the already nurtured semantics of practical philosophy, where economic issues were usually addressed as issues of the correct way of life in the Christian cosmos. The range of thematic variations was already large; one needs to think only of the scholastic debates on interest and price formation through to the late scholastic School of Salamanca. In short, there were evidently phenomena of change of a semantic nature that initially stemmed from the intrinsic dynamism of semantic processes, the intensity of which increased as of the sixteenth century and gained renewed force with the switch to a structured semantics of economics in the eighteenth century, a process that culminated in an

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<sup>21</sup> Niklas Luhmann, *Theory of Society*, Stanford 1997, Chap. 3.

economics that could be construed as a system with its own logic.<sup>22</sup> The process of institution formation, or at least its political core, possessed this internal dynamism of varying and testing institutions, before giving them permanence, whereby military and political factors clearly played an important role. Tax collection as well as military technologies and strategy can essentially be considered the major institution makers that were increasingly able to rely on the inner reason of politics, which at the latest with the sixteenth century freed itself from the clutches of practical philosophy as had economics: institutions were now tested to check their functions and suitability for rulership, where necessary varied or replaced, and no longer tested primarily in terms of whether the lord's behavior as a ruler (and dependent on his behavior his institutions, too) met the expectations of the Christian authorities. The intrinsic interests of politics increasingly took the front seat, which (crucially for the aspect of semantics) could cause universities to be founded, less because the authorities on high wished to intervene in semantic processes and more because they themselves needed qualified personnel. The justifications for institution formation now also varied, moving away from the idea of the common good and the focus on Christianitas to functionality and utility, such that politics itself also became more open to semantic variations it had once rejected.<sup>23</sup> In fact, it became a principle of political acumen to respect the intrinsic logic of the economy, which in the context of the Physiocrats actually received the status of revealed nature: institution formation was now construed as emulating economic laws, in the hope that politics would benefit decisively from this.<sup>24</sup>

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<sup>22</sup> Pribram, *Geschichte des ökonomischen Denkens* (see above, note 10), Vol. 1; Krauth, *Wirtschaftsstruktur und Semantik* (see above, note 10); Albert O. Hirschman, *The Passions and the Interests. Political Arguments for Capitalism before its Triumph*, Princeton 1977; Pierre Force, *Self-Interest before Adam Smith. A Genealogy of Economic Science*, Cambridge 2007; Jerry Z. Muller, *The Mind and the Market. Capitalism in Western Thought*, New York 2003.

<sup>23</sup> Wolfgang Reinhard, *Geschichte der Staatsgewalt. Eine vergleichende Verfassungsgeschichte Europas von den Anfängen bis zur Gegenwart*, Munich 2000; Charles Tilly, *Coercion, Capital and European States: ad 990–1992*, Cambridge/Mass. 1997; Michael Stolleis, *Grundzüge der Beamtenethik (1550–1650)*, in: Michael Stolleis, *Staat und Staatsräson in der frühen Neuzeit. Studien zur Geschichte des öffentlichen Rechts*, Frankfurt a.M. 1990, 197–231; Niklas Luhmann, *Die Politik der Gesellschaft*, Frankfurt a.M. 2000.

<sup>24</sup> See for example Johann August Schlettwein, *Grundsätze der echten Staatswirtschaft (1779)*, in: Johannes Burkhardt/Birger P. Priddat (eds), *Geschichte der Ökonomie*, Frankfurt a.M. 2000, 325–53.

As a rule, everyday practices directly reflect what is demographically, technically, and economically possible and transform scarcities and the resulting restrictions into economic behavior.<sup>25</sup> The variations that then arise basically depend on technological innovation and economic changes (as a rule both together). With the population increase and the prospects of ocean-going shipping, trade with overseas surged from the High Middle Ages onward; in this context, everyday economic practices arose as innovations (handling money and bills, risk management, and so on), with these having spread swiftly by the sixteenth and seventeenth centuries and blossoming with the discovery of the maritime routes to India and America. Yet it was the technological innovations of the eighteenth century that first enabled a version of everyday economic practices that far exceeded the customary framework. First, factories and large-scale industries became possible and were swiftly realized by the pioneers of industrialization, although they flew in the face of the traditional institutional world as they constituted the unheard-of in semantic terms.<sup>26</sup> The oeuvre of Hungarian economist Karl Polanyi<sup>27</sup> moves firmly in concentric circles around the conflict of expanding, money-driven everyday practices and the maintenance and function of institutions that limit the spread of the money economy (in particular the English Poor Laws), but failed as of the early eighteenth century given the market's practical successes. In the course of a major transformation labor, land and money themselves became objects of commodification. As a result, or so Polanyi suggests, in turn contested forms set in of semantic and institutional handling of what he considered to be truly escalating threats, which themselves intervened massively in the practical workings of the market and helped to justify the different 'regulatory regimes' in the European economies.<sup>28</sup>

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<sup>25</sup> For a marvelous description of such a practical world, see Rainer Beck, *Unterfinning. Ländliche Welt vor Anbruch der Moderne*, Munich 1993.

<sup>26</sup> For what is still one of the most poignant accounts of these processes of changing economic practices, see David S. Landes, *The Unbound Prometheus. Technological Change and Industrial Development in Western Europe from 1750 to the Present*, Cambridge 1968.

<sup>27</sup> Karl Polanyi, *The Great Transformation. The Political and Economic Origins of Our Time*, Boston 1944.

<sup>28</sup> On this, for a good overall outline but with awry details: Ivan T. Berend, *Markt und Wirtschaft. Ökonomische Ordnung und wirtschaftliche Entwicklung in Europa seit dem 18. Jahrhundert*, Göttingen 2007.

It bears noting here that all the three elements of the configuration have their own change dynamics (descriptions/textbooks alternate, and so on; institutions develop a corresponding dynamism, whereby new technological/monetary opportunities arise in the practices). These change phenomena, and they are respectively level specific, need not impact on other levels, but make such all the more probable, for the co-evolutionary complex and as a result constantly alters its configuration. The internal change of the individual elements tends to unsettle the other elements and functions as a kind of external change dynamic as far as they are concerned, whereby each of the elements can only undergo change in line with its own potential. Meaning change is happening by semantic variation as a consequence of changes in everyday practices or in institutional constellations in the sense of the institutional completion of changed modes of behavior or semantics, be it in terms of permitting something (enabling certain practices), or in restrictive terms (suppression and persecuting modes of behavior), which can in turn unsettle everyday practices that themselves become the object of semantic deliberations or institutional conflicts.

Thanks to this diverse and non-determined dynamism of change, it is highly difficult to predict the configurative complex; change itself is neither determined nor can its direction be forecast. The logical consistency of change can always only be stated as a postulate after the change has happened. Asserting the direction *ex ante* is impossible given the unpredictable countless versions of change, and which are moreover each, respectively, recursive and co-evolutive—that is if the statement is to be anything other than trivial. Indeed, even this heuristic model can only give a plausible account of historical change in abstract terms; the concrete course of change remains the object of historical analysis and historical narrative and is to this extent singular. Economic structural change is therefore logically always concrete. Economic historiography essentially has a task very similar to general historiography, namely to tell the story of singular change and to test the conditions that made it possible. And in this regard, a deeper understanding of the linkage of the economy's semantics, institutions, and practices is required, whereby these can (but by no means must) condense for specific periods to form what Bertram Schefold calls *a style of economy* or to constitute what Werner Sombart termed differentiated *economic systems*.



To summarize, economic change does not obey any prescription or rules that could be couched in theoretical terms, but is historically singular. Heuristically speaking, it can be explained plausibly in formal terms by citing the co-evolution of semantics, institutions, and practices, each of which forms historically specific configurations. The epochs in economic history would then differ according to temporally specific combinations of the three elements stated to form the respectively prevalent overall picture, or if you so will a *style of economy*. In this setting, the entire domain of economic thought plays a key role. As should have become clear, this function is indeterminate; rather, a specific form of economic thinking, indeed its eventual predominance, forms a key component of the enabling environment. I shall show this below taking the example of the gradual transition to the modern economy.

Unlike earlier forms, the modern economy stands out for the fact that it enables the material reproduction of society, in particular thanks to its highly quantitative dynamism. This astonishingly dynamic growth, unique hitherto in world history, attracted the eye of economic historians and economists from an early date. There are now countless attempts to shed light on the secret of the Occidental economy, yet over the course of time certain heuristic patterns have emerged and basically continue to be upheld to this day, albeit with different emphases. On the one hand, reference is made to the specific geographical and climatic conditions in West Europe and North America<sup>29</sup>; on the other, the interaction of geography, climate, and specific historical institutional constellations is highlighted, which so favored the human drive for knowledge and prosperity that technological advances were achieved in northwest Europe that in turn led under the conditions of clearly defined property and control rights to the breakthrough of modern capitalism.<sup>30</sup> These economic explanations in the narrow sense rely on resource availability, property rights,

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<sup>29</sup> See for example Jared M. Diamond, *Guns, Germs, and Steel. The Fates of Human Societies*, New York 1997; Eric L. Jones, *The European Miracle. Environments, Economies and Geopolitics in the History of Europe and Asia*, Cambridge 1981; Michael Mitterauer, *Warum Europa? Mittelalterliche Grundlagen eines Sonderwegs*, Munich 2004.

<sup>30</sup> David S. Landes, *The Wealth and Poverty of Nations. Why Some Are So Rich and Some So Poor*, New York 1998; see also Hubert Kieseewetter, *Das einzigartige Europa. Wie ein Kontinent reich wurde*, Stuttgart 2006.

and technological methods as arguments, and were supplemented at an early date by studies (in part critical of them) that did not construe the emergence of certain institutions and the related practices in economic terms, but as the unique historical and cultural properties of the Western world that above all had political (military) and religious causes.<sup>31</sup> The New Economic History à la Douglass C. North<sup>32</sup> seeks as it were to link the individual explanatory approaches through the problem of the causes of the specifically occidental institution formation. In the final instance, it fails because it would have to force the religious and political elements over time into the Procrustean bed of interest-driven acts by individual agents, something that precisely cannot account for change.<sup>33</sup>

Evidently, there is no one decisive factor (geography, technology, institutions, interests, and so on) that can account for the process accurately, as what is involved is rather a historically specific (and unique) co-evolution of certain elements that finally culminate in the modern economy. To this extent, it is hardly possible to explain the development of individual elements as it were functionally in terms of the historical result to which they later contributed, as their respective change could not know anything of the result to which it essentially contributed *by chance*. This element of chance is especially true of the significance of the historical semantics of the economy, which basically can first become sure of itself once the material bedrock for it exists. Adam Smith's concept was likewise always a confirmation of a practical world of doing business that already existed<sup>34</sup>—and precisely not its prior, as it were, programmatic justification. It was later able to become such—and was indeed used to

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<sup>31</sup> At an early point Werner Sombart, *Der moderne Kapitalismus*, 2 vols., Leipzig 1902; Max Weber, *General Economic History*, Dover 2003; Tilly, *Coercion, Capital and European States* (see above, note 23). For a Marxist point of view, see Maurice Dobb, *Studies in the development of capitalism*, London 1946. For a more recent Marxist approach, see Immanuel Wallerstein, *Historical Capitalism*, London 1983.

<sup>32</sup> Douglass C. North, *Structure and Change in Economic History*, New York 1981.

<sup>33</sup> A prototypical example is Oliver Volckart, *Wettbewerb und Wettbewerbsbeschränkung im vormodernen Deutschland 1000–1800*, Tübingen 2002.

<sup>34</sup> Fundamentally: C. B. McPherson, *The Political Theory of Possessive Individualism. From Hobbes to Locke*, Oxford 1962; Hirschman, *The Passions and the Interests* (see above, note 22); Rothschild, *Economic Sentiments* (see above, note 14).

this end on the Continent in particular in the context of the Prussian reforms. But more on that later.

Explanations to date on how economic modernity gained sway have tended to find causal reasons for a change that to a certain extent precisely evades such causal reasons. Historical criticism has always noted this very closely.<sup>35</sup> The geographical/climatological position has rightly been rebuked for turning a possibility into a hard-and-fast explanation, as if all climatically and geographically favored regions were to have experienced such a surge in development, which was obviously not the case.<sup>36</sup> The institutionalist approaches were most rightly criticized for underestimating the importance of the intrinsic dynamism of technological and practical processes of adjustment and behavioral patterns that contributed much more to change than did institutional rules, the practical significance of which it is often very hard to gauge historically.<sup>37</sup> Finally, David Landes' otherwise convincing argument that combines technological, institutional, and political explanations suffers from the fact that he relies on a neo-classical anthropology that cannot actually be generalized. Not everywhere would certain technological and institutional conditions have the same results, an erroneous assumption, incidentally, that the modernization theory of the 1950s and 1960s also made. Current institutional economics (Greif) also seeks a way out through cultural history, the most extensive contribution at which, namely that of Max Weber, is criticized, however, precisely by the historians for the fact that the cultural-historical theorem on the Protestant ethic and the spirit of capitalism has but little to do with the everyday economic practices of the time in question.<sup>38</sup> The problem of the different attempted explanations has to do

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<sup>35</sup> See, for example, Otto Hintze's lucid critique of Werner Sombart, *Wirtschaft und Politik im Zeitalter des modernen Kapitalismus*, in: Plumpe (ed.), *Wirtschaftsgeschichte* (see above, note 7), 89–108. See also Otto Brunner, *Zum Problem der Sozial- und Wirtschaftsgeschichte*, in: *Zeitschrift für Nationalökonomie* 7 (1936), 671–85.

<sup>36</sup> For valid criticism, see Landes, *The Wealth and Poverty of Nations* (see above, note 30).

<sup>37</sup> Alfred Kieser, *Erklärt die Theorie der Verfügungsrechte historischen Wandel?*, in: Plumpe (ed.), *Wirtschaftsgeschichte* (see above, note 7), 221–42.

<sup>38</sup> Wolfgang Reinhard's polemic against the Protestant ethic is well known. On the problem of Max Weber's source, see Hartmut Lehmann (ed.), *Max Weber's Protestant Ethic. Origins, Evidence, Contexts*, Cambridge/Mass. 1993. Also Paul Münch, *Lebensformen in der frühen Neuzeit*, Frankfurt a.M. 1992.

with their abbreviation and adaptation to fit a causal chain. By contrast, a co-evolutionary approach gets us further. It assumes, of course, that the individual elements of the structural change can be clearly defined; and this has not really happened as regards the contribution the historical semantics of the economy made to the emergence of the modern economy, even if there have been various deliberations on this, including more recent ones.<sup>39</sup> In particular, economic historiography has usually only treated the independent significance of the historical semantics of the economy as of peripheral importance for the main topic. If at all, as a rule, the different elements have been so conflated that frequently the semantic tradition of the economy is measured against the respective practices only to then assert that evidently there is a discrepancy between *norm* and *reality*.<sup>40</sup> Yet, to use the same terms, *norm* and *reality* are per se different; only together with institutions do they form something we could term historical reality. Grasping the latter thus hinges on first precisely identifying the individual elements. I shall discuss this in more detail here with an example as regards the historical semantics of the economy.

## The End of the Old European Economic System and the Capitalist Revolution in Prussia

More or less exactly 200 years ago, after being defeated by Napoleon, Friedrich Wilhelm III, King of Prussia, decreed the famous October Edict, in the recitals to which we read:

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<sup>39</sup>Clemens Wischermann/Anne Nieberding, *Die institutionelle Revolution. Eine Einführung in die deutsche Wirtschaftsgeschichte des 19. und frühen 20. Jahrhunderts*, Stuttgart 2004. Clemens Wischermann points rightly here to the fact that the modern economy's institutions are inconceivable without their focus on self-interest and briefly explains the change from the dominance of the common good to enabling self-interested behavior, 43–50; albeit without entirely shedding a functional argumentation.

<sup>40</sup>Typical of this, the widespread criticism of Otto Brunner's labeling of the old European economic system as the 'whole house'. It is obvious that in practice there was no 'pure' whole house; this does not alter the fact that for many years this semantic concept was influential and justified institutional formation. Only if you conflate semantics and practices can you raise objections to Brunner.

With the advent of peace. We have concerned Ourselves with the reduced prosperity of our loyal subjects, the swiftest restoration of the same, and the increase thereof for all if so possible. We have considered in this regard that, given the general distress, it is beyond the reach of the means available to Us to help each individual, without being able to fulfil the purpose, and that it is therefore appropriate to the essential demands of Justice and the principles of an orderly national economy that everything be removed that has hitherto prevented the individual from attaining the prosperity that in view of his abilities he should have been able to attain. We have moreover considered that partly the existing restrictions to the ownership and enjoyment of property, and partly the personal status of the rural workers decidedly work against Our benevolent intentions, and the restoration of the culture deprives their activities of the power they could have by having a highly injurious influence on the value of property and on the loans of property owners, by reducing the value of labor.<sup>41</sup>

The Prussian reforms, and this preamble is an exemplary expression of their intention of a liberal stimulation of self-interest, marked for Germany and Austria the end of the Old European institutional order to the extent that Napoleon had not already destroyed such in the territories he had occupied and in the state belonging to the Confederation of the Rhine. However, in its liberal legislation, Prussia went far beyond what had replaced the old order in the Confederation of the Rhine after Napoleon had been driven out of Germany. The core of the Prussian reforms, continuing older reform processes, was to dissolve the old land tenure system and enable a modern, capitalist agrarian economy and introduce the freedom of trade, initially out of fiscal interests. Both measures led at least in the domain of institutions to the truly abrupt destruction of the older order, even if these reforms had been well prepared and their practical impact was by no means uniform. Most other German states did not follow suit or at most only in a few points. Countless territories first introduced the freedom of trade in the 1860s in the wake of Prussian industrialization and the legal harmonization of the German economic area.<sup>42</sup>

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<sup>41</sup> *Preußische Gesetzessammlung 1806–1810*, 170.

<sup>42</sup> See the extensive account given by Hans-Ulrich Wehler, *Deutsche Gesellschaftsgeschichte*, Vol. 1: *Vom Feudalismus des Alten Reiches bis zur defensiven Modernisierung der Reformära 1700–1815*, Munich 1987, 347 ff.

The reforms to the land tenure and trades systems are the main focus here and on the one hand were the product of the dire straits of the day. The thrust of the changes were, however, by no means short term in reach and by no means decided in advance. In the transition to the capitalist market economy, because that is exactly what the reforms to the land tenure and trade systems meant, we see a truly exemplary pattern for the above-outlined co-evolutive complex: an exo-shock compelled institutional changes, the proposal for which itself only occurred/could only occur in line with shared normative convictions. The significance of the external shock was great; the attempts at reform in Prussia at the end of the eighteenth century went in a similar direction but were trammled much more closely to the prior institutional logic, were indeed path-dependent, as Reinhart Koselleck has shown as regards the debates on the Prussian General Land Tenure Act of 1794.<sup>43</sup> But the conditions after the defeat against Napoleon then enabled the temporary dominance of liberal political notions influenced by Scottish economic thinking (the Riga Treatise being a prime example) and which strongly determined the reform edicts. This dominance of liberal economic concepts did not appear from nowhere, but reflected a lengthier period of preparation that then culminated in the legislation.<sup>44</sup>

Now, there may be grounds for disputing that this reform legislation (liberation of farmers from indenture, mobilization of ownership of property and real estate, later freedom of the trades and municipal self-administration) had a direct economic impact. The response has to be differentiated: first, the reality of commerce in Prussia had changed long before the laws did, especially as the reach of the long arm of feudal authority was more than restricted in the eighteenth century. Regional and local producers of textiles and metals had long since discovered and tried to exploit the opportunities on the world market, for better or for worse. And they had in the process quite self-confidently side-stepped rules and regulations from on high, misinterpreted these or insisted laws

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<sup>43</sup>Reinhard Koselleck, *Preußen zwischen Reform und Revolution. Allgemeines Landrecht, Verwaltung und soziale Bewegung von 1791 bis 1848*, Stuttgart 1987.

<sup>44</sup>Wehler, *Deutsche Gesellschaftsgeschichte* (see above, note 42), Vol. 1, 405, puts it thus: 'A firmly ingrained Smithianism, German Late Enlightenment and the ideology of bureaucratic rule combined to form the guidelines and lodestars of the defensive Prussian modernization.'

be changed in their favor.<sup>45</sup> Second, the institutional upheaval by no means immediately sparked an economic upturn. This first happened in the 1820s, when commercial activity really picked up, and at that mainly in places where it already had strong historical roots. At any rate, the Industrial Revolution followed the Institutional Revolution after a substantial time lag—and in part took place in those territories such as Saxony where there had not yet been an institutional revolution at all.<sup>46</sup> In short, the immediate significance of the reform legislation should not be overestimated. All the same, it marked a secular break, as for the first time with it institutions were explicitly and unequivocally aligned to the rational interest of subjects in earning a living, indeed the country's flourishing seemed to be a function of the self-interested acts of its citizens, and institutions that did not promote self-interest seemed truly damaging.<sup>47</sup> In impoverished, war-beaten Prussia, such a stance was incidentally nothing that seemed immediately obvious, as it was for the business community in large British cities, from which Adam Smith took his cue. Rather, the recitals to the October Edict were more programmatic than confirmatory in character, meaning that we cannot explain them coming about simply by referring to the legislator's actual experiences. Rather, it was the hour of men trained in a specific economic semantics.<sup>48</sup> And the emergence of that semantics is what therefore interests us here. It was in

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<sup>45</sup> A perfect example is Stefan Gorißen, *Vom Handelshaus zum Unternehmen. Sozialgeschichte der Firma Harkort im Zeitalter der Protoindustrie (1720–1820)*, Göttingen 1997. See also Marcel Boldorf, *Europäische Leinenregionen im Wandel. Institutionelle Weichenstellungen in Schlesien und Irland (1750–1850)*, Cologne 2006; Clemens Wischermann, *Preußischer Staat und westfälische Unternehmer zwischen Spätmerkantilismus und Liberalismus*, Cologne 1992.

<sup>46</sup> Hans-Ulrich Wehler, *Deutsche Gesellschaftsgeschichte*, Vol. 2: Von der Reformära bis zur industriellen und politischen 'Deutschen Doppelrevolution' 1815–1845/9, Munich 1987, 54ff; Hubert Kiesewetter, *Industrielle Revolution in Deutschland. 1815–1914*, Frankfurt a.M. 1989; Hans-Werner Hahn, *Die Industrielle Revolution*, Munich 1998.

<sup>47</sup> In a very similar vein, Wischermann/Nieberding, *Die Institutionelle Revolution* (see above, note 39).

<sup>48</sup> That hour did not last long, as only a few years after the reform legislation, a clear countermovement set in, one that relied on the traditional economic semantics (preserving the old laws of the landed gentry) and was highly successful, at least as regards structuring the results of the reform laws. On aristocratic opposition, see Koselleck, *Preußen zwischen Reform und Revolution* (see above, note 43). On the impact, see Hartmut Harnisch, *Kapitalistische Agrarreform und Industrielle Revolution. Agrarhistorische Untersuchungen über das ostelbische Preußen zwischen Spätfeudalismus und bürgerlich-demokratischer Revolution von 1848 unter besonderer Berücksichtigung der Provinz Brandenburg*, Weimar 1984.

part imported from England<sup>49</sup> and in part ‘homegrown’ and followed a long and difficult process of debate, in which since the sixteenth century first the normative foundations of the older order had been increasingly cast into doubt, before, in the late seventeenth and then the eighteenth century, a rejuvenated economic semantics gained sway which the liberal credo of the reform legislation then expressed so clearly.

If one considers different epochs in more recent economic history, then one can initially assume that until the end of the fifteenth century, an identifiable constellation prevailed in which we find the following combination of characteristics. The prevalent (proto-)economic semantics rested in its basic assumptions largely on a specific Christian cosmology of confirming and preserving the revealed Divine order. Derived from this was a concept of ‘economy’ focusing on the common good; egoistic behavior (aggrandizement, greed, and so on) was by contrast proscribed and considered sinful,<sup>50</sup> as it contradicted the Divine order. Indeed, the world was not construed as the result of human, personally motivated acts. On the contrary, personal motives played no role in the final instance as all that counted was confirming the order.<sup>51</sup> Under these conditions, the respectively concrete rules of economic behavior reflected both the semantic background and the actual needs of agriculture, commerce, and trade. The dominant Christian semantics of the common good excluded institutions that were based on self-interest or at least respecting such. A good Christian could not be allowed to act in self-interest<sup>52</sup>; logically, such

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<sup>49</sup>Hugo Graul, *Das Eindringen der Smithschen Nationalökonomie in Deutschland und ihre Weiterbildung bis zu Hermann*, Ammendorf bei Halle a.d.S. 1928. On training the mandarins, see Wilhelm Treue, *Adam Smith in Deutschland. Zum Problem des ‘Politischen Professors’ zwischen 1776 und 1810*, in: Werner Conze (ed.), *Deutschland und Europa. Historische Studien zur Völker- und Staatenordnung des Abendlandes*. Festschrift für Hans Rothfels, Düsseldorf 1951, 101–33. See also Koselleck, *Preußen zwischen Reform und Revolution* (see above, note 43), 168.

<sup>50</sup>See on this Herfried Münkler/Harald Bluhm (eds), *Gemeinwohl und Gemeinsinn. Historische Semantiken politischer Leitbegriffe*, Berlin 2001—above all the essays by Otto Gerhard Oexle, Peter Blickle and Thomas Simon.

<sup>51</sup>The traditional semantics is beautifully couched, and contrasted particularly acutely to the changing practices, in Martin Luther, *Bedenken von Kaufshandlung (1524)*, in: Burkhardt/Priddat (eds), *Geschichte der Ökonomie* (see above, note 24), 9–34.

<sup>52</sup>Whether the fact that he actually acted out of self-interest was not precisely the flip side of such normativity is a moot point. There are some indications that it was, see for example Iris Origo, *Im Namen Gottes und des Geschäfts. Lebensbild eines toskanischen Kaufmanns der Frührenaissance*, Munich 1985.



acts, in particular as part of the fast-growing loans and bills business, were (to the extent functionally necessary) either inclusively excluded through the special status Jews enjoyed or at least in part diluted by means of a complicated religious semantics.<sup>53</sup> As part of the gradual expansion/contraction in opportunities for action, the needs of agriculture and the rulers as well as municipal trade and commerce all required flexible institutions, ones that could respond duly to the respective economic cycles. As part of the ineluctable focus on the common good, there was a wealth of rules of all sorts that we cannot mention in detail here (guild and market laws, property and exploitation rights in farming). For while there were many everyday forms of action, they displayed certain characteristics, in particular a high proportion of subsistence farming (it fluctuated with the agricultural cycles) and thus a minor level of or only occasional monetization, meaning that a market-related rationality could not emerge as the dominant enduring behavioral pattern. Tithes and service duties were only in part monetized and accordingly only exerted a limited pressure to rationalize. In practical terms, the labor markets functioned far more liberally than the respective guild orders suggested, but there was a free labor market only to a very limited extent.<sup>54</sup> In commerce, there was little or no manufacturing for anonymous markets, especially as the transportation of mass goods to remote markets was still prohibitively expensive. Practices that created more dynamism were presumably widespread, if at all, in risky and swashbuckling trade, wholesaling, and luxury goods,<sup>55</sup> where we also see the earliest rationalization techniques (bookkeeping, bills, loans, risk management by shares, and so on) arise.<sup>56</sup> This constellation of semantics, institutions, and practices sparked a more traditional *style of economy*, the feature of which was overcoming scarcity under conditions of modest economic structural change. Another characteristic of

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<sup>53</sup>Jacques Le Goff, *Your Money or Your Life. Economy and Religion in the Middle Ages*, New York 1988, considers the invention of purgatory as an opportunity for the merchant to receive salvation as the hour of capitalism's birth.

<sup>54</sup>Reinhold Reith, *Lohn und Leistung. Lohnformen im Gewerbe 1450 bis 1900*, Stuttgart 1999.

<sup>55</sup>For an exhaustive and amusing account of this, see Werner Sombart, *Luxury and Capitalism*, Ann Arbor 1967.

<sup>56</sup>Origo, 'Im Namen Gottes und des Geschäfts' (see above, note 52). Michel Mollat, *Der königliche Kaufmann Jacques Coeur oder der Geist des Unternehmertums*, Munich 1991.

the traditional style of economy was that ‘economy’ was construed not in the modern sense, but as regards the corresponding actions always as part of an integrated complex of rule. Here, the ‘economic’ was still part of a whole enabled by the rulers—and precisely not part of an autonomous domain.<sup>57</sup>

Between the sixteenth and nineteenth centuries, this traditional *style of economy* gradually dissolved, but by no means made way for a modern *style of economy*. Rather, from today’s viewpoint what ensued was a transitional period of experimentation that straddled about four centuries from 1450 to 1850.<sup>58</sup> During this time, all three configurative elements (semantics, institutions, practices) were subject to intense mutually reinforcing change, though this varied widely by region—without the end being anything other than open. This change culminated in the emergence of capitalist modernity (northwest Europe) and likewise in completely unique constellations, for example in Italy and Spain, where the modern *style of economy*, if at all, only occurred with considerable delay and then, to a certain extent, as an import from the ‘more progressive’ northern nations.<sup>59</sup>

The customary semantics was subject during this period to many changes.<sup>60</sup> First, the hitherto Christian cosmology lost its uniformity and

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<sup>57</sup> Polanyi’s image of embedding is unfortunate to the extent that it would then have to describe the process of modernity as one of de-bedding. Strictly speaking, nothing gets de-bedded, but something new arises from the change in the shape of what was customary. The new is by no means de-bedded either; and modernity itself is highly influenced by normative semantics and the corresponding institutions; it is different, but it definitely exists!

<sup>58</sup> This epoch has of late also been termed a ‘new age’, and certainly grasped as a relatively easily construed period of time; see Friedrich Jäger, *Vorwort*, in: Friedrich Jäger (ed.), *Enzyklopädie der Neuzeit*, Vol. 1, Stuttgart 2004, VIII–XI.

<sup>59</sup> The perception of different processes of change offers at an early stage ostensible confirmation of the progress or regress that has since been presented in Europe (and then worldwide) in a country comparison that served both as explanation and as what was explained, for example when describing the rise of Great Britain and the fall of Spain; typically in Landes, *The Wealth and Poverty of Nations* (see above, note 30).

<sup>60</sup> See the truly masterful account of the horizon in intellectual history in Brunner, *Adeliges Landleben und europäischer Geist* (see above, note 11), specifically 61–138. See on this also Reinhard Blänkner, *Von der ‘Staatsbildung’ zur ‘Volkwerdung’*. *Otto Brunners Perspektivenwechsel der Verfassungshistorie im Spannungsfeld zwischen völkischem und alteuropäischem Geschichtsdenken*, in: Luise Schorn-Schütte (ed.), *Alteuropa oder Frühe Moderne? Deutungsmuster für das 16. bis 18. Jahrhundert aus dem Krisenbewußtsein der Weimarer Republik in Theologie, Rechts- und Geschichtswissenschaft*, Berlin 1999, 87–135.

binding quality<sup>61</sup>: the description of the world as God's revealed will to order forfeited its validity with considerable consequences for the traditional normativity. The question of human 'nature' and the right rules for human action was now raised anew, and the answers differed greatly.<sup>62</sup> A 'black' anthropology arose as did pragmatic behavioral doctrines that were truly cynical in light of the traditional ethics.<sup>63</sup> Parallel to this, a whole series of new world descriptions arose that no longer revolved around a Christian center, but viewed the world from a respectively separate (for the first time quite individual<sup>64</sup>) angle (politics, nature, and slowly also: the economy). And with the emergence of perspectival world descriptions came the related behavioral doctrines, limited by sector as it were: virtuous behavior per se now no longer seemed to have to be practical; rather, one had to factor in the intrinsic logic of the court, of politics, and soon of the economy, and adjust one's behavior accordingly, without in the process forfeiting one's character. In the eighteenth century, this new view of the world was then generalized, namely in an essentially weak anthropology, that is, on the one hand the notion that humans are malleable, and on the other the foundation of perspectival worldviews and the corresponding behavioral doctrines as legitimate, to which malleable humans can then adapt.<sup>65</sup> The unity of the world was still posited (and symbolically maintained by a successful education), but

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<sup>61</sup> See for an exhaustive discussion Brague, *Die Weisheit der Welt* (see above, note 11), 237 ff.

<sup>62</sup> For what is still a very informative account of the dissolution of the older worldview and the notion of normativity derived from it, see Franz Borkebau, *Der Übergang vom feudalen zum bürgerlichen Weltbild. Studien zur Geschichte der Philosophie der Manufakturperiode, mit einer Vorrede von Max Horkheimer*, Paris 1934; unchanged reprint: Darmstadt 1971.

<sup>63</sup> On neo-Stoicism, see Günter Abel, *Stoizismus und frühe Neuzeit. Zur Entstehungsgeschichte modernen Denkens im Felde von Ethik und Politik*, Berlin 1978. On the behavioral doctrines or moral considerations on the corruption of the world and the consequences to be drawn, the writings of the French Moralists are highly instructive. See, very cynically, Balthasar Gracián y Morales, *The Art of Worldly Wisdom*, London 1892; original Spanish 1647.

<sup>64</sup> Michel de Montaigne, *Essays*, Harmondsworth 1993.

<sup>65</sup> Niklas Luhmann, *Frühneuzeitliche Anthropologie. Theoretische Lösungen für ein Evolutionsproblem der Gesellschaft*, in: Niklas Luhmann, *Gesellschaftsstruktur und Semantik. Studien zur Wissenssoziologie der modernen Gesellschaft*, Vol. 1, Frankfurt a.M. 1993, 162–234. On the influence of sub-segment-specific semantics, see Michael Hutter/Günther Teubner, *Der Gesellschaft fette Beute. Homo juridicus und homo oeconomicus als kommunikationserhaltende Fiktionen*, in: Peter Fuchs/Andreas Göbel (eds), *Der Mensch—das Medium der Gesellschaft?*, Frankfurt a.M. 1994, 110–45.

factually speaking no longer represented. Within the scope of its possibilities, this task only fell to politics, and then only for a specific segment, namely to define generally valid rules, but each time in line with the respective intrinsic logic of the sub-segments. And this applied also to the sub-segment of the economy: politics continued to have the right and function of issuing laws, but now had to respect the intrinsic logic of the economy.

This *intrinsic logic* of the economy<sup>66</sup> was initially construed in the distinct semantics that gradually emerged and was then increasingly generalized and asserted against rival semantics. It had numerous starting points; alongside merchants' books, it was able to cite texts such as doctrines of aristocratic wisdom and the widespread debates on ethically correct behavior toward money and property.<sup>67</sup> In Germany, these doctrines of wisdom soon lost their old nature as ethical doctrines and as of the sixteenth century mutated into purely utilitarian considerations as regards raising the revenues of the treasury or royal chamber, as the growing budget difficulties in the states and the failure of the conventional institutions in the face of rampant price increases in the sixteenth century compelled nobles to fundamentally rethink their behavior.<sup>68</sup> These utilitarian considerations were still definitely 'draped' in ethics, for example as Caspar Klock was firmly convinced in his tax doctrine that without justice there could be no functioning system of

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<sup>66</sup>I refer below primarily to German texts. As economic semantics differed in part greatly from one country to the next, the following findings cannot be generalized for Europe or even per se. However, the German tradition was always embedded in the European tradition, meaning it responded to outside developments just as it in part influenced these. The key difference between the German (Continental) and British debate was presumably the competing notions of the importance of authority, on the one hand, and the ability of bourgeois interests to regulate themselves, on the other; on these differences, which of course did not exclude countless points of overlap, see Pribram, *Geschichte des ökonomischen Denkens* (see above, note 10).

<sup>67</sup>Far less, incidentally, in old European 'economics' (domestic economics, merchants' books, and so on); see Erich Egner, *Der Verlust der alten Ökonomik. Seine Hintergründe und Wirkungen*, Berlin 1985. Also Alfred Bürgin, *Zur Soziogenese der Politischen Ökonomie. Wirtschaftsgeschichtliche und dogmenhistorische Betrachtungen*, Marburg 1993.

<sup>68</sup>On this, see Krauth, *Wirtschaftsstruktur und Semantik* (see above, note 10), 114–47. In general also Fritz Karl Mann, *Vergleichende Studien zur Geschichte der ökonomischen und politischen Ideen und ihres Wirkens in der öffentlichen Meinung 1600–1935*, Jena 1937.

levies.<sup>69</sup> However, such ideas rooted in social ethics increasingly tended to respect a unique sphere of the economy, as taxation seemed to be tied to the earnings and thus economic success of the subjects. Klock consistently paved the way for an ‘economic description of the world’, which in his day culminated not in an economic theory as an, if you so will, metaphysics of economic phenomena, but initially focused on an economic description of the world in a very tangible sense, on defining and describing characteristics, customs, and habits in the different territories and cultures that seemed to be of relevance precisely for the country’s economic success. The mercantilist and cameralistic concepts of the late seventeenth and eighteenth centuries already assumed largely that there was something like intrinsic laws (that they had themselves constructed!) of the economy and which a wise aristocrat should heed, indeed exploit, if he wished to be successful politically. The mercantilist projects of the late seventeenth century, in particular the proposals by Johann Joachim Becher,<sup>70</sup> Wilhelm von Hörnigk,<sup>71</sup> and Wilhelm von Schröder<sup>72</sup> to the Court of Vienna, thus logically prioritized the support of the country’s economy from on high and suggested that a different set of policies would essentially be to the state’s detriment. Patronage of the economy now meant not only a wise foreign trade policy, but also above all supporting hard work in the trades, including creating the structures under which hard work and diligence could blossom. Having many hard-working subjects in the rights trades became the very epitome of political success, meaning that in the eudemonic concepts of cameralism, the strength of the powers on high and the happiness of the subjects ideally coincided. Supporting the trades and structural policies

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<sup>69</sup> On Klock, see Bertram Schefold, *Einleitung*, in: Kaspar Klock: *Tractatus juridico-politico- polemico-historicus de aerario sive censu per honesta media absque divexatione populi licite conficiendo liri duo*, ed. by Bertram Schefold, Vol. 1, Nuremberg 2007; see also Krauth, *Wirtschaftsstruktur und Semantik* (see above, note 10).

<sup>70</sup> Johann Joachim Becher, *Politischer Discurs von den eigentlichen Ursachen deß Auf- und Abnehmens der Städt, Länder und Republicken*, Frankfurt a.M. 1982.

<sup>71</sup> Philipp Wilhelm von Hörnigk, *Österreich über alles, wann es nur will. Das ist ein wohlmeinender Fürschlag wie mittelst einer wol-bestellten Lands-Oeconomie die Kayserl. Erbland in kurzem über alle andere Staat von Europa zu erheben und mehr als einiger derselben von denen anderen independent zu machen*, no place 1684.

<sup>72</sup> Wilhelm von Schröder, *Fürstliche Schatz- und Rent-Kammer*, Leipzig 1686.

had of course to be appropriate, that is, they were not meant to happen arbitrarily but to respect the rules of economic life. This linkage was promulgated in almost ideal form in the highly influential texts of Johann Heinrich Gottlob Justi, in which there is already a clear criticism of the older concepts of mercantilism. According to Justi, the happiness of the governing authority and that of his subjects was identical; the prince therefore enabled the subjects to pursue their interests, and in case of doubt the prince had to encourage them, indeed raise them to so do.<sup>73</sup> Justi therefore advocated combating monopoly rights and guild restrictions just as he called for stern policy on and supervision of the trades, whereby this was to strictly take its cue from the country's well-being, which he in turn defined in terms of the market success of the trades and agriculture. The prince therefore had to ensure a functioning market economy and in cases of doubt assert it against tradition and against his subjects if they did not exhibit hard-working diligence. To this extent, this approach differed clearly from liberal concepts, as a functioning market economy, which Justi no doubt preferred, was construed as the task and goal of acts of government. Justi knew full well that people acted out of self-interest; it was evidently the state's task to guide this self-interest into rational channels. Unlike Scottish liberalism, in German semantics, the role of the state was of outstanding importance. While for Smith, bourgeois interest was itself conditioned in favor of the positive well-being of the whole in the final instance through social and economic exchange (the invisible hand<sup>74</sup>), the German tradition assumed that the state had as it were to be the visible hand creating the common good.<sup>75</sup> This ambivalent stance toward the market, the evolutionary power of which was simply not to be trusted, remained in place after Justi. While Schlettwein, a Physiocrat, formulates a veritable natural right to the free use of property (and thus to a market economy

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<sup>73</sup>Johann Heinrich Gottlob Justi, *Kurzer systematischer Grundriß aller ökonomischen und Kameralwissenschaften*, in: Burkhardt/Priddat (eds), *Geschichte der Ökonomie* (see above, note 24), 216–324.

<sup>74</sup>The idea of a balance that occurred as it were automatically was really in the air in Europe during that century; see for example the remarks by Karl Löwith on Giambattista Vico. Karl Löwith, *Meaning in History. The Theological Implications of the Philosophy of History*, Chicago 1949.

<sup>75</sup>Tribe, *Strategies of Economic Order* (see above, note 10).

unhindered by the state), such approaches did not go undisputed, indeed the arguments against them resorted to Adam Smith, for whom, or so Georg Sartorius claimed in 1806,<sup>76</sup> the free use of private property was precisely not a natural right, but solely justified by its superior efficiency compared to statist intervention. In the absence of such efficiency, the state then clearly had the right to intervene. Sartorius also used truly ordo-liberal arguments to criticize the Smithian notion of the ‘invisible hand’. Essentially, every market participant follows his own self-interest, he suggested. The ‘invisible hand’ thus depends on functioning competition, which of course always runs the risk of dishonest behavior, monopolies emerging, and fraud, and could thus collapse. While free competition, for all the dangers to it, was, he said, preferable to any state interventionism, in the interests of the common good, politics should ensure that competition functioned. In other words, shortly before the Prussian reforms, economic semantics in Germany had reached a critical point in its development: a plea for economic liberalism secured by the state/prince. Government action and the market economy were not considered opposites, but construed as mutually determining, although this was subject to the intrinsic logic of the economy, which was clearly seen as decidedly complex. The economic dynamism therefore had to be constrained by political means, as it bore within itself the seeds of its own destruction. It was up to politics to prevent this self-destruction. That in the German case the core of the economy was seen as threatened stems above all from the likewise central meaning of the semantics of self-interest. While untrammelled self-interests tended to self-destruct, conditioned self-interest (rational self-interest) promoted the common good. This Smithian notion was accepted in Germany, but market forces were simply not trusted as regards conditioning self-interest; the related idea of the self-regulation of bourgeois interests always had an authoritarian dimension in Germany. This doubtless has to do with factual economic activities and with the semantic career of the concept of self-interest since the sixteenth century. Hans-Ulrich Wehler discerns in the reform legislation a bureaucratic ideology already at work, but this is a

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<sup>76</sup> Georg Sartorius, *Von der Mitwirkung der obersten Gewalt zur Beförderung des Nationalreichtums (1806)*, in: Burkhardt/Priddat (eds), *Geschichte der Ökonomie* (see above, note 24), 354–74.

myopic view at the very least, as the authoritarian impulse rested precisely on the ‘scientific’ insight that the markets’ ability to self-regulate is restricted, indeed threatened.

Self-interested behavior was probably quite normal in the Old European world; in a world characterized by elementary shortages, altruism is simply not conceivable as the normal form of behavior. The older semantics also responded to this situation on the one hand by condemning self-interest per se (for whatever reasons), and on the other hand by creating strong positive sanctions for selflessness. Such notions (self-interest is a sin, giving alms is the way to Heaven) were only historically meaningful as long as everyday practices ran counter to them. From the sixteenth century onward, at any rate according to the sources known at present, a gradual *reframing* of self-interest occurs, with the direction roughly from its suppression through praise for it or bemoaning its predominance to its conditioning. To this extent, one could also say that the modern economy rested and still rests semantically precisely not on uninhibited egoism but on its socially acceptable taming. This semantic shift in the communication of self-interest cannot be traced here,<sup>77</sup> but its basic steps extended from its condemnation by Martin Luther<sup>78</sup> through its encomium by Leonard Fronsberger<sup>79</sup> and complaint at its predominance and the related corruption of the world to veritable elegies to egoism by Bernard Mandeville and—in the already

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<sup>77</sup> See as a first outline Werner Plumpe, *Die Geburt des ‘Homo oeconomicus’. Historische Überlegungen zur Entstehung und Bedeutung des Handlungsmodells der modernen Wirtschaft*, in: Wolfgang Reinhard/Justin Stagl (eds), *Märkte und Menschen. Studien zur historischen Wirtschaftsanthropologie*, Vienna 2007, 319–52. For an English version of this article, see the essay 3. *The birth of the homo economicus. Historical thoughts on the origins and significance of this model of human behavior for the modern economy* in this book.

<sup>78</sup> Martin Luther, *Bedenken von Kaufshandlung* (see above, note 51). Luther attacks merchants’ focus on profit and calls on them to restrict themselves to what is ‘good and right’ (12). They should desire not the largest profit but ‘a fair return’ (13).

<sup>79</sup> Leonard Fronsberger, *Von dem Lob deß Eigen Nutzen*, Frankfurt a.M. 1564. The book was most probably not written by Fronsberger, but contains the thought of Baden’s Chancellor Dr. Oswald Gut, with whom Fronsberger, or so the preface says, conducted intense discussions, to address these neglected areas. Fronsberger probably received Gut’s manuscript for publication. The literary form of the encomium was used, that is the permissible inversion of values as it were, albeit not ironically here, but most seriously and with empirical foundations; see on this Winfried Schulze, *Vom Gemeinnutz zum Eigennutz. Über den Normenwandel in der ständischen Gesellschaft der frühen Neuzeit*, Munich 1987.



strongly reformulated meaning—by Adam Smith. At the beginning of the nineteenth century, the changed notion of self-interestedness had become so much part of everyday discourse that Goethe was able to write to Eckermann as if this was certain knowledge: ‘It is simply part of human nature that it easily slumps if personal advantages or disadvantages do not compel it otherwise.’<sup>80</sup> This reframing of self-interest came with considerable dangers, as could be seen in particular in the debate in the sixteenth and seventeenth centuries, and as were expressed in the responses to Mandeville’s *Fable of the Bees*. How could a world be in order in which egoism and the craving for wealth ruled? How was this notion of the world compatible with the Christian faith? In the sixteenth century, Fronsberger provided an answer as simple as it was astonishing, by depicting self-interest simply as part of the Divine order and the interaction of individual egoisms as a functioning whole as the result of the division of labor among humans ordained by God. He compared this to an orchestra in which, although each person plays an instrument of his own, everything is in the most beautiful harmony. Mandeville set less store in God and advocated the hard hand of government, which however precisely does not eliminate the paradox of private vices and public advantages, and simply makes use of it, among others with the provocative example of a clever municipal council that sets up brothels to protect the honor of decent women.<sup>81</sup> The optimism of Adam Smith, who wrote his works a few decades after Mandeville, rested on social interaction, and the preconditions for such did not exist on the Continent, in particular not in Prussia. In the German debate, for many years, it was warnings against self-interest that prevailed, as its untamed pursuit was felt to lead the individual into misfortune and perdition.<sup>82</sup> It was not until the modern, monetarily driven practices proved to be irreversible that the normative ideas of the right life arose, in a telling

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<sup>80</sup> Goethe to Eckermann, 1 May 1815, quoted from Hans Christoph Binswanger, *Geld und Magie. Deutung und Kritik der modernen Wirtschaft anhand von Goethes Faust*, Stuttgart 1985, 155.

<sup>81</sup> Bernard Mandeville, *The Fable of the Bees or Private Vices, Publick Benefits*, Indianapolis 1988.

<sup>82</sup> Eckard Hellmuth, *Praktische Philosophie und Wirtschaftsgesinnung. Zur Reflexion über Wirtschaft, Erwerb und Gewinn im Deutschland des 18. Jahrhunderts*, in: *Archiv für Kulturgeschichte* 68 (1986), 135–49.

fashion: in 1786, influential pedagogue Joachim Heinrich Campe<sup>83</sup> advocated using previously idle ‘means to promote industry, the population and public prosperity’ and proposed to the King of Prussia that the elementary school system be restructured in line with practical criteria and to initiate a ‘more purposive preparation of those who are destined to be country vicars’.<sup>84</sup> He justified his desire for a reform of schools and theological training as follows:

Mollycoddling, a thirst for splendor, a wish for expense, or, in two terms, luxury and the aggregation of needs are gaining the upper hand. Listlessness, torpor, minor illnesses, indolence and shying away from work all keep pace with this as the necessary effects of those causes; and the fierce growth in both is, as I would dare claim in the face of any other observer, the strong main source of the increased misery so widespread in our times, and which would seem to be bringing humanity almost to a halt. Any only halfway refined person now has more needs than he can meet; the price of things rises with each passing year; the wish to enjoy pleasure, drive and energy through diligence and effort decrease with the years; the invariable necessity to spend more becomes ever more compelling, while in most families earnings and revenues, if not less, then are not greater than they were perhaps 50 or perhaps 100 years or more ago; oppressive concerns about food, worries about the weight of debts and—which bears especial mention here—an almost irresistible temptation to deceive, do injustice, be fraudulent, these are the sad consequences. This presumes, I must gladly confess, that I know of no other virtue that should be preached today and deserves supporting in all manner of ways than—thrift, diligence, industry and an orderly wish to earn. If I do not err, then the promotion of this virtue is one of those points where the moralist and the statesman meet, despite otherwise always following different paths, and where the one must offer the other his hand, in order together to pre-empt the otherwise eminent general bankruptcy of Mankind. Since we can no longer succeed in making people God-fearing, frugal and free of needs again all we can hope to do is

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<sup>83</sup> See Andrea Kuhn, *Tugend und Arbeit. Zur Sozialisation durch Kinder- und Jugendliteratur im 18. Jh.*, Berlin 1975, 78 ff.

<sup>84</sup> Johann Heinrich Campe, *Über einige verkannte, wenigstens ungenützte Mittel zur Beförderung der Industrie, der Bevölkerung und des öffentlichen Wohlstandes. In zwei Fragmenten*, Wolfenbüttel 1786; reprinted with a preface by G. Koneffke: Frankfurt a.M. 1969.

try to make them more hard-working, industrious and diligent, so that incomes and expenditures are somewhat back in balance again.<sup>85</sup>

If one cannot stem the monetary economic practices, or so we can conclude from Campe, then one should at least convert one's subjects into *homines oeconomici*, who act in a budget-rational manner. In other words, like with the market, the prince is given a key task in structuring things. It now became possible for the King of Prussia to do something hitherto quite inconceivable, namely to appeal to the economic self-will and the self-interest of his diligent subjects and give them the right institutional framework, while also ensuring their rational trammeling. As stated, this did not immediately trigger the Industrial Revolution, but the preconditions for it were thus decisively improved. And the fact that the economic semantics in Germany distrusted the market and self-interest was to have its consequences—right through to the present. Moderated self-interest, self-regulation through free competition, and the state guarantee of order as the dominant semantic schema were thus logically the key determinants for the modern economy emerging in Germany. And these semantic traditions with their massive impact on the shape of institutions without doubt also shaped a German *style of economy*, that while remaining capitalist at core as in the other developed countries in West Europe and North America, nevertheless had its own idiosyncrasies, as can at present be seen in the debate on the varieties of capitalism, which would hardly be comprehensible without these long-standing semantic traditions.<sup>86</sup>

## Summary

Economic development is simply not solely the statistically quantifiable result of individuals acting in self-interest and the coordination thereof by the *invisible hand* of the market, but the result of complex interactions that, while historically singular, emerge as, respectively, typical con-

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<sup>85</sup> Campe, *Über einige verkannte, wenigstens ungenützte Mittel* (see above, note 84), 2–5.

<sup>86</sup> See for example Bruno Amable, *The Diversity of Modern Capitalism*, Oxford 2003.

figurations, or, as Schefold calls them, *styles of economy*. In light of the above considerations, a form of economic historiography that neglects the ‘history of dogmas’ as a key part of modern economic semantics does seem not complex enough. For the present, this linkage is possibly trivial. Most recently, Uwe Jean Heuser wrote about ‘economists who defined the world’.<sup>87</sup> He shows using the examples of John Maynard Keynes and Milton Friedman in his essay what an immense influence the two men had on how their respective eras understood the economy and thus formed the background for the respective creation of institutions. Without doubt, we should see Keynes and Friedman in the context of their times, against the background of, respectively, successful/failing institutions and economic practices that change dynamically. Their specific contribution was not, however, the inevitable consequence of institutional dead-ends and practical chaos, but rather constituted an independent semantic achievement that in turn intervened as an irritant in the processes of institutional formation and thence impacted on the respective practices. While this may seem uncontroversial as regards the present, and there will hardly be any economist who would seriously dispute the relevance of their own discipline, even if their ‘talk’ of the progress of insights in the economic sciences is itself sub-complex, that is, not to say why these linkages should not apply to past centuries. Economic historiography must therefore always heed the co-evolution of semantics, institutions, and practices—and only in this way can it render the, respectively, different *styles of economy* plausible that to this day decisively shape the reality of the global economy.

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<sup>87</sup>Uwe Jean Heuser, *Ökonomiekolumne. Ideen, die die Welt bestimmten*, in: Merkur. Deutsche Zeitschrift für Europäisches Denken 698 (2007), 522–7.

# 3

## The Birth of the *Homo economicus*: Historical Thoughts on the Origins and Significance of this Model of Human Behavior for the Modern Economy

### The Problem of Modern Economic Institutions and the Figure of the *Homo economicus*

The modern economy is the function of a set of institutions. As it emerged, it was without a blueprint but remained linked to a broad prehistory in early modern Europe which culminated in the emergence of precisely these new institutions. The modern process of institution-building is also difficult to grasp given that the Modern Age was the result of both structural change and a break with the early modern period. Previous attempts to interpret the transition to the modern economy have failed to solve this paradox, resorting to ‘naturalisms’ which ultimately presume an identity of difference.<sup>1</sup> Even the currently most advanced theory of economic history provided by

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<sup>1</sup>David S. Landes, *The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor*, New York 1998. Landes starts from the premise that human actions are rational.

New Institutional Economics argues on the basis of human characteristics (bounded rationality, pursuit of profit, opportunism) which are ultimately defined in anthropological terms. So under varying circumstances, these then led to the emergence of different institutions while they themselves remained unchanged.<sup>2</sup> Yet this anthropological figure of the self-serving bartering man, effectively raised to the status of revealed truth—and also the basis of Marxist argumentation—not only obscures the concrete process of modern institution-building unrelated to anthropological insights which could only be formulated as these emerged. Its stylization in the first half of the nineteenth century also led to debates which pushed arguments away from an adequate discussion of modern anthropology toward a fruitless controversy over the truth of the *Homo economicus* which still persists today. This argument is not only pointless. Essentially, it involved (and still involves) a repetition of the wrong questions. It has turned the complex figure of the *Homo economicus* into a bogeyman of history which does not do any justice to its historical role.

The following arguments are based on a different premise. In contrast to New Institutional Economics (and thus also to classical and neo-classical economic theory), it will be argued here that the universalistic anthropology of the selfish economic man should be seen as a characteristic product of structural change in the occident since the sixteenth century, as a product of the dissolution of the cosmological ethics of early modern Europe which developed in close co-evolution to the contemporary processes of institution-building and thus ultimately gained its own positivity.<sup>3</sup> Thus the notion of the selfish protagonist did not precede

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<sup>2</sup>Douglass C. North, *Structure and Change in Economic History*, New York 1981. See also Felix Butschek, *Die verhaltenstheoretischen Grundlagen der Nationalökonomie und ihre Bedeutung für die wirtschaftsgeschichtliche Forschung*, in: Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte 87 (2000), 322–34. His persuasive arguments about the function of behavioral models represent a greater challenge to New Institutional Economics than Butschek himself admits.

<sup>3</sup>The question whether the model of the *Homo economicus* is an accurate or inaccurate representation of the economic behavior of individuals is not really of relevance. The focus here is not on the validity of the model which cannot be empirically tested anyway but on its historical effects! Cf. Michael Hutter/Gunther Teubner, *Der Gesellschaft fette Beute. Homo juridicus und homo oeconomicus als kommunikationserhaltende Fiktionen*, in: Peter Fuchs/Andreas Göbel (eds), *Der Mensch—das Medium der Gesellschaft?*, Frankfurt a.M. 1994, 110–45.

the modern economy but emerged with it.<sup>4</sup> It should also be noted that the emerging figure of the *Homo economicus* had many more facets and more ambiguity than is reflected by nineteenth- and twentieth-century debates. The greedy egoist has nothing to do with the historical *Homo economicus*: in fact, it is its direct opposite.<sup>5</sup> Its real characteristics were (and are) ambiguity and multi-functionality. One function involved putting exactly rational limits on economic activity and the adoption of behavior which promised sustainable gains. Another involved the establishment of institutions to promote the ‘industriousness of the people’ (from industrial pedagogy to the savings bank and national insurance). Finally, a third function can be identified—in theoretical terms—in the facilitation of an autonomous semantic for the self-observation of economic activity which under the conditions of the modern economy even emerged as the leading semantics for the explanation of human activity itself—or at least pretended to do so.<sup>6</sup> In sum: it was not the timeless

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<sup>4</sup>One could add at this point that such behavior had existed before albeit without positive connotations, being regarded as sinful. While this is true, it merely serves to underline the significance of the argument: in early modern Europe, any institution-building based on an acceptance or even promotion of self-interest was not possible because it was regarded as sinful! In semantic terms, institution-building was always linked to the ‘common good’ and the just sovereign. Cf. for an overview T. Simon, *Gemeinwohltopik in der mittelalterlichen und frühneuzeitlichen Politiktheorie*, in: Herfried Münkler/Harald Bluhm (eds), *Gemeinwohl und Gemeinsinn. Historische Semantiken politischer Leitbegriffe*, Berlin 2001, 129–46. Regarding communal institutions see Peter Blicke, *Der Gemeine Nutzen. Ein kommunaler Wert und seine politische Karriere*, in: Münkler/Bluhm, *Gemeinwohl und Gemeinsinn*, 85–107. A further point of criticism could be that the institution-building at the end of the eighteenth and early nineteenth centuries had after all corresponded to the nature of man. But how could the nature of man have been used as an argument when in semantic terms it had not yet been formulated?—The focus here is on precisely the process which led to institution-building in reference to the supposed individual nature of man!

<sup>5</sup>The ‘biography’ of the *Homo economicus* has not yet been written. So a historical reconstruction of its reception in the debates of the nineteenth and twentieth centuries remains challenging. Preliminary results are provided by Hartmut Kliemt, *Der Homo oeconomicus zwischen Ethik und Biologie—Aspekte seiner Geschichte und Wirkungsgeschichte*, in: *Homo Oeconomicus I* (1983), 9–20. Of interest too Rudolf Walther, *Exkurs. Wirtschaftlicher Liberalismus*, in: *Geschichtliche Grundbegriffe. Historisches Lexikon der politisch-sozialen Sprache in Deutschland*, edited by Otto Brunner/Werner Conze/Reinhart Koselleck, Stuttgart 1982, Vol. 3, 787–815.

<sup>6</sup>Gebhard Kirchgässner, *Homo oeconomicus Das ökonomische Modell individuellen Verhaltens und seine Anwendung in den Wirtschafts- und Sozialwissenschaften*, Tübingen 1991. The naïve approach pursued here—which turns the model of the *Homo economicus* into a method of general validity for the social sciences—is a good illustration of the unproductive quarrel about its empirical significance. For a critical appraisal, see Hans-Jürgen Aretz, *Ökonomischer Imperialismus? Homo oeconomicus und soziologische Theorie*, in: *Zeitschrift für Soziologie* 26 (1997), Issue 2, 79–95.

constancy of a generalized anthropology which ultimately under favorable ecological and technical conditions enforced the breakthrough of the modern economy. To the contrary, it was precisely an anthropological transition which made such institution-building possible, based upon the assumption of the predictability of human bartering or its institutional enforcement. Only in this manner did the modern economy as a self-regulating market economy become possible in the first place.<sup>7</sup>

Of course, one must strictly differentiate between the origins, on the one hand, and the functionality of norms and institutions, as well as their respective contemporary value, on the other. Norms and institutions do not emerge because—in relation to later situations—they are functional or because contemporaries believe them to be so, rather their functionality is something only displayed once they have come into existence. So the origins of the *Homo economicus* cannot be approached via the functionality of this concept for the critique of conditions in early modern Europe. An exact reconstruction is necessary, a genealogy as it were of the historical figure of ‘modern economic man’. However, this task cannot be tackled without first clearing away some of the ‘rubble of discussion’ which has been tipped over the *Homo economicus* since the nineteenth century.

## The *Homo economicus* in Debate

The three functions of the *Homo economicus* selected above found programmatic expression from the last third of the eighteenth century. As

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<sup>7</sup> See above all Niklas Luhmann, *Frühneuzeitliche Anthropologie. Theoretische Lösungen für ein Evolutionsproblem der Gesellschaft*, in: Niklas Luhmann, *Gesellschaftsstruktur und Semantik. Studien zur Wissenssoziologie der modernen Gesellschaft*, Vol. 1, Frankfurt a.M. 1993, 162–234. On the significance of restrictive behavioral norms for the modern economy cf. Friedrich H. Tenbruck, *Die Rolle der Wirtschaftsgesinnung in der Entwicklung*, in: *Zeitschrift für die gesamte Staatswissenschaft* 124 (1968), 569–85. So the function of the *Homo economicus* is precisely the creation of predictability because the myriad of individual motives defy calculation. Cf. Niklas Luhmann’s lucid comments: *Organisation und Entscheidung*, Opladen 2000, 182 f., which grasp the true essence of the whole question of modern economic semantics in sociological terms and conclude: ‘Today one can [...] recognize that the “homo economicus” is a social construction which is required in the context of economic transactions precisely *because one cannot know how individual and consciously decided operations (Bewußtseinsoperationen) actually occur from one moment to another*’ (italics in original).



these provide a reflection of the ‘figure’s’ whole complexity, quotes will be provided in the following. The famous passage from Adam Smith according to which our bread supply is not dependent on the baker’s goodwill, and so on emphasizes the rational limits to the pursuit of gain: ‘It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.’<sup>8</sup> Smith defines this self-love in sharp distinction to animal greed. ‘Interest’ conditions individual economic behavior to the conduct and the needs of the bartering partner, limits on action are upheld on rational grounds. Pedagogical arguments aimed at the general population can be found in the writings of Benjamin Franklin in welcome clarity (1748):

Remember that time is money. He that can earn ten shillings a day by his labor, and goes abroad, or sits idle one half of that day, though he spends but sixpence during his diversion or idleness, ought not to reckon that the only expense; he has really spent, or rather, thrown away five shillings besides. Remember that credit is money. If a man lets his money lie in my hands after it is due, he gives me the interest, or so much as I can make of it during that time. This amounts to a considerable sum where a man has a good and large credit, and makes good use of it. Remember that money is of a prolific, generating nature. Money can beget money, and its offspring can beget more, and so on. Five shillings turned is six, turned again it is seven and three pence; and so on till it becomes a hundred pounds. The more there is of it, the more it produces, every turning, so that the profits rise quicker and quicker. He that kills a breeding sow, destroys all her offspring to the thousandth generation. He that murders a crown, destroys all it might have produced, even scores of pounds. [...] Remember this saying, ‘The good paymaster is lord of another man’s purse.’ He that is known to pay punctually and exactly to the time he promises, may at any time and on any occasion, raise all the money his friends can spare. This is sometimes of great use. After industry and frugality, nothing contributes more to the raising of a young man in the world than punctuality and justice in all his dealings: therefore never keep borrowed money an hour

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<sup>8</sup> Adam Smith, *The Wealth of Nations*, New York 2007, 20 (German version: *Wohlstand der Nationen*, 17). On Smith’s concept in general, see Ian S. Ross, *Adam Smith. Leben und Werk*, Düsseldorf 1998.

beyond the time you promised, lest a disappointment shut up your friend's purse forever. The most trifling actions that affect a man's credit are to be regarded. The sound of your hammer at five in the morning or at nine at night, heard by the creditor, makes him easy six months longer; but if he sees you at a billiard table, or hears your voice in a tavern when you should be at work, he sends for his money the next day; demands it before he can receive it, in a lump. It shews, besides, that you are mindful of what you owe; it makes you appear a careful as well as an honest man; and that still increases your credit. Beware of thinking all your own that you possess, and of living accordingly. 'Tis a mistake that many people who have credit fall into. To prevent this, keep an exact account for some time of both your expenses and your income. If you take the pains at first to mention particulars, it will have this good effect; you will discover how wonderfully small, trifling expenses mount up to large sums, and will discern what might have been, and may, for the future be saved, without occasioning any great inconvenience.

*And in Necessary Hints to Those That Would Be Rich (1736):*

For six pounds a year you may have the use of one hundred pounds, provided you are a man of known prudence and honesty. He that spends a groat a day idly, spends idly above six pounds a year, which is the price for the use of one hundred pounds. He that wastes idly a groat's worth of his time per day, one day with another, wastes the privilege of using one hundred pounds each day. He that idly loses five shillings' worth of time, loses five shillings, and might as prudently throw five shillings into the sea. He that loses five shillings, not only loses that sum, but all the advantage that might be made by turning it in dealing, which, by the time that a young man becomes old, amounts to a considerable sum of money.<sup>9</sup>

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<sup>9</sup>Advice to a Young Tradesman (1748), 174–6; Necessary Hints to Those That would Be Rich (1736), 176 f. in: *The Works of the late Dr. Benjamin Franklin, consisting of his Life written by Himself*, published by E. Duyckinck, New York 1807; (German version: Benjamin Franklin, *Advice to a Young Tradesman*, quoted in Max Weber, *Protestantische Ethik*, 31 f.). Franklin was in fact mainly seen as an educator. Cf. the short sketch of Franklin's German-speaking readership in Manfred Pütz, *Nachwort*, in: Manfred Pütz (ed.), *Benjamin Franklin, Lebenserinnerungen*, Munich 1983, 302–11. Werner Sombart already emphasized the huge success of Franklin's 'teachings on virtue', pointing to the fact that Franklin's various publications were printed at least 400 times in Europe: Werner Sombart, *Der Bourgeois. Zur Geistesgeschichte des modernen Wirtschaftsmenschen*, Leipzig 1913, 160. This justifies the extensive quotes.

Finally, the theoretical function of the *Homo economicus* was defined by John Stuart Mill in the 1840s: ‘Political Economy presupposes an arbitrary definition of man, as a being who invariably does that by which he may obtain the greatest amount of necessities, conveniences, and luxuries, with the smallest quantity of labor and physical self-denial with which they can be obtained in the existing state of knowledge.’<sup>10</sup>

Of course, the generally welcomed functional ‘innocence’ of the *Homo economicus* expressed in these definitions was bound to the disintegration of the old order of early modern Europe and to the reasoning behind the yet-to-emerge Modern Age. With the spread of modern industrial capitalism, the aspect of a ‘rational organization of life’ which had aimed at the supposed chaos of the nobility and the economic decline of the Ancien Régime faded. Now the norms which had made modern capitalism possible had to face the test of its practice. Inevitably, the focus was no longer only on its ‘rationality’ but also on its consequences which rebelled—seemingly or actually—against ‘rationality’.<sup>11</sup> The concept of the *Homo economicus* became part of the debate on the social character of industrial capitalism and its further development. The ambivalent nature of the concept itself—norm, theoretical axiom, empirical statement—now became very evident and were polemically turned against each other. Against this backdrop, the youngest group of authors of political economy in nineteenth-century Germany, known as the Younger German Historical School of Economics, based its work on a misconception which was to be of great consequence. Its polemic against Manchester capitalism and its roots in the premise of economic naturalism was plausible insofar as the Younger German Historical School itself historicized the *Homo economicus* and declared it to be a

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<sup>10</sup> John S. Mill, *Essays on some unsettled questions of political economy* (1844), in: John M. Robson (ed.), *Collected Works*, Vol. 4, Toronto 1967, 326.

<sup>11</sup> Overall Rolf P. Sieferle, *Fortschrittsfeinde? Opposition gegen Technik und Industrie von der Romantik bis zur Gegenwart*, Munich 1984. In terms of the history of thought, see Panajotis Kondylis, *Konservativismus. Geschichtlicher Gehalt und Untergang*, Stuttgart 1986. Even parts of the bourgeoisie felt the pursuit of gain went too far; cf. C. v. Hodenberg, *Der Fluch des Geldsacks. Der Aufstieg der Industriellen als Herausforderung bürgerlicher Werte*, in: Manfred Hettling/Stefan-Ludwig Hoffmann (eds), *Der bürgerliche Werthimmel. Innenansichten des 19. Jahrhunderts*, Göttingen 2000, 79–104.

‘breeding product’<sup>12</sup> of Anglo-Saxon modernity in particular. However, in order to provide evidence of its historicity, they claimed—with fatal consequences—that non-capitalist societies had not behaved in a profit-maximizing manner but had adhered to other norms and that the pursuit of gain itself was developed to different degrees across nations and states, in some more, in others less, but in no sense could it be regarded as a universal constant of human nature.<sup>13</sup>

Though, in principal, justified, the consequences of this critique were fatal insofar as the ensuing debate was pushed into quite fruitless directions. It was now necessary to maintain that economic activity had been driven by other norms prior to the *Homo economicus* and the modern pursuit of gain: accordingly, daily economic activity had not been ordered by the principle of acquisition. The fundamental flaw of this premise was the assumption that in early modern Europe, economic transactions had been ordered by the normative structuring of individual actions in a manner analogous to the Modern Age.<sup>14</sup> So the perspective on early modern Europe was distorted from the very beginning. Quite apart from this, one was now forced to search for a norm for the premodern period analogous to the *Homo economicus*. Werner Sombart had the greatest success with his inquiry. He believed he had found a norm for regulating action in the early modern period with his ‘idea of nourishment’ which was not committed to the pursuit of gain but effectively represented its functionally equal counterpart.<sup>15</sup> However, the assumption that early modern Europe had been dominated by a static principle of nourishment while the Modern Age adhered to a dynamic principle of acquisition made it seem plausible that the transition from

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<sup>12</sup> Max Weber, *Grundriß der universalen Sozial- und Wirtschaftsgeschichte. Aus den nachgel. Vorl. hg. v. S. Hellmann und M. Palyi, 3. durchges. u. erg. Aufl. bes. von J. Winckelmann*, Berlin 1958.

<sup>13</sup> A typical example Sombart, *Der Bourgeois* (cf. note 9).

<sup>14</sup> The flaw of mirroring early modern Europe in the Modern Age as found in Sombart’s work has also been emphasized by: Barbara Stollberg-Rilinger, *Handelsgeist und Adelsethos. Zur Diskussion um das Handelsverbot für den deutschen Adel vom 16. bis zum 18. Jahrhundert*, in: *Zeitschrift für Historische Forschung* 15 (1988), 273 f.

<sup>15</sup> Reinhold Reith, *Lohn und Leistung aus der Perspektive der Historischen Schule der Nationalökonomie. Zum Problem der Wirtschaftsmentalitäten*, in: Friedrich Lenger (ed.), *Handwerk, Hausindustrie und die Historische Schule der Nationalökonomie: Wissenschafts- und gewerbegeschichtliche Perspektiven*, Bielefeld 1998, 78–104.

the former to the latter had been caused by a spread in the pursuit of gain. It was then only logical that the Younger German Historical School of Economics in particular sought to identify the carriers of this expansion in the pursuit of gain as the motor of this transformation process, as one ‘knew’ that the pursuit of gain was not equally distributed across the population. So not surprisingly, the Jews, the ascetic Protestant sects, and finally, entrepreneurs were alternatively identified as the true carriers of modernity, especially as they displayed all the attributes of rationality thought to characterize the Modern Age. Recent research in the field of economic and social history has shown that the principle of nourishment did not in fact dominate preindustrial trades<sup>16</sup> and that the rural world of early modern Europe did not operate in an altruistic or reciprocal way in any sense. In fact, individual motives were barely communicated, being totally pointless in a life lived on the verge of starvation and beyond the horizon of its norms.<sup>17</sup> Ultimately the famous regulative norms of the early modern age (rules on diet, dress order, guild regulations) were more a reaction to the decay of early modern Europe than its constituent core, and all the more so as these can be understood as part of the struggle of distribution anyway.<sup>18</sup> The idea that the transformation process which led to the Modern Age was carried by religiously defined groups has also been proved untenable.<sup>19</sup> Despite such research, the fundamental tenet behind the argumentation of the Younger German Historical School—that early modern Europe was the analogous counterpart to the Modern Age—has basically survived, albeit that in the 1930s, Otto Brunner already specifically highlighted the flawed assump-

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<sup>16</sup> Reinhold Reith, *Lohn und Leistung: Lohnformen im Gewerbe 1450–1990*, Stuttgart 1999.

<sup>17</sup> Rainer Beck, *Unterfinning. Ländliche Welt vor Anbruch der Moderne*, Munich 1993.

<sup>18</sup> Josef Ehmer, *Traditionelles Denken und neue Fragestellungen zur Geschichte von Handwerk und Zunft*, in: Friedrich Lenger (ed.), *Handwerk, Hausindustrie und die Historische Schule der Nationalökonomie: Wissenschafts- und gewerbegegeschichtliche Perspektiven*, Bielefeld 1998, 19–77. Werner Trossbach, *Das ‘ganze Haus’—Basiskategorie für das Verständnis der ländlichen Gesellschaft deutscher Territorien in der frühen Neuzeit*, in: *Blätter für deutsche Landesgeschichte* 129 (1993), 277–314.

<sup>19</sup> Paul Münch, *Welcher Zusammenhang besteht zwischen Konfession und ökonomischem Verhalten? Max Webers These im Lichte der historischen Forschung*, in: Hans-Georg Wehling (ed.), *Konfession, eine Nebensache? Politische, soziale und kulturelle Ausprägungen religiöser Unterschiede in Deutschland*, Stuttgart 1984, 58–74.

tions behind this mirroring of early modern Europe and the Modern Age in his critique of Werner Sombart.<sup>20</sup>

The other fatal consequence of the Younger German Historical School's critique of the *Homo economicus* was a narrowing of the question of its validity to its real or supposed factual content. The German Historical School had of course fundamentally questioned its generalization. Measured against the complexity of the figure at the beginning of the nineteenth century, this conceptual reduction of debate on the *Homo economicus* to questions of empirical proof also marked a huge loss of intellectual power: the function of the *Homo economicus* in the context of economic theory had been to secure an autonomy of research precisely because it declared individual motives to be insignificant, being contingent and ultimately incomprehensible. Any recognition of these would have made every economic theory impossible. This function was then lost.<sup>21</sup> An intellectually uninspired conflict about whether the individual is in reality as proposed by economic theory has thus dominated at least since the postwar period. Every criticism of the empirical basis for this assumption has led to a renewed measuring of behavior. Recent economic research seems to have in part moved away from the *Homo economicus* and turned to the *Homo reciprocans*, that is, to say the individual who trades fairly, but this is effectively only another twist to the

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<sup>20</sup> Otto Brunner, *Zum Problem der Sozial- und Wirtschaftsgeschichte*, in: *Zeitschrift für Nationalökonomie* 7 (1936), 671–85. Later Brunner's argument became more direct: Otto Brunner, *Das 'Ganze Haus' und die alteuropäische 'Ökonomik'*, in: Otto Brunner, *Neue Wege der Verfassungs- und Sozialgeschichte*, 2nd, enlarged edition, Göttingen 1968, 103–27 (first edition 1956). Brunner's concept of the 'whole house' or rather the early European notion of oeconomies which surrounded the 'whole house' cannot be seen as a functional analogy to the pursuit of gain: the 'whole house' has essentially no room for individual behavior: the individual is supposed to behave in accordance with the order of the house and not on the basis of individual rationality which could only destroy the order of the house: individual behavior is primarily bound to the rationality of the 'whole house'. Cf. also Otto Brunner, *Die alteuropäische Ökonomik*, in: *Zeitschrift für Nationalökonomie* XIII (1952), 114–39.

<sup>21</sup> The economic debate in Germany after 1918 was strongly influenced by epistemological and philosophical questions and still reflected awareness of the complex significance of the figure of the *Homo economicus*. Cf. Hellmuth Wolff, *Der Homo Economicus. Eine Nationalökonomische Fiktion*, Berlin 1926. Further Herbert Schack, *Der rationale Begriff des Wirtschaftsmenschen*, in: *Jahrbücher für Nationalökonomie und Statistik* 122 (1924), 439–77; Herbert Schack, *Der irrationale Begriff des Wirtschaftsmenschen*, in: *Jahrbücher für Nationalökonomie und Statistik* 122 (1924), 192–206.

question of whether man is empirically unambiguous and can accordingly be included in economic theory.

So the true historical significance of the *Homo economicus* has been concealed by the rubble of this discussion and to-date research is still lacking. Its significance for the development of the modern economy has remained hidden, just as its formative years have only been given sporadic attention.<sup>22</sup> These will be examined in the following discussion. To reiterate the argument, in order to grasp the conditions which led to the possibility of the modern economy, one cannot start on the basis of assumptions about its functional requirements. It is more the case that structural change in and after the sixteenth century made modern capitalism possible and ultimately probable. Most importantly, this included

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<sup>22</sup>This should not suggest that the general and substantial debates on the complex questions of 'rationalization', 'social-disciplining', and 'confessionalization' have failed to touch many aspects of the newly emerging norms for action. For an overview of current research cf. Wolfgang Reinhard, *Sozialdisziplinierung—Konfessionalisierung—Modernisierung. Ein historiographischer Diskurs*, in: Nada B. Leimgruber (ed.), *Die Frühe Neuzeit in der Geschichtswissenschaft*, Stuttgart 1997, 39–55. Here it is necessary to define the economic frame in which to-date the question of the semantic preconditions for the breakthrough of individual norms of action has not really been raised. In general cf. also August Nitschke, *Verhaltenswandel in der Industriellen Revolution. Beiträge zur Sozialgeschichte*, Stuttgart 1975. In relation to the history of the teaching of economics this is somewhat different although here too questions relating to the economy as a whole as to economic policy still dominated; particularly worthwhile are studies of the 1970s. Johannes Burkhardt, *Das Verhaltensleitbild 'Produktivität' und seine anthropologischen Voraussetzungen*, in: *Saeculum* 25 (1974), 277–89, as well as Johannes Burkhardt, *Der Umbruch der ökonomischen Theorie*, in: Nitschke, *Verhaltenswandel*, 57–72. In general see Wolf-Hagen Krauth, *Wirtschaftsstruktur und Semantik. Wissenssoziologische Studien zum wirtschaftlichen Denken in Deutschland zwischen dem 13. und 17. Jahrhundert*, Berlin 1984. Of interest is also the summary of current research provided in the recent publication (with texts taken from the history of economics in the German language): Burkhardt and Priddat identify the older tradition in the teachings of the merchant and the market which then became 'integrated' into Cameralism. The question of the establishment of norms of action in order to spread individual behavior appropriate to modern capitalism is not raised. Cf. Johannes Burkhardt/Birger P. Priddat (eds), *Geschichte der Ökonomie*, Frankfurt a.M. 2000, 643–72. The question of the norming of individual action is also practically not discussed within the very interesting Berlin project on common or public spirit; cf. Herfried Münkler/Harald Bluhm (eds), *Gemeinwohl und Gemeinsinn. Historische Semantiken politischer Leitbegriffe*, Berlin 2001. The 'normal' dogma of essentially neoclassical economics in Germany proves to be unfruitful in this context because it presupposes its own presuppositions (including in particular that individual behavior is guided by self-interest) and fails to historicize! Cf. Karl Brandt, *Geschichte der deutschen Volkswirtschaftslehre*, Vol. 1: Von der Scholastik bis zur klassischen Nationalökonomie, Vol. 2: Vom Historismus bis zur Neoklassik, Freiburg 1993.

a shift in the anthropology of early modern Europe which in turn made far-reaching processes of institution-building possible.<sup>23</sup>

## Reconstruction of the *Homo economicus*

The tradition of early modern Europe (which cannot be dealt with in detail here) believed the cosmos to be an ordered, divinely created unity which provided clear behavioral guidelines for mankind as fallen children of God with a view to perfection in accordance with divine unity as revealed or the sinful departure therefrom.<sup>24</sup> Both were sanctioned by pleasures or suffering in the life to come but also by sanctions in the here and now. This was because the majority of institutions and especially norms, which in the broadest sense defined the area of economic activity, adhered to these religiously based, ethical lines from the prohibition of interest to concepts about the organization of the 'house' and the line between self-sufficiency and Chrematistics.<sup>25</sup> Although the everyday practice of economic activity had become increasingly diverse since the high Middle Ages,<sup>26</sup> the relevant religious and ethical semantics still attempted to achieve a balance between professed texts and changing

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<sup>23</sup> Cf. Craig Muldrew, *Zur Anthropologie des Kapitalismus. Kredit, Vertrauen, Tausch und die Geschichte des Marktes in England*, in: *Historische Anthropologie* 6 (1998), 167–99. Muldrew uses the increase in credit relations in early modern England to illustrate that it wasn't unlimited self-interest which was successful in evolutionary terms but that the expanding network of credit relations established a strong interest in the 'morals of the others' and that the market created trust, indeed the expansion of the market economy was in fact dependent on the spread of trust. Here, it becomes clear that the question raised above of which norm of individual behavior made the modern economy possible cannot be answered with the traditional reference to unconditioned rationality of self-interest.

<sup>24</sup> An outstanding description of the early European world can be found in Otto Brunner, *Adeliges Landleben und europäischer Geist. Leben und Werk Wolf Helmhardts von Hobbegg 1612–1688*, Salzburg 1949. Cf. also Erich Egner, *Der Verlust der alten Ökonomik*, Berlin 1985.

<sup>25</sup> Ulrich Meyer, *Soziales Handeln im Zeichen des 'Hauses'. Zur Ökonomik in der Spätantike und im frühen Mittelalter*, Göttingen 1998.

<sup>26</sup> A standard outline is provided by Jacques LeGoff, *Kaufleute und Bankiers im Mittelalter*, Frankfurt a.M. 1989, especially 68–94. LeGoff makes it clear that merchants all found themselves in an ethically precarious situation. Cf. also for a more journalistic approach Klaus P. Hansen, *Die Mentalität des Erwerbs. Erfolgsphilosophien amerikanischer Unternehmer*, Frankfurt a.M. 1992. Hansen posits a kind of transitory identity between the 'old cosmology', the old 'social order', and modern categories on the basis of the writings of Renaissance merchants in Italy 16–53.



practices.<sup>27</sup> So since the high Middle Ages, there developed, on the one hand, a further differentiation of the Oikos literature toward a greater inclusion of ‘Chrematistics’ and, on the other, a broadening of scholastic texts to include the problem of interest and price formation. The effectively modern theory of market forms and the ‘modern’ concept of price formation ultimately developed by late Spanish scholasticism in the sixteenth century should be seen as the conclusion to a long discussion process.<sup>28</sup> While research on this older ‘oeconomic’ and ethical debate is still not sufficiently advanced to allow a conclusive verdict, it is nevertheless possible to identify—from today’s perspective—the development of a type of proto-economic semantics which in essence attempted to adapt the existing canon of texts and norms to changing economic structures. That these modifications mostly drew on a ‘reformist’ rhetoric is hardly surprising. In 1930, Johannes Spörl already highlighted precisely this connection in a lucid article about the ‘awareness of progress in the Middle Ages’, namely that the ‘new’ could only mold the ‘old’.<sup>29</sup>

The ‘proto-economic semantics’ would be incomplete without a reference to the concept of risk. The concept of risk is of great significance. It represents a link between early modern European ethics and economics in the context of emerging proto-economic semantics. It defined an area in which the merchant household’s pursuit of gain seemed not only useful but also ethically desirable. Yet this was not the only reason. The risk thinking of the merchant in the Middle Ages was a topic of research in the late nineteenth century in the history of both law and economics.<sup>30</sup> It was

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<sup>27</sup> For a standard introduction Jacques LeGoff, *Wucherzins und Höllenqualen. Ökonomie und Religion im Mittelalter*, Stuttgart 1988. Irmintraut Richarz, *Oikos: Haus und Haushalt. Ursprung und Geschichte der Haushaltsökonomik*, Göttingen 1991.

<sup>28</sup> Joseph Höffner, *Wirtschaftsethik und Monopole im 15. und 16. Jahrhundert*, Jena 1941. See also Krauth, *Wirtschaftsstruktur* (cf. note 22), 45–67.

<sup>29</sup> Johannes Spörl, *Das Alte und das Neue im Mittelalter. Studien zum Problem des mittelalterlichen Fortschrittsbewusstseins*, in: *Historisches Jahrbuch* 50 (1930), 297–341, 498–524.

<sup>30</sup> Cf., for example, Adolf Schaube, *Die wahre Beschaffenheit der Versicherung in der Entstehungszeit des Versicherungswesens*, in: *Jahrbücher für Nationalökonomie und Statistik* 60 (1893), 40–56, 473–509; Adolf Schaube, *Der Übergang vom Versicherungsdarlehen zur reinen Versicherung*, in: *Jahrbücher für Nationalökonomie und Statistik* 61 (1893), 481–515; Adolf Schaube, *Der Versicherungsgedanke in den Verträgen des Seeverkehrs vor der Entstehung des Versicherungswesens. Eine Studie zur Vorgeschichte der Seeversicherung*, in: *Zeitschrift für Social- und Wirtschaftsgeschichte* II (1894), 149–223.

also the starting point for specific constructions of rationality,<sup>31</sup> insofar as the merchants were quickly aware of the fact that risks, that is, uncertain profit opportunities, could only be exploited in the long term in relation to their being mastered.<sup>32</sup> Shipping partnerships in commendam, marine insurance, the creation of organizational structures to promote the setting up of companies, the introduction of bookkeeping into business: all these actions can without hesitation be seen as a safety strategy in the face of risks.<sup>33</sup> So it seems the noticeable expansion in the semantics of risk since the twelfth century created a strong parallel increase in ethically legitimated business opportunities as well as in safety measures which were later described as ‘rational’.<sup>34</sup> To follow Niklas Luhmann, one could say this marked the beginning of a new relationship to time:

With this proviso [source material proving the use of risk as a term, W.P.] we presume that the problem lies in the realization that certain advantages are to be gained only if something is at stake. It is not a matter of the costs, which can be calculated beforehand and traded off against the benefits. It is rather a matter of decision that, as can be foreseen, will be subsequently regretted if a loss that one hoped to avert occurs. Since the institutionalization of confession, religion has sought by every means to move the sinner to repentance, the religious variant of regret. Risk calculation is clearly the

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<sup>31</sup> Cf. Peter L. Bernstein, *Wider die Götter. Die Geschichte von Risiko und Risikomanagement von der Antike bis heute*, Munich 2000. While the structure is not convincing, the empirical data is informative. On fundamental issues Wolfgang Bonß, *Vom Risiko. Unsicherheit und Ungewißheit in der Moderne*, Hamburg 1995.

<sup>32</sup> Erich Maschke, *Das Berufsbewußtsein des mittelalterlichen Fernkaufmanns*, in: Carl Haase (ed.), *Die Stadt des Mittelalters*, 3 vols., Darmstadt 1973, here Vol. 3, 177–216. The characteristics of early merchant texts reveal that early merchant rationality was not a widespread, particularly groomed semantic but often a form of secret knowledge within families. Cf. Christof Weiland, *‘Libri di famiglia’ und Autobiographie in Italien zwischen Tre- und Cinquecento*, Tübingen 1993.

<sup>33</sup> Florence E. de Roover, *Early Examples of Marine Insurance*, in: *Journal of Economic History* 5 (1945), 172–200. Fundamental Max Weber, *Zur Geschichte der Handelsgesellschaften im Mittelalter*, in: Max Weber, *Gesammelte Aufsätze zur Sozial- und Wirtschaftsgeschichte*, 2nd edition, Tübingen 1988, 312–443.

<sup>34</sup> However, this does not mean that the form of calculating rationality which Max Weber wanted to identify as characteristic for occidental capitalism was widespread in Europe. Double-entry bookkeeping and rational capital calculation were probably long the exception; the structuring of risk was primarily based on sharing of experience and risk. In addition, differences within Europe played a big role. Cf. Stefan Gorißen, *Vom Handelshaus zum Unternehmen. Sozialgeschichte der Firma Harkort im Zeitalter der Protoindustrie (1720–1820)*, Göttingen 2002, 333–60.

secular counterpart to a repentance-minimization program; in any case an attitude inconsistent in the temporal sequence of events: first this, then that. Thus it is at any rate a calculation in terms of time. And in the difference between the religious and secular perspectives lies the tension of the well-known wager proposed by Pascal: The risk of unbelief is in any case too high, for it is salvation that is at stake. The risk of belief, that we genuflect quite unnecessarily, appears by contrast insignificant.<sup>35</sup>

Finally, a reference to the numerous manuals providing royal counsel (Fürstenratgeberliteratur) is necessary. During the fifteenth and sixteenth century, the advice included new nuances insofar as the sovereign was no longer only interpreted according to the pattern of the cautious householder. Practical wisdom, advice on increasing sovereign income, above all with regard to different taxation systems was also included. The teachings on virtue were extended and the inclusion of tax considerations introduced an economic and political dimension from which it was only a relatively small step to linking the sovereign's power to act to his territorial prosperity; a step then rigorously taken in Germany after the Thirty Years' War.<sup>36</sup>

The 'proto-economic semantics' therefore possessed four dimensions of meaning—as a teaching on how to maintain the household and on markets, as a concept of rational trading activity and finally, as a concept for authoritarian action. While these were only loosely linked to one another, they were for the most part, integrated within the overall concept of old European notions of virtue. The tension between the written canon and the emerging diversity of economic practice was reflected while the framework of the former remained intact. By shifting the focus away from the Modern Age, the semantic changes are revealed to be variations in meaning which all emerged due to the need to guarantee the unity of written canon and everyday practice. This unity which basically amounted to tracing back all considerations to a unified ethical

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<sup>35</sup> Niklas Luhmann, *Risk: A Sociological Theory*, New York 1993, 11, (German original: *Soziologie des Risikos*, Berlin 1991, 19.)

<sup>36</sup> Cf. Wolf-Hagen Krauth, *Gemeinwohl als Interesse. Die Konstruktion einer territorialen Ökonomie am Beginn der Neuzeit*, in: Münkler/Blum (eds), *Gemeinwohl und Gemeininn* (see above, note 22), 191–212. Also Keith Tribe, *Die Wirtschaftsemanik der frühen Neuzeit*, in: Herbert Matis et al. (eds), *Vademecum zu einem Klassiker absolutistischer Wirtschaftspolitik*. Philipp Wilhelm von Hörnigk, Düsseldorf 1997, 245–90.

canon was finally lost during the Reformation with the questioning of the unambiguity of the traditional world picture, once changing communication processes in the wake of book-printing had already revealed the limits of traditional semantics. In the sixteenth century, there was no longer one definite answer to the question of how to live: this situation made the search for an ethically binding foundation for worldly affairs all the more urgent given that the answer to this question was ultimately directly linked to the problem of securing salvation.<sup>37</sup>

In addition, the reclaiming of an unambiguous guarantee of salvation was already problematic as the sixteenth century marked the beginning of an acceleration in the spread of monetarily codified economic transactions. Moreover, the dependence of numerous and especially municipal budgets on the market increased greatly while the opportunities for the pursuit of gain within markets rose significantly too.<sup>38</sup> Market fluctuations increased at the same time; and in addition, to follow Muldrew for Great Britain and the mainstream of economic history for the territories of the Reich, a rise in prices accompanied by a simultaneous only under-average increase in the volume of coinage metals meant that the amount of exchange and credit business truly exploded.<sup>39</sup> This development had a very different effect on the respective groups; agricultural prices rose while municipal incomes mostly fell albeit with significant variation. Certainly, commercial sales prices increased more slowly than agricultural prices.<sup>40</sup> Overall, however, the advancing monetarization and commodification of economic transactions destroyed the unity of living

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<sup>37</sup> See Gerhard Simson, *Bibel und Börse. Die religiösen Wurzeln des Kapitalismus*, in: Archiv für Kulturgeschichte 66 (1984), 87–117.

<sup>38</sup> On the economic history of the sixteenth century in general cf. Peter Kriedte, *Spätfeudalismus und Handelskapital. Grundlinien der europäischen Wirtschaftsgeschichte vom 16. bis zum Ausgang des 18. Jahrhunderts*, Göttingen 1980. Towns were undoubtedly the center of the expanding market economy—and necessarily of the accompanying risks of price increases and market dependencies too. Monetarily coded consumption patterns probably also increased in rural areas as well, as illustrated by various studies on the nobility in England and in the old Reich. Cf. Maxine Berg/Helen Clifford (eds), *Consumers and luxury. Consumer culture in Europe 1650–1850*, Manchester 1999. Cf. also Irmintraut Richarz, *Herrschaftliche Haushalte in vorindustrieller Zeit im Weserraum*, Berlin 1971. Trossbach, *Das 'ganze Haus'* (see above, note 18), 292–94.

<sup>39</sup> Craig Muldrew, *The Economy of Obligation. The Culture of Credit and Social Relations in Early Modern England*, New York 2001.

<sup>40</sup> Wilhelm Abel, *Agrarkrisen und Agrarkonjunktur. Eine Geschichte der Land- und Ernährungswirtschaft Mitteleuropas seit dem hohen Mittelalter*, 3rd, revised and extended edition, Hamburg 1978.

situations to such an extent that it no longer seemed practically possible to draw up a single code of ethical behavior, had this indeed still been an option in religious terms.

So by the sixteenth century at the latest, this represented a problem of semantics which demanded a fundamental solution. The semantic tradition provided various ethically tested concepts, as already mentioned above, which included the tradition of the householder, the merchant, the concept of the ethical market participant, and finally, of the wise sovereign. But their respective messages were neither clear nor was it imaginable how such behavior, assuming it could be formulated clearly despite the lack of an unambiguous religious grounding, could be enforced at all. Moreover, and this must be emphasized again, the problem faced in the sixteenth century was not an economic one in a modern sense but one of practical philosophy.<sup>41</sup> As traditional ideas were no longer sufficient, the grounds of explanation began to shift from the revealed certainty of creation to the 'nature of mankind'. This necessarily raised the question of man's nature, now that man was no longer unambiguously defined by creation. Which ethical maxims can be deduced from his 'nature' and, once defined, would such maxims prove suitable in the face of greatly varying situations? And more significantly: what is the criterion for suitability—correspondence to Bible verses or economic success?<sup>42</sup>

For the ensuing discussion—which was later said to be part of the foundation of the modern economy—it was crucial that a generally accepted ethical version of appropriate behavior in economic contexts no longer existed, that is, one which could at the same time have served as a blueprint for authoritarian regulation. Although not everyone did what they actually wanted in practice, the spectrum of possible and also

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<sup>41</sup> For a detailed study using the example of the semantic of the nobility, see Stollberg-Rilinger, *Handelsgeist und Adelsethos* (cf. note 14). The transition from the rejection of merchant activities in the sixteenth century to the conditional acceptance in the eighteenth century is shown to be an open searching process in semantic terms on the basis of selected texts. It is well known that in the context of the Reformation there was no line drawn between ethics and economics, indeed the basic ethical approach was further radicalized. Cf. Ricardo Rieth, *'Habsucht' bei Martin Luther. Ökonomisches und theologisches Denken, Tradition und soziale Wirklichkeit im Zeitalter der Reformation*, Weimar 1996.

<sup>42</sup> The remarkable career of Calvinism is probably in part due to the fact that godliness and success were semantic equivalents. See Simson, *Bibel und Börse* (cf. note 37), 94–7.

of actual behavior greatly increased. The secular price increases of the sixteenth century, the drastic worsening of the economic situation in the last third of the century, and the closely linked climate changes defined the atmosphere. The ‘black anthropology’ of the seventeenth century linked these experiences to a semantic picture: man is mostly corrupt, his fate depends on the wheel of fortune: not only self-interest, amour-propre, self-love, egoism, and self-adulation but also the transitory nature of life—all become central issues in the ‘black anthropology’ of the seventeenth century.<sup>43</sup> In retrospect, it is surprising that the way out of this hopeless situation was searched for not only in ethics alone but also increasingly in ‘oeconomics’ which was only just emerging precisely because of these problems. Acknowledgment of the constructive influence of ‘self-interest’ in the sixteenth century remained rare.<sup>44</sup> This changed in the late seventeenth century and fundamentally in the eighteenth century, although not only Mandeville’s fable of the bees<sup>45</sup> can be accredited with making it clear that questions of economic activity could no longer be considered productively on the basis of the ethical tradition alone. Indeed, Mandeville’s particular provocation was to raise a form of individual behavior, generally regarded as sinful, to the level of general economic benefit for the whole of society. Mandeville’s fable of the bees may be seen foremost as a provocation. Using English and French texts, however, Albert O. Hirschman<sup>46</sup> has reconstructed the career of the term ‘self-love’ in particular and has shown that the reason why self-love and self-interest gained significance in the eighteenth century was because they in the

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<sup>43</sup> With regard to the crises-ridden background of seventeenth century ‘black anthropology’, see Wolfgang Behringer, *Die Krise von 1570. Ein Beitrag zur Krisengeschichte der Neuzeit*, in: Manfred Jakubowski-Tiessen/Hartmut Lehmann (eds), *Um Himmels Willen. Religion in Krisenzeiten*, Göttingen 2003, 51–156, here 109. Here, it becomes clear that the emancipation from the Christian cosmology did not correspond to a sense of freedom but rather a sense of being at the mercy of a now unpredictable world. The spread of the symbol of fortune is very closely related to this cf. Klaus Reichert, *Fortuna oder die Beständigkeit des Wechsels*, Frankfurt a.M. 1985.

<sup>44</sup> For the old Reich, see Winfried Schulze, *Vom Gemeinnutz zum Eigennutz. Über den Normenwandel in der ständischen Gesellschaft der frühen Neuzeit*, Munich 1987.

<sup>45</sup> Bernard de Mandeville, *The Fable of the bees*, 2 pts, London 1714–1724; modern edition by Frederick B. Kaye, 2 vols., Oxford 1924. German edition: Bernard Mandeville, *Die Bienenfabel oder Private Laster, Öffentliche Vorteile, mit einer Einleitung von Walter Euchner*, Frankfurt a.M. 1980.

<sup>46</sup> Albert O. Hirschman, *Leidenschaften und Interessen. Politische Begründungen des Kapitalismus vor seinem Sieg*, Frankfurt a.M. 1987.

form of curbed and conditioned interest clearly brought about economically useful results and thus in a sense vindicated Mandeville, even if his examples of prostitution and criminality remained unfounded because these seemed in fact to follow no single rational interest. So ultimately, the issue of the eighteenth century was no longer whether self-interest was sinful or not—this question could be left to theological debate within the confines of the church<sup>47</sup>—but how self-interest could be turned into a properly understood interest to create the greatest economic benefit not only for the individual but also for society as a whole. Debate in England and in Continental Europe is clearly divided on the question of how self-interest should be properly conditioned. In England, this function is fulfilled by social transactions which promote the desire for sociability inherent to man and, respectively, in economic affairs the market which prevents the baker from developing limitless greed due to his interest in maintaining business.<sup>48</sup> On the Continent, on the other hand, the establishment of economic sense proves to be a question of politics, or rather a task for the ruling class. Here, social transactions are organized differently and in addition, there is no market yet established to condition economic behavior.<sup>49</sup> Nevertheless, in both cases, in the British and in Continental European, the precondition is the abstinence from determining people's lives in material terms: in the anthropological picture of the latter half of the eighteenth century, man loses his predetermined

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<sup>47</sup> However, the moral problematic of self-interest still remains today in certain theoretical traditions relating to the theory of action, especially because the flawed link between norm and factual motive was already made in the nineteenth century. Successful entrepreneurs were accused of greed and hardheartedness while, interestingly, motives were rarely searched for among the poor and/or unsuccessful. Cf. Ilse Rarisch, *Das Unternehmerbild in der deutschen Erzählliteratur des 19. Jahrhunderts. Ein Beitrag zur Rezeption der Frühindustrialisierung in der belletristischen Literatur*, Berlin 1977. Cf. also Albert O. Hirschman, *Engagement und Enttäuschung. Über das Schwanken der Bürger zwischen Privatwohl und Gemeinwohl*, Frankfurt a.M. 1984.

<sup>48</sup> Keith Tribe, *Natural Liberty and laissez faire: How Adam Smith became a free trade ideologue*, in: Stephen Copley/Kathryn Sutherland (eds), *Adam Smith's Wealth of Nations*, Manchester 1995, 23–44.

<sup>49</sup> Keith Tribe, *Strategies of Economic Order. German Economic Discourse 1750–1950*, Cambridge 1994. Further Johannes Burkhardt, *Der Begriff des Ökonomischen in wissenschaftsgeschichtlicher Perspektive*, in: Norbert Waszek (ed.), *Die Institutionalisierung der Nationalökonomie an deutschen Universitäten. Zur Erinnerung an Klaus Hinrich Hennings*, St. Katharinen 1988, 55–76. For France see Fritz K. Mann, *Der Marshall Vauban und die Volkswirtschaftslehre des Absolutismus*, Leipzig 1914.

nature (as e.g. in terms of depravity) in favor of the notion that man has a restless but neutral core which can be molded through education. And this notion in particular can then merge with the concept of properly conditioned self-interest on the basis of which the institutionalization of a modern economy becomes possible.<sup>50</sup> In the words of Niklas Luhmann, this development can be summarized as follows:

To conclude we can state that the theological, political and legal tradition of early modern Europe which was suited to a corporatist concept of society is not replaced during the transition to the Modern Age by a new concept of society but initially by anthropology. This tradition already provided the decisive preconditions for an acceleration of the transformation in symbolic and socio-structural terms: It had linked very heterogeneous (Greek, Hebraic, Roman) components into a high degree of mutual relevance and thus made a politics of theory possible with far-reaching and ultimately unpredictable consequences. The new anthropology serves to continue this development, meets complexity with corresponding interdependencies and, over and above this, formulates the dynamic thus created in terms of an anthropology of unrest, of covetousness, of the originally indefinite negativity. Its theoretical-political success is a simultaneous success of discontinuation and continuation. It itself presupposes in turn a heterogeneity of ideas with a strong mutual relevance, that is complexity. Only later is the unity of discontinuity and continuity formulated: as a theory of history.<sup>51</sup>

This identification of the fickle nature of man, his educability, and thus the achievability of properly conditioned self-interest means that an autonomous concept of the economy becomes possible within political economy: so, given appropriately politically shaped conditions, an economic theory can emerge which is no longer contaminated by ethical considerations and is drawn up as a theory of monetarily coded exchange

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<sup>50</sup> While this provides a way out from the paradox of self-interest—which involves one not knowing whether it is in one's own interest to act according to self-interest—it only leads to the paradox of reason: is it reasonable to be reasonable? Speculators on the stock market have an interesting view on this. In general, see Niklas Luhmann, *Die Gesellschaft der Gesellschaft*, Vol. 1, Frankfurt a.M. 1997, 171–89.

<sup>51</sup> Luhmann, *Frühneuzeitliche Anthropologie* (cf. note 7), 216 f.



interactions motivated by self-interest. This replaces all early modern European concepts of ‘oeconomics’ with a model of the economy which describes itself in terms of calculation, based on balances, profits, and losses for which economic change always represents a reaction to price changes. In the 1950s, Otto Brunner already recognized this development in the meaning of the ‘economic’ in its historical terminology:

Not before the 18th century did the word ‘Wirt’ acquire the connotation of clever planning and rational budgeting. Changes in the meaning of the word ‘Wirtschaft’ were quite analogous. Initially, it also denoted all household activities and then in the 18th century related to the ‘household’ as an independent organism with an emphasis on rationally planned work, and from these foundations was then shifted on to the bigger picture to include the economy itself. The word ‘wirtschaftlich’ also only gained the meaning of frugal householding in the 18th century, while the term ‘Wirtschaftlichkeit’ emerged at the same time but obtained the sense of profitability only at the beginning of the 20th century.<sup>52</sup>

Of course, these changes in the semantics of economics in the eighteenth century should not be misunderstood as a pure and simple reflex to changing daily economic practice which in the early modern European world had been neither irrational nor stupid. It was an integral part of a different semantic cosmos in which the issue was neither self-regulation nor autonomous laws but the ‘economy of society’ was institutionalized according to ethical aspects. It is precisely this form of institutionalization which requires examination in the light of the changes in the semantics it was based upon.<sup>53</sup> The question is simply whether in the face of structural change traditional institutions are still sufficient or whether changes are necessary and, if so, which direction these should take. And specifically therein lies the significance of the new economic anthropology of proper self-interest: it explains the necessity of changes and determines their direction. This also means that something fundamentally new develops.

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<sup>52</sup> Brunner, *Das ‘Ganze Haus’* (cf. note 20), 106.

<sup>53</sup> Cf. Johannes Burkhardt, *Das Haus, der Staat und die Ökonomie. Das Verhältnis von Ökonomie und Politik in der neuzeitlichen Institutionengeschichte*, in: Gerhard Göhler/Kurt Lenk/Rainer Schmalz-Bruns (eds), *Die Rationalität politischer Institutionen. Interdisziplinäre Perspektiven*, Baden-Baden 1990, 169–87.

In the traditional view, good sense was linked to the order of the house. The rationality of actions also included upholding the existing order—the premise was to act rationally in reference to it. Now this becomes obsolete. The new criterion for economic sense is individual monetary success which alone allows for survival in the market society and is the benchmark for individual actions. Whosoever fulfills these criteria now also fulfills the concept of the *Homo economicus* as formulated hereafter.

The debate within practical philosophy and Cameralism during the first two-thirds of the eighteenth century in Germany reveals that the spread of the norm of *Homo economicus*, that is, of self-interest guiding sensible economic activities, did not involve the removal of all limits to possible action, nor a throwing of all caution to the wind with regard to rules on decency and humanity, as was claimed by the nineteenth-century critique. To the contrary, it involved a limitation on possible actions which had to be first imposed in the face of the supposed background of presumed unpredictable, greedy, or even destructively egoistic behavior. This debate examined the question whether man should submit to the pursuit of gain intensely and, if so, how. At first, the self-regulating power of proper self-interest was not examined at all because in Germany, unlike in England, neither social transactions allowed the good sense of citizens to be a guiding principle nor did the insufficient spread of market relations make its self-regulatory potential clear. To the contrary, in the early and mid-eighteenth century, the opinion still dominated that it was the responsibility of the sovereign to define the framework for economic activity. Recognition of the wisdom inherent to rational self-limitation as defined by the market was only slow.

Eckhart Hellmuth<sup>54</sup> has reviewed the debate on questions of economic attitudes within practical philosophy,<sup>55</sup> especially contributions made

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<sup>54</sup> Eckhart Hellmuth, *Praktische Philosophie und Wirtschaftsgesinnung. Zur Reflexion über Wirtschaft, Erwerb und Gewinn im Deutschland des 18. Jahrhunderts*, in: Archiv für Kulturgeschichte 68 (1986), 135–49. All quotes in the following from Hellmuth. On aspect of law, see Diethelm Klippel, 'Libertas commerciorum' und 'Vermögensgesellschaft'. Zur Geschichte ökonomischer Freiheitsrechte in Deutschland im 18. Jahrhundert, in: Günter Birtsch (ed.), Grund- und Freiheitsrechte im Wandel von Gesellschaft und Geschichte. Beiträge zur Geschichte der Grund- und Freiheitsrechte vom Ausgang des Mittelalters bis zur Revolution von 1848, Göttingen 1981, 313–35.

<sup>55</sup> Cf. also Horst Dreitzel, *Protestantischer Aristotelismus und absoluter Staat*, Wiesbaden 1970.

by the school of the moral philosopher Christian Wolff (1679–1754). His argumentation provides the basis for the following. The ruling powers should guarantee ‘nourishment’ as appropriate to one’s rank in the social order, including the use of limits on access to markets, price-fixing, and controls on consumption. Regulations regarding diet and dress are explicitly welcomed. While a ‘duty to work’ is not questioned by Wolff’s argumentation, this work should still be befitting to one’s rank in society. In any case, acquisition was to be limited, the pursuit of gain tempered, and the volume of monetary reward linked to a livelihood appropriate to one’s position in society. Aside from Wolff’s work, a particularly pronounced example of this influential train of thought can be found in the writings of Joachim Georg Darjes.<sup>56</sup> Darjes binds acquisition to moral provisos even more directly: acquisition is not a prerogative in itself; it is rather the case that Darjes regards it as legitimate only insofar as it serves the purposes of happiness and perfection which in Wolff’s tradition possessed normative strength. ‘One must thus agree’, as Darjes writes, ‘that reason cannot tie us to the acquisition of temporary wealth except as a means to remove obstacles from the path to true happiness and to enable us to more easily achieve and expand on true perfection.’ (p. 277) ‘In consequence, the obligation to acquire temporary wealth cannot cross this line.’ (p. 276) Otherwise, one would practically calculate ‘like a fool’, ‘if one were to reduce one’s happiness and thus vex one’s spirit due to the acquisition of temporary wealth’. (p. 277) So the development of the pursuit of gain demanded by capitalist logic is sanctioned under the Darjesian verdict. As an adherer to an economic order essentially shaped by society as a corpus of distinct social orders (*Stände*), he disqualifies the permanent drive for profit by definition as miserliness. ‘A miser is never content with the wealth which he possesses, he is in permanent anxiety about how he could acquire more, even though it contradicts the obligation as defined by reason.’ (p. 283 f.) In general, the drive for profit is characterized as unreasonable: ‘If a miser searches for his greatest happiness in the possession of temporary wealth, then point to this mistake and reveal to him in a convincing manner the foolishness hidden in this practice.’ (p. 285)

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<sup>56</sup>Joachim Georg Darjes, *Discours über sein Natur- und Völkerrecht*, Vol. III, Jena 1763.

Here, it becomes clear that the ‘idea of nourishment’ and the dress and luxury codes were not truly part of early modern Europe but were closely linked to the collapse of the old order and the dissolution of its restrictions on actions (and in practical terms restricted ability for action!). Thus the core of eighteenth-century philosophical argumentation is focused no longer on the restoration of an economic order composed of disinterested participants but on the shaping of a model for action which unites the ‘pursuit for gain’ to a ‘life led by reason’. Traditional Aristotelianism thus reaches a limit despite the continuation of its vocabulary. So the pursuit of gain is no longer rejected in principle but bound to its ‘reasonable use’. The difference to the British discussion during the second half of the eighteenth century mainly involved the question of how the pursuit of gain was to be limited. While Smith relied on the market and social transactions, practical philosophers in Germany put their faith in the powers of the sovereign and in morals. For example, Johann Christoph Gottsched (1700–1766)<sup>57</sup> wrote on the issue of acquisition in 1756:

Wealth is [...] nothing more than a means of securing our upkeep and welfare. But it is only a means to something else and should not be met with great respect as such. Without referring to the purpose it serves, it would be in itself of only little or even no value. In consequence we should not pursue wealth other than is necessary for our upkeep and comfort. So he who loves wealth for its own sake acts wrongly.

So evidently, the pursuit of gain was not in itself a problem but the unreasonably high respect it was given, its declaration as the center of daily life. In 1752, Hermann Friedrich Kahrel<sup>58</sup> answered the question of ‘how to increase one’s wealth’ in a similar vein: ‘Whosoever follows Heraclitus [...] that in wealth itself [...] happiness and a sanctuary against suffering can be found, grasps but a shadow.’ And further: ‘However as Socrates says, he who is content with little is the wealthiest.’ Fundamentally, Kahrel never regarded acquisition as an end in itself, but as a means to glorify God and a means on the path to happiness. ‘It is best

<sup>57</sup> Johann Christoph Gottsched, *Erste Gründe der gesamten Weltweisheit, darinn die allgemeine Sittenlehre, das Recht der Natur, die Tugend- und Staatslehre enthalten ist*, Leipzig 1756, 113.

<sup>58</sup> Hermann Friedrich Kahrel, *Geschäftslogik, oder Kunst, Privat- sowohl als Staatsgeschäfte glücklich und mit gehöriger Klugheit auszuführen*, Herborn 1752, 32, 35.

if the art of acquiring wealth, as any other work, is never seen as the main purpose itself but used to serve the special purpose of glorifying God and the happiness of oneself and others.’

In this sense, the question raised was one about how to temper the pursuit of gain in reasonable measure and not about its validity as such, especially as commentators increasingly voiced the opinion that a positive strength could be attributed to the ‘moral’ orientation toward self-interest: ‘Private persons work with movable goods because of their own advantage and the development of the state demands that this private advantage should be linked to the general good. Moreover, it is not even possible to make people work hard and skillfully without the motivation of their own advantage’, to quote the most influential German Cameralist Johann Heinrich Justi.<sup>59</sup> This way of thinking became more and more widespread; the actions of the sovereign were now measured according to how far a ‘moral’ orientation toward self-interest could be guaranteed and how thus a reasonable control of the behavior of its subjects achieved. In the latter half of the eighteenth century, the view was also increasingly voiced that the population was in a state of neglect. Darjes criticized strongly that ‘very many people are ruined [...] by excessive feasts, and by splendid dress. The sovereign has thus [...] the right to place limits on these things, to issue regulations on meals and dress.’<sup>60</sup> While the Cameralists, the practical philosophers, and some philosophers of law continued to hold on to the idea that the sovereign should practically enforce ‘reasonableness’, this way of thinking was increasingly pushed into the defensive under the influence of the Physiocrats and finally, in the context of the reception of Smith. From this point of view, contemporary squalor was no longer a consequence of the ‘immorality’ of the people but a consequence of the ‘natural order’ being blocked by sovereigns who

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<sup>59</sup> Johann Heinrich von Justi, *Die Grundfeste zu der Macht und Glückseligkeit der Staaten oder ausführliche Vorstellung des gesamten Polizeiwesens in zwei Bänden*, Königsberg 1760 (reprint Aalen 1965), here Vol. 1, 433. More research into the anthropological concepts used by German Cameralism is necessary, so here only this initial reference to Justi can be made while repercussions from older Aristotelian concepts are probable, especially in early university-based Cameralism. On its development cf. Klaus H. Hennings, *Aspekte der Institutionalisierung der Nationalökonomie an deutschen Universitäten*, in: Norbert Waszek (ed.), *Die Institutionalisierung der Nationalökonomie an deutschen Universitäten. Zur Erinnerung an Klaus Hinrich Hennings*, St. Katharinen 1988, 43–54.

<sup>60</sup> Darjes, *Discours* (cf. note 56), 140.

claimed the right to order the economic activities of their subjects and thus fostered economic decline. While traditional proponents of 'Natural Law' argued that complete freedom could not exist in civil society and that the individual could not claim his natural rights in the civil state, the Physiocrat Müller argued the opposite case with great vehemence: man did not lose a single natural right upon entering the state.

The theory of inviolable human rights which cannot be limited, nor fundamentally restricted, through state contracts or within the state spread throughout the entire school of German Natural Law from around 1780. It welcomes the principles of the Physiocrats as the science of the "rights of man" within the general rights of state and as a theoretical "liberation from manifold slavery, despotism, tyranny".

From this perspective, mercantilist intervention is an offense to natural freedom, to the sacredness of property as concomitant to the 'completely unlimited freedom' of man, 'to be active howsoever he chooses'. Privileges and taxes on prices are illegitimate; instead, the German Physiocrats demand freedom of trade, as monopolies contravene the natural freedom of business and trade.<sup>61</sup> The model of a division between state and society emerging here, the latter conceived of as a free-market society of owners, was most clearly formulated by Samuel Simon Witte (*Über die Schicklichkeit der Aufwandsgesetze*, Leipzig 1782) long before Hegel's well-known statements in his philosophy of law: according to Witte, the basis is the 'free development of strengths and inclinations demanded by civil transactions and the civic good'. The basis of all ownership is free will, and property is 'the material [...], through which the individual can express his personal rights, and determine the sphere of influence of human freedom'; the owner alone—and not the state—has the right to dispose over his property. This is related to the theory of civil society as a 'society of wealth', the purpose of which is (1) 'to have people nearby with whom one (can) exchange', (2) 'to guarantee the especial free enjoyment of the products of one's toils or property'; civil society is distinct from both the 'domestic'—the 'service and work society'—as also from the state. The 'society of wealth' is seen as a 'union for the mutual satisfaction

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<sup>61</sup> Quoted in Klippel, *Libertas commerciorum*' (cf. note 54), 327 ff.

of needs through the reciprocal free turnover of the products of toil or of wealth and goods through civil transactions'; each man 'works here [...] individually, looks after his own interest and should do so too'. A further consideration leads to the stipulation that the state should abstain from intruding into civil society, to the 'principle that the state is subordinate to civil society because the former is only the means to promote the purpose of the latter'. The state can thus 'not determine, command or dictate the effectiveness of the forces working within civil society'; the state does not have the right to limit the use of wealth through legal stipulations, and a law which determines the value of a product would be a violation of human rights. This provides a most lucid statement on the independence and primacy of civil society, understood as a society of economically active individuals long before its succinct Hegelian formulation.<sup>62</sup>

## Concluding Remarks

It has become clear that the figure of the *Homo economicus* developed historically out of a debate on the nature of man after the collapse of the traditional European cosmology. Furthermore, this possibility only arose in the context of a new anthropology which understood man as a restless but moldable being. It has also been shown that this allowed a reformulation of traditional proto-economic semantics involving the householder, the merchant, the honest market participant, and finally, the citizen, directed by reason and pursuing his properly understood self-interest in a way which also took into account the interests of his partners in exchange. It is clear that this norm signified a limit on what was economically possible to what was reasonably justified while at the same time being used as an education program for the 'unreasonable' masses who still needed to be trained as *Homines economici*.<sup>63</sup> Finally, it is evident

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<sup>62</sup>Klippel, '*Libertas commerciorum*' (see above, note 54), 329. See also Matthias Bohlender, *Metamorphosen des Gemeinwohls. Von der Herrschaft guter Policey zur Regierung durch Freiheit und Sicherheit*, in: Münkler/Bluhm (eds), *Gemeinwohl und Gemeinsinn* (see above, note 22), 247–74.

<sup>63</sup>Cf. from an abundance of literature, see the contributions in Hans-Jürg Braun (ed.), *Ethische Perspektiven: 'Wandel der Tugenden'*, Zurich 1989. Also the pedagogical program to increase the

that the *Homo economicus* did not pre-empt the modern economy, but emerged simultaneously as a norm and radiated back on reality. And this is just as important even though this aspect was—for obvious reasons—not at the center of considerations in the above context: the structural change of the early modern European world was an essential prerequisite for the destruction of the old ‘oeconomics’; it created as it were the basis to which discussion of proper economic behavior and its guarantee had to refer. But it was the economic semantics of the Modern Age which—to put it simplistically—made those institutions possible in the first place and then channeled structural change into a particular direction, thus accelerating it. In this sense, the emerging market economy made semantic changes possible (and in consequence new systems of rules), which then in turn promoted their evolutionary success. Of course, this complex structural change only appears to be logical and irreversible in retrospect; in the early nineteenth century, a radical success of the market economy was all but self-evident, let alone truly popular.<sup>64</sup> The modern economy could only develop due to the literally historically unique co-evolution of socio-economic structural change and the emergence of modern economic semantics, the symbol of which is rightly the *Homo economicus*. Contemporaries were confronted with a different concept of the self and of time, as vividly illustrated by Justus Möser in his ‘Patriotic Fantasies’. So to conclude, I have chosen an excerpt relating to Möser’s experience of his wife’s ‘education’. He wrote to his father-in-law:

In the meantime we have further refined our new plan through further considerations. The morning robe, usually worn between 8 and 10 o’clock in the morning, has been totally done away with; and as soon as she gets up, she gets straight into her short gowns. The long robe which she used to wear at mealtimes, is not worn at home at all anymore, and so in the afternoons it need not be altered for a third time as was done otherwise if for

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industriousness of the people was of course subject to dispute; a polemic worth reading Ernst A. Evers, *Über die Schulbildung zur Bestialität. Ein Programm zur Eröffnung des neuen Lehrkurses in der Kantonsschule Aarau*, Aarau 1807.

<sup>64</sup> The latest research has revealed, for example, the opposition against the liberal reforms in Prussia did not only originate from the ‘reactionary Junkers’. Cf. for an overview still worth reading Reinhart Koselleck, *Preußen zwischen Reform und Revolution. Allgemeines Landrecht, Verwaltung und soziale Bewegung von 1791 bis 1848*, Stuttgart 1987.



example a visitor was expected. In the evening the bedside table has become superfluous as there is no need to remove thousands of pins nor to stow away hundreds of valuable, trifling things. These alterations signify a gain of eight additional hours per day for her real life; which, as these are now used to the benefit of our household not only save me from ruin, but also with the benediction of God allow me to remain an honest man.<sup>65</sup>

In this sense, the *Homo economicus* is a product of the eighteenth century which drew on an older semantic tradition, with precursors in the Ancient World, the revised version of which was, however, closely linked to the emerging anthropology of the early modern period. Removed from its historical context and freed from its specific conditioning within the historical constellation of the eighteenth century, it was able to degenerate into the epitome of crude egoism in the nineteenth century. It deserves to be saved from this fate: the history of the *Homo economicus* is the history of teachings on how to remain an honest man under the conditions of the eighteenth century. A devout life, free from sin, focused on the household was in the face of emerging structural change no longer sufficient: one had to calculate one's time and money and to reckon with the laws of the market!<sup>66</sup>

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<sup>65</sup>Justus Möser, *Patriotische Phantasien*, 4 pts, in: *Sämtliche Werke*, neu geordnet und aus dem Nachlasse desselben gemehrt durch B.R. Abeken, 4 vls, Berlin 1842. 1. Theil, I., Schreiben an meinen Herrn Schwiegervater, 92–4.

<sup>66</sup>No one was more aware of this than Johann Wolfgang Goethe who met the Modern Age with some skepticism. He proved to be exceptionally 'rational' in his dealings with publishers. Cf. Manfred Tietzel, *Goethe—ein homo oeconomicus Diskussionsbeiträge des Fachbereichs Wirtschaftswissenschaften der Universität-Gesamthochschule Duisburg*, no. 160, March 1992.

# Part II

## Business History

# 4

## The Improbability of the Jubilee: Or Why the Only Way to Shed Light on a Firm Is through Its History

Corporate history is a much-discussed topic nowadays. What interests people primarily is how firms (and to an even greater extent those who ran them) are related to the National Socialist dictatorship. The public is eager to know how involved they were (and, of course, such involvement had its own specific character in each case) in the war economy of the Hitler regime, with all that regime's dehumanizing repercussions.<sup>1</sup>

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<sup>1</sup>As a somewhat alarming example of *Zeitgeisthaftigkeit* (the quality of being stuck in the mind-set of the time), see the article *Die Manager der Nazis* that Norbert Frei published in: *Der Spiegel* 20/2001, 180–92. The tone of the Nuremberg indictment against industrial chemicals giant IG Farben lends itself readily to generalization, and it is one who rehearses not simply in a spirit of admission but also as moral stricture. Similarly typical is the anthology of twentieth-century-industrial careers edited by Paul Erker and Toni Pierenkemper. Amid much that is worth reading, the Introduction to their volume positively bristles with *Zeitgeist*, reflecting as it does a mental continuity of entrepreneurial stance from the National Socialist period until the late 1960s. Paul Erker/Toni Pierenkemper, *Deutsche Unternehmer zwischen Kriegswirtschaft und Wiederaufbau. Studien zur Erfahrungsbildung von Industrie-Eliten*, Munich 1999. Not until a 'new start' transformed social awareness in the years after 1968 were the old attitudes finally laid to rest.

Here the rules governing the crystallization of public opinion apply,<sup>2</sup> and these do not invariably meet criteria of scientific plausibility. Hence, the difficulty of passing judgment on these current pieces, particularly since in the vast majority of cases world history acts like the international court: having handed down the correct moral judgment, it forgets to call businessmen to account accordingly. In academia itself this whole debate (though mainly the stream of pronouncements—some to be taken more seriously than others—from authors both invited and uninvited) has sparked off or at least fuelled a new row about what, in future, constitutes ‘proper’ corporate history. Toni Pierenkemper<sup>3</sup> and Peter Borscheid<sup>4</sup> are among scholars arguing that the real job of corporate history concerns the economic core of corporate development, while Manfred Pohl<sup>5</sup> prefers a thematically deconcentrated but success-oriented pragmatism, contending that corporate history can cover the whole range of historical questions where these affect firms or entrepreneurs. One suspects that behind the controversy lies an element of argy-bargy about whose job this is. Nor would such suspicions be entirely out of place. The fact is, not only historical accounts of how firms behaved under the National Socialist dictatorship but also the numerous (and doubtless lucrative) celebratory publications put out by major companies recently have for the most part been written by noted general historians.

Nevertheless, despite all the questions voiced in this context over the past two years, there is no consensus that this amounts to a sham controversy, as Peter Borscheid<sup>6</sup> hints in refusing to ‘license’ certain people to write corporate histories. There is no ideal way of approaching the task—any more than there are particular people competent to perform it. Business companies form a basic component of modern history, and it would be quite wrong to draw artificial boundaries here, be they the-

<sup>2</sup> Niklas Luhmann, *Die Realität der Massenmedien*, 2nd enlarged edition, Opladen 1996.

<sup>3</sup> Toni Pierenkemper, *Was kann eine moderne Unternehmensgeschichte leisten? Und was sollte sie tunlichst vermeiden?*, in: *Zeitschrift für Unternehmensgeschichte* (ZUG) 44 (1999), 15–31. Toni Pierenkemper, *Sechs Thesen zum gegenwärtigen Stand der deutschen Unternehmensgeschichtsschreibung. Eine Erwiderung auf Manfred Pohl*, in: ZUG 45 (2000), 157–66.

<sup>4</sup> Peter Borscheid, *Der ökonomische Kern der Unternehmensgeschichte*, in: ZUG 46 (2001), 5–10.

<sup>5</sup> Manfred Pohl, *Zwischen Weibbrauch und Wissenschaft? Zum Standort der modernen Unternehmensgeschichte. Eine Replik auf Toni Pierenkemper*, in: ZUG 44 (1999), 150–63.

<sup>6</sup> Borscheid, *Der ökonomische Kern*, (cf. note 4).

matic or skills-related. If this chapter seeks nonetheless to promote a theoretically inspired corporate historiography,<sup>7</sup> it does so wholly without pretension. What concerns me is whether or not corporate historiography gains as a result—something that will not only give it a better understanding of the historical development of firms but will also contribute to general historiography (including, incidentally, to the economic theory of the firm), helping the discipline to deal in a historically nuanced way with what would appear to be something of a monster.<sup>8</sup> One thing that needs clarifying at the same time is the value of theoretical inspiration in this connection. Theoretical models do not presuppose rules in accordance with which firms evolve historically—with the result that histories of those firms boil down to mere illustrations of given systems. Each firm is wholly unique and cannot be reconstructed historically except as a unique phenomenon.<sup>9</sup> However, there are two ways in which theoretical models can be of crucial assistance to the historian in his or her work. For one thing, they help to define the sphere of historical potential we call a ‘commercial enterprise’. Each enterprise may be unique, but firms are not arbitrary organizations; they undertake to preserve their economic viability intact, which is not something that can be done by prayer alone or by bribing politicians.<sup>10</sup> For another, theoretical models (while in no way being seen as reflecting historical ‘actuality’) offer a more sophisticated approach to and interpretation of the relevant source material—particularly (and invariably) when model-based thinking compels a degree of concentration that ‘sound common sense’ cannot

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<sup>7</sup> For initial thoughts on this, see Ulrich Pfister/Werner Plumpe, *Plädoyer für eine theoriegestützte Geschichte von Unternehmen und Unternehmern*, in: Westfälische Forschungen 50 (2000), 1–21.

<sup>8</sup> Here one might note in the margin that such an approach will also guard against over-hasty political and moral judgments. These have lost none of their bite in academic texts—for two reasons. On the one hand we know, at least since Max Weber’s 1917 lecture ‘Wissenschaft als Beruf’, that criteria of moral judgment have no foundation in science. On the other, such verdicts invariably spark a scientific ‘civil war’ in that the question of the correct ruling very soon turns into a question of the character and opinions of the authors concerned (see Niklas Luhmann’s 1989 speech ‘Paradigm lost’). I presume it is hardly necessary to cite instances.

<sup>9</sup> Which is basically what Hermann Lübbe is saying in *Geschichtsbegriff und Geschichtsinteresse. Analytik und Pragmatik*, Basel 1977.

<sup>10</sup> For publication, the importance of the appropriate commitment on the part of the entrepreneur is overstated almost as a matter of principle; he or she may possess political influence or buy some, but this will never in itself guarantee business success.

achieve unaided. Furthermore, theoretical considerations shine a direct light on the fact that, although those who establish and manage firms are subject to certain constraints, they are not, deep down, entirely unfree. Committed existentially to their organizations' survival, entrepreneurs are also, vis-à-vis an open future, able to take actions that may be to their advantage or to their disadvantage. The following ideas, whose utility will stem solely from whether or not they promote historiographical insights, are intended to improve our understanding of this 'sphere of possibility' that is the commercial firm, of the way in which it develops historically and the kinds of scope for action that exist within it. If they fail to do this, they will have to be withdrawn.

Before setting out our theoretical ideas, we must first take a look at the tradition of corporate history. We must answer the (by no means obvious) question: is there any room, indeed any need for such ideas? The relevant literature<sup>11</sup> covers three traditions:

- (a) The *Festschrift* tradition, well suited to the theoretical requirements of focusing on the essentials of the firm but known to exaggerate the role and importance of management. This class of literature tends to echo the decision-making semantics that managements must develop with a view to maintaining their own freedom of action. In a way, celebratory publications even corroborate (albeit involuntarily) the theoretical ideas I shall be looking at below. They place the problem of decision-making in the foreground but then fail to examine it with sufficient complexity. The semantics of decision-making and of managerial resolutions are not in fact contextualized and set against the development of the firm for comparative purposes. Rather than being seen from the standpoint of the observing economic historian, who will tend to view them as contingent fictions making a decision possible, they are taken at face value for what they may well represent in the eyes of the entrepreneur concerned. In the neo-Marxist renaissance of the 1960s and 1970s, this 'bias' gave the *Festschrift* a reputation for glossing over if not actually whitewashing the truth—criticism,

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<sup>11</sup> For a full treatment, see Toni Pierenkemper, *Unternehmensgeschichte: Eine Einführung in ihre Methoden und Ergebnisse*, Stuttgart 2000.

incidentally, that did not deem the notion of corporate independence and freedom of action to be a necessary fiction but merely pointed the finger at a different moral and political assessment of 'powerful' corporate action.

- (b) Works of corporate history written by general historians, which have markedly increased in number in recent years. Most of these take an apparently obvious concept of 'the firm' but treat it like a kind of black box, concealing it beneath the words and actions of the managers concerned. These are what such usually very valuable studies deal with, examining the economic, social, and political activities of those persons, their patterns of recruitment, and their mindsets. The real target (the firm itself and the corporate decision-making situation) is not always missed, but hits tend to be fortuitous. Basically, criteria for reconstructing and assessing management conduct are derived not from the specific situations in which decisions are taken and actions performed but from general historical (and increasingly also moral) considerations.
- (c) In contrast to the Anglophone world, in Germany few theoretically inspired books and essays appeared in the post-war years, although in German-speaking countries especially the whole spectrum of theoretical preparatory work (Schmoller, Weber, Sombart, Schumpeter) was in fact covered. Consequently, the institutionalism and evolutionary economics on which modern corporate research draws are to a great extent re-imported (though in a thoroughly altered form) from the USA.<sup>12</sup> However, studies of the subject have been increasing in number since the late 1980s with more and more concepts being borrowed from industrial sociology (micro-politics, for instance) and processed in harmony with institutional economics. The results look promising, although the range of work published is still restricted.

In terms of classification, there is little to distinguish these three strands; they all serve their own gods. One thing can be said, however.

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<sup>12</sup>The relevant debate about corporate history, notably in connection with lengthy discussions of the works of Alfred Chandler, has also been more intense in the Anglophone world. For the present state of such discussions, see Naomi L. Lamoreaux/Daniel M. G. Ralff/Peter Temin, *New economic approaches to the study of business history*, in: *Business and Economic History* 26 (1997), 57–79.

Unlike the theoretically inspired works that operate with an explicit concept of the firm, the *Festschrift* and the work of general history produce a different order of pronouncement—one that without necessarily relating to the firm as such describes its interaction with the environment or reflects the image that it has of itself. To that extent they enlighten us (or at least begin to enlighten us) as to how the business firm does in fact interact with its environment and how senior management views its own competence to act. What they do not show is how far that phenomenon is linked to the firm's internal processes of decision-making and development—indeed, depends upon them. That is usually left vague or simply asserted.<sup>13</sup> Even theoretically inspired historiography has as yet made no more than the beginnings of an effort to plug this loophole. Most of the relevant publications fail to spell out a general theoretical framework of analysis. Yet precisely that—making explicit the essence of the business enterprise—is at stake here! How shall we define the true nature of the company, considered in the light of theory and of the research conducted hitherto? What consequences flow therefrom? What challenges arise as regards the writing of corporate history?

The following remarks should be seen as a provisional attempt to answer these questions. They go back to ancient German linguistic traditions. They relate very much to more recent English-language debates. Their aim is a clearer understanding and synopsis of concepts currently to hand. And their conclusion will be to set a fresh accent in the sphere of organizational decision-making processes, emphasizing a point to which (so far as the author knows) very little attention has been paid hitherto. How far that point takes us, critical discussion will show.

Examining the relevant literature<sup>14</sup> brings us up against the question of the defining characteristics of modern firms. This applies particularly to books and articles stemming from what has come to be called the

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<sup>13</sup>To that extent the approach advocated in a recent ZUG article is not without problems. The authors say virtually nothing definite about the actual decision-making dynamics of the firm with regard to its environmental relations. See Florian Triebel/Jürgen Seidl, *Ein Analyserahmen für das Fach Unternehmensgeschichte*, in: ZUG 46 (2001), 11–26.

<sup>14</sup>A good survey of the literature will be found in Malcolm H. Dunn, *Die Unternehmung als ein soziales System. Ein sozialwissenschaftlicher Beitrag zur Neuen Mikroökonomie*, Berlin 1998. See also Jochen Schumann, *Grundzüge der mikroökonomischen Theorie*, 6th, revised and expanded edition, Berlin 1992, 405–68.



‘New Institutional Economics’; in other texts the firm as such is rarely discussed in specific terms. The development and overall theoretical structure of New Institutional Economics<sup>15</sup> cannot be set out here, but some brief indication of its substance does of course need to be given. What prompted the emergence of this theoretical approach was the widespread critique leveled at the neo-classical notion of smoothly functioning markets, which saw firms as pure producers that invariably (in response to price incentives) adapted to each market situation in a way that was going to maximize profits. In this model markets and firms operate without costs, market transparency is a constant given, decisions are acted on without delay, and problems of implementation are automatically transformed into production programs. Decision-making processes in the true sense do not exist; the actors are rational, profit-maximizing participants who adapt automatically to price movements. The advocates of classic institutionalism (Schmoller, Veblen, Commons, and others)<sup>16</sup> rejected this approach as unrealistic and basically argued for a corporate sociology. However, those championing New Institutional Economics took a different path. Without abandoning the neo-classical claim to explain economic processes on the basis of their own logic, these authors widened their sphere of application and drew certain distinctions in their basic assumptions. Particularly Ronald Coase raised the question of the costs of the market mechanism.<sup>17</sup> His argument was that in the strict neoclassical model, which operated on a cost-free, frictionless basis, firms made no sense economically. The cheapest way of obtaining all requisite goods and services was directly through the market. According to Coase, firms were still being created because of the costs of using the market—a factor that neo-classicism had improperly overlooked. It could be more cost-effective to perform economic transactions without using the market and its attendant search, negotiation, and control costs, which was precisely why in such cases coordination through the market came to be supplanted by hierarchical coordination in the form of an enterprise. This

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<sup>15</sup>Matthias Erlei/Martin Leschke/Dirk Sauerland, *Neue Institutionenökonomik*, Stuttgart 1999.

<sup>16</sup>Norbert Reuter, *Der Institutionalismus. Geschichte und Theorie der evolutionären Ökonomie*, Marburg 1994.

<sup>17</sup>A collection of the principal essays published since the 1930s may be found in Ronald H. Coase, *The firm, the market, and the law*, Chicago 1990.

invariably made sense (Coase explained) when transaction costs in the company were lower than the corresponding costs of using the market. His 1936 essay entitled *The nature of the firm* had little impact at first. In the 1950s, however, his basic ideas received backing from another quarter—and did so in several respects. Herbert Simon<sup>18</sup> showed that (in strict truth) rational actors do not exist; rationality is always tied to a particular perspective that renders full information impossible. ‘Bounded rationality’ crucially varies neo-classical assumptions by replacing unbounded rationality by a notion of what appears rational to actors in a given framework of decision-making and information.<sup>19</sup> This made clear at the same time that decision-making processes cannot be regarded as rational in the sense of implementing optimal cost constellations; these are quite unknown to the actors involved and certainly do not come without their own outlay and expenditure. Not only was unbounded rationality on the part of the relevant actors forfeit: so was the rationality of their decision-making processes itself. Instead of rational decision-making, the talk was more and more of ‘muddling through’.<sup>20</sup> Ultimately, not even the third basic assumption (that economic actors strive for maximum profits) could be confirmed empirically. Instead, numerous studies showed that most actors strove not for maximum profit so much as for what struck them as appropriate returns. Satisfaction became apparent if the company’s achievements seemed adequately rewarded.<sup>21</sup> These three expansions lent entirely new weight to Coase’s arguments. What Coase had at first merely advanced as plausible had now been emphatically underscored. Informedness does not come cost-free; decision-making processes are rational only to a limited degree and are cost-intensive; profit-maximization is not an adequate instrument for understanding the behavior of actors in the world of business. Using the market mechanism (indeed, the very market mechanism itself), entails search, transaction, and control costs. There are costs for obtaining information, and there are costs for identifying and implementing decisions. Rational conduct

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<sup>18</sup> The fundamental source is Herbert A. Simon, *Models of man*, London 1957.

<sup>19</sup> Herbert A. Simon, *Homo rationalis*, Frankfurt a.M. 1993.

<sup>20</sup> R. M. Cyert/H. G. March, *A behavioral theory of the firm*, Englewood Cliffs 1963.

<sup>21</sup> Heinz Sauermann/Reinhard Selten, *Anspruchsanpassungstheorie der Unternehmen*, in: *Zeitschrift für die gesamte Staatswissenschaft* 118 (1962), 577–97.

may be the aim but it is scarcely to be achieved; it will certainly not be achieved without cost. In a given case, it may even make economic sense to forgo becoming fully (yet expensively) informed.

Even if the neo-classical paradigm was not wholly abandoned, questions pertaining to the structure of firms and how they operate now took an entirely different form. How, given bounded rationality on the part of the actors and an absence of rationality in decision-making, can transaction costs (which now became the blanket term covering all costs associated purely with the organization of processes of production and distribution) be kept low enough for economic activity by firms to make sense? It now became apparent that what Coase had said was far too sweeping. Seen from the angle of the costs of the hierarchical coordination of transactions, his remarks lacked detail. Because even if in firms the search, transaction, and control costs of the market are avoided, new costs (virtually ignored hitherto) promptly arise in their place. Coase had made the possibility of the firm economically plausible but had presented no theory of the firm. The crucial step was taken by Oliver E. Williamson with his 1985 book *The Economic Institutions of Capitalism*.<sup>22</sup> He filled out the basic assumptions of bounded rationality and less than rational decision-making processes with the 'opportunistic behavior' line of argument.<sup>23</sup> For Williamson the founding of a firm (in fact, any major investment) involves the 'fundamental transformation' of free capital into specific capital, with the yield of the latter being higher (not least because of the lower transaction costs) but the uses to which it can be put being necessarily fewer and hence more prone to opportunism. The open question for the success of the investment and hence the founding of the organization is: who may appropriate the return on this capital invested for a specific purpose? For investors it is clear that, despite their formal title in the specific investment, they will not always be able to get their way. Instead, they will be at the mercy of the opportunistic behavior of their partners in cooperation, whose exploitation chances will be the

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<sup>22</sup>Oliver E. Williamson, *The economic institutions of capitalism*, New York 1985. See also Oliver E. Williamson, *The modern corporation: Origins, evolution, attributes*, in: *Journal of Economic Literature* 19 (1981), 1537–68.

<sup>23</sup>'Behavioral opportunism' describes the unilateral use of rules whose general reliability remains unquestioned.

greater, the more specific the investment concerned. Providers of capital are therefore going to look for contractual forms with which to secure their investments—forms that will guarantee their prospects of appropriating any return. Consequently, firms can be seen as contractual institutions securing specific investments against opportunism, with the form of firm or cooperative arrangement chosen depending on the amount and structure of the specific investments in question.

The fact is, understanding the firm as a contractual organization designed to limit the risk of the opportunism perpetually threatening highly specific investments does on the one hand represent a decisive advance. It makes clear that the corporate form is by no means the more attractive economic institution generally but one linked to essential preconditions. Corporate foundations presuppose highly specific investments; where the degree of specification is lower, different forms of organization (cooperations) or the market will be chosen to coordinate transactions. On the other hand, the question of how the firm operates arises in entirely different terms since the problem of internal transaction costs has to be captured in greater detail. It was already evident to Coase that hierarchical coordination is not cost-free, although he said no more about this. However, Williamson and the debate prompted by his work made it clear that the level of transaction costs within the firm is determined mainly by the problems associated with implementing the contract in such a way as to prevent opportunistic behavior.<sup>24</sup> As a result the focus of interest shifted to the question of contract performance in firms—or rather, to be more precise, to the contractually governed relationship between the capital providers (principals) and those who put the relevant specific investments to practical use (agents). This, though, is about two things. In the first place, is the contract configured and performed in such a way as to hold internal transaction costs at a lower level than coordination by the market will produce or that competitors in the same market segment are able to achieve—in other words, is corporate organization potentially profitable at all? Secondly, it leaves entirely open the question of who will own any such profit. The principal/agent

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<sup>24</sup> Among other sources, see Oliver Hart/John Moore, *Property rights and the nature of the firm*, in: *Journal of Political Economy* 98 (1990), 1119–58.

problem thus formulated<sup>25</sup> is basically a contractual problem twice over. Initially, the contract formally sets out an asymmetry to the effect that the agent qua client must guarantee the success of the specific investment within the directive powers conferred by the principal. It follows that a permanent exchange relationship of pay and performance is enshrined here under the principal's formal authority to issue instructions. The contract, of course, relates to future developments that must be deemed uncertain and cannot be covered in their entirety by contractual provisions. To deal with this uncertainty, agents must be allowed some future freedom of action, which means that their contracts will inevitably be incomplete. In practice, although agents are tied down formally as to the directives they can issue, such incompleteness not only enables them to exercise a degree of autonomy of action; they may also be better informed than their principals regarding the concrete circumstances of fulfilling the relevant contracts. This will give them, in addition, opportunities for behaving opportunistically, allowing them to appropriate parts of the organization's income that are not formally theirs. Overcoming this problem of opportunism forms the core of the legal and social organization of the firm, which must simultaneously ensure (a) that adequate corporate income is achieved in comparison with the market and with potential rivals and (b) that such corporate income is not, through opportunism, used to the detriment of the company. Methods of sanction, be they formal (punishments, rewards) or informal (corporate culture, micropolitics), which together make up the governance structure of the company, will therefore necessarily vary over the firm's history in order to deal with the risk of opportunism.

Returning to our initial question (what, in essence, is a firm?) this does indeed seem to constitute a theoretical framework of reference enabling us to capture the specifics of such organizations. It is a framework that will on the one hand act as a corrective to the obvious problems of neo-classical microeconomics in their analysis of firms and on the other avoid the short-circuiting practiced by general historiography, which sees firms as, at bottom, self-evident givens. This it does

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<sup>25</sup>In this connection, see Michael C. Jensen/William H. Meckling, *Managerial behavior, agency costs and ownership structure*, in: *Journal of financial economics* 3 (1973), 305–60.

by offering a way of reducing companies to how their leaders behave. Seeing a company as an organization that tries to avoid the specific costs of using the market (search, transaction, and control costs), albeit incurring organization costs (incomplete contracts, the principal/agent problem, information costs) that it seeks to keep as low as possible, is an approach that despite astonishing brilliance as a theoretical model presents key weak points when it comes to analyzing the way in which firms develop. The fact is, with the neo-institutional conception of the company we are dealing with what is basically a static model. It does not deviate from the underlying assumptions of neo-classicism, so we can assume that, in conditions of free competition, the situation finds an optimal level as regards organization costs. The market mechanism will ensure that all firms with non-optimal cost constellations fail to survive. In essence, therefore, the Coase-Williamson model springs primarily from the neo-classical assumption that firms represent production functions, with that production function including not only the factor costs of material production but those of organization as well. This explains the existence of firms and sheds light on many of their internal organizational problems, but it does not account for their development. On the contrary, balanced stasis is a necessary consequence of the model theory inherent in this approach. Such a stasis clearly does not accord with reality.<sup>26</sup> The way firms develop presupposes specific imbalances (requiring constant renewal) in and between firms. Different cost constellations in different firms enable some of them to attain profits or organizational incomes while others make losses and fail. The man who successfully elaborated these basic ideas regarding the need for imbalance if a firm is to develop (i.e. from an overall economic perspective) was Joseph Schumpeter, whose crucial achievement can now, given what has been said hitherto, be taken further. According to Schumpeter it was the implementation of new factorial combinations by entrepreneurs that created the imbalance necessary for development. After Coase and

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<sup>26</sup>In this connection, see also the fundamental study by Richard R. Nelson/Sidney G. Winter, *Firm and industry response to changed market conditions: An evolutionary approach*, in: *Economic inquiry* 17 (1980), 179–202. For a recent critique of the ‘static’ approach put forward by the new institutional economics school, see S. R. H. Jones, *Transaction costs and the theory of the firm: The scope and limitations of the New Institutional Approach*, in: *Business History* 39 (1997), 9–25.

Williamson, successors could say that it was not simply new factoral combinations that enabled firms to earn profits in comparison with competitors and markets; there was now another source of the sorts of organizational income that can lead to the imbalance so essential to development. In addition to (a) new products and (b) new production processes, there were now (c) new forms of organization. In other words, firms depend not only on differences in cost levels for making use of markets or organizations; they also, in their development, depend on cost differences vis-à-vis other firms that require constant renewal. The New Institutional Economics based on Schumpeter needs first and foremost some evolutionary supplementation. This raises a fresh problem, of course. We know that in Schumpeter's model the imbalance dynamic stems from the figure of the 'creative entrepreneur', who by mobilizing capital for new factor combinations destroys former states of equilibrium and makes way for the fresh imbalances necessary to drive further development forward. The actual livelihood of that entrepreneur within the framework of the specific organization, that is, 'the firm' is not something Schumpeter explains. His theory of overall economic development touches neither on the way the firm works nor the role and function of the entrepreneur. He simply takes the latter 'figure' for granted. 'Leadership' [*Führerschaft*], which according to Schumpeter is the crucial element in implementing new factor combinations, is not something he poses as an economic problem; he simply construes it and states it as a social fact.<sup>27</sup> Schumpeter's argument is on the one hand not conclusive, needing as it does to incorporate the contingency of the right people being in the right place at the right time. On the other hand it is also incomplete, treating the behavior of the 'entrepreneur' as too unproblematic. Where this knowledge comes from (of what particular factor combination will succeed at a given time) is likewise left unclear,

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<sup>27</sup> Joseph A. Schumpeter, *The theory of economic development: An inquiry into profits, capital, credit, interest, and the business cycle*, New Jersey 1983, (originally published in German in 1911 as *Theorie der wirtschaftlichen Entwicklung. Eine Untersuchung über Unternehmerrgewinn, Kapital, Kredit, Zins und den Konjunkturzyklus*). Present reference to German version, Berlin 1987 (7th edition), esp. 124 ff.

as is the internal decision-making process (i.e. within the firm) that will ultimately lead to those new factor combinations being implemented.<sup>28</sup>

So a conception of the firm that is evolutionarily expanded while remaining based on institutional economics brings us an initial step closer to understanding the specific nature of that organization. Differentiating firms from markets can be grasped in terms of institutional economics; an evolutionary explanation is required when it comes to the imbalance essential to their development. Yet this is only the start of our problems. Clearly, both differentiating a firm from the market and implementing factor combinations that are out of balance depend on decisions and call for a constant stream of further decisions that will in each case give fresh grounds for such differentiation from the market and greater ability (in comparison with other firms) to generate profit. Each firm thus asks to be seen as a sequence of decisions by a specifically constituted organization, with each decision conditioning and constraining subsequent decisions under three heads (product, production process, and organization). This gives rise to 'path dependence' in which, because of sunk costs and declining opportunity costs, scope for fresh decision-making likewise declines in accordance with the specificity of the investments made. In essence, therefore, it follows that against this background corporate historiography must look into the semantics of decision-making and its consequences, both direct and indirect; it must examine primarily the social organization of decision-making in what are becoming increasingly complex bodies characterized by the problems flowing from the principal/agent relationship.

Basically, then, the first thing that must be noted is that firms exhibit organizational distinctions as against and within the market; distinctions that feed off the fact that dissipation (profits and income) is made possible and permanently ensured. The starting-point for the firm is a decision (a fundamental transformation in Williamson's sense, as a result of which free production factors/capital with high opportunity costs

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<sup>28</sup> My criticism is not aimed at evolutionary economics as such. Here it relates solely to the fact that the firm is not looked at as potentially problematic. On the subject of evolutionary economics generally, see also Ulrich Witt, *Reflections on the present state of evolutionary economic theory*, in: Geoffrey M. Hodgson/Ernesto Screpanti (eds), *Rethinking economics. Markets, technology and economic evolution*, Aldershot 1991, 83–102.



become specific investments with lower opportunity costs but relatively higher income streams<sup>29</sup>) to do something that the market or other firms will not offer in future or will do so only at greater expense. However, that decision depends on certain specific conditions: it must reckon with future market developments, not merely with how the market is developing at present, and it requires start-up funding, since the advantages of such an organization will be realizable only at some future time. In terms of content the decision must (as Schumpeter would say) relate to new products, new production processes, or new social forms of organization, implementation or exploitation of which will make it possible to realize the innovation profit and income with which the capital put up may be serviced and survival of the organization secured. The foundation decision thus leads necessarily to a sequence of decisions, with each fresh decision limiting and placing conditions upon the one before. This will give rise to path dependences that will in turn cost money to alter—which must be allowed for when determining distribution potential.

However, a contrary development must now be assumed. For a time innovation profits remain high, but subsequently, in the context of competition, they decline steadily, tending toward zero. There is a parallel increase in the transaction costs of what starts off as a small organization but expands as innovation profits are realized—partly at least because the principal/agent problem inevitably becomes more and more acute. When the organization attains a certain size, with innovation profits continuing to decline, a point is reached where the foundation decision no longer makes economic sense. As innovation profits sink further, they cease to cover the transaction costs of a major organization.<sup>30</sup> A ‘crisis’ supervenes, future dissipation seems no longer assured, and the principal/agent problem mutates into conflict. A ‘second’ foundation act must now be undertaken that either lowers the organization’s costs or brings in new

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<sup>29</sup> Schumann, *Grundzüge* (see note 14), 442 ff.

<sup>30</sup> The notion that a company’s transaction costs tend to rise was already clearly formulated by Coase, who took as his starting-point ‘that the costs of coordinating activities within a company rise disproportionately in relation to the number of transactions performed, since the ability of management in this respect has decreasing borderline yields and the likelihood of wrong decisions by the company and inefficient deployment of factors goes up’, Schumann, *Grundzüge* (cf. note 14), 435. See also E. Bössmann, *Unternehmungen, Märkte, Transaktionskosten: Die Koordination ökonomischer Aktivitäten*, in: *Wirtschaftswissenschaftliches Studium (WiSt)* 12 (1983), 105–11.

innovation proceeds—or (ideally) does both simultaneously. However, this act of decision will be conditioned and limited by earlier decision sequences and their organizational and semantic crystallizations. These will either constrain major decisions taken subsequently or impose heavy costs on them that possible future innovation gains will not offset in the present—and so on, seemingly without end. In theory, then, firms must be assumed to be subject to periodic existential crises: the fact is, their long-term survival is not guaranteed. That some firms at least do survive such crises nonetheless is a historical phenomenon that theoretical considerations do not necessarily predict. This is where the core of corporate-historical work begins, which no theory can replace but that without theory could not plausibly be realized.

Corporate historiography must therefore concentrate on the decision-making sequences that proceed automatically (by ‘autopoiesis’) from the original decision to found a firm. However, the decision dynamics no longer need to be introduced from outside but arise necessarily from the *modus operandi* of the organization (i.e. the firm) set up for the purpose of dissipation. As the research of the 1950s and 1960s showed, those decision-making sequences do not proceed with the smoothness of neo-classical clockwork to implement an economics with a logic of its own. Instead, they should be seen in the context of path dependence as being subject to contingent causality. In a specific sense they are simultaneously closed and open (under-determined). They are closed in that they invariably depend on concrete organizational circumstances that cannot (as a matter of principle) cancel one another out; they are open in the sense that the state of being organized, while it limits the number of possible decisions, does not for its part discriminate among the possibilities available.<sup>31</sup>

It is with these open/closed decision-making situations that corporate historiography must concern itself. So in what follows it is at decision-making situations and decision-making processes that we need to take a closer look. The nature of these will be unique in each firm, and in

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<sup>31</sup> For a thorough study of autopoiesis and the apparent paradox of simultaneous openness and closedness, see Niklas Luhmann, *Soziale Systeme. Grundzüge einer allgemeinen Theorie*, Frankfurt a.M. 1984.

this sense each corporate history will likewise be unique. Any closer examination of such decision-making situations must begin by rejecting completely the notion that we are dealing with rational decision-making processes conducted by a group of far-sighted individuals who do the right thing at the right time. The notion is probably too simple even as regards the initial foundation; as for the second (and all further) foundation(s) it is certainly so, even though managers will very often describe it in such terms and on occasion, with hindsight, later developments can indeed be put down to prior intentions. However, even where they lack rationality, decisions are highly significant. They depend primarily on (a) information about the situation, (b) the resources available for taking action, (c) the costs of changing anything, (d) the rules of information-processing and decision-reaching, and lastly (e) current notions of the future as it concerns the firm (in which connection it is only the strictly economic parameters of decision-making that are considered; social and psychological factors are left entirely out of account for the time being).

Decisions are complex processes of communication. They are not based on 'objective situational perceptions' that are then processed with the aid of rational strategies. Rather, pressure to decide and the subsequent communications are strictly speaking self-engendered—extreme price shifts excepted. They usually spring from expectations in relation to which the present state of affairs is usually described as being in deficit. Only then, with this self-generated pressure of expectation, does the 'game' begin in earnest. Because what a firm perceives in connection with this starting-situation depends on who is observing and communicating what and how, what is treated and processed as information, and what is deemed knowledge and how that knowledge is saved or transferred on each occasion. This means that the resources available for action are by no means certain but depend closely on the communication process. Similarly, alteration costs can be simulated only during the decision-making process since they will be incurred only after the decision has been taken. In other words, there is no mathematical congruence between simulated and actual costs, and this in turn is 'traded' as precarious information within the company. The rules of information-processing and decision-making can usually be described with the aid of formal organizational structures, so that subtle corporate-historical analyses ought to start by

considering formal organizational structures and their development. But formal organizational structures and the formal structure of communication processes that they provide certainly do not lead directly to adequate capture of decision-making processes, as anyone will know who has ever sat through a protracted meeting. Formal organizational analyses need to be backed up by additional study of informal processes of communication, both approaches being ultimately capturable in the specific decision-making semantics of the organization (its texts and their meanings).

Decisions once made have their consequences—in two respects. With luck, opportunity costs will fall and profits and incomes increase. However, at the same time there will be an increase in internal coordination costs as well as in the opportunistic possibilities for contractual partners (on the basis of whose conduct specific investments have been made) to appropriate some of the organization's income streams. In theory, therefore, firms with a long lifespan are unlikely, as has already been pointed out. What is certain is that firms will regularly encounter critical situations in which fresh foundation decisions (fundamental transformations) become necessary. These, however, will need to be taken against the background of path dependences arising out of prior decisions, and those very path dependences will hamper fresh decisions. It follows that the survival of firms depends on their power of decision-making, and this (be it stressed once again) is a thoroughly historical phenomenon. It may be postulated theoretically, but whether or not it transpires will not obey the historical postulate.

So what is the significance of these considerations for the writing of corporate history? The focus of studies of corporate history has to be on sustaining dissipation—something that can be secured only by repeated decisions, increasingly complex in each case. The central question is therefore: how do firms contrive to organize sustained price differences in their own favor such as enable their own organization to survive?

This means firstly that in historical studies firms should be seen as organizational structures of decision-making sequences that operate independently of what drives the members of those firms.<sup>32</sup> The wide-

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<sup>32</sup>The relationship was expressed in different words by Werner Sombart back in the 1920s; see Werner Sombart, *Der moderne Kapitalismus*, in: Bernhard Harms (ed.), *Kapital und Kapitalismus. Vorlesungen gehalten in der deutschen Vereinigung für Staatswissenschaftliche Fortbildung*. Berlin 1931, Vol. 1, 89 f.

spread historical notion that firms are profit-maximizing arrangements is not only false; it is also dangerous. False because profit-maximization derives from motivation that an organization (in contrast to its individual participants)<sup>33</sup> will never in fact possess; dangerous because it reduces the complexity of an organization to voluntary acts, as if it depended on the discretion of any individual member what that organization did or did not do. The point is, organizations are non-voluntary, even if managements and union leaderships are (for obvious reasons) keen to assert the contrary.

Rather, the basic idea should be that firms qua organizations are constantly under threat of extinction, whether as a result of diminishing profitability (in the foregoing sense of a narrowing of the gap between profit and costs), or because of competing organizations, or because of markets<sup>34</sup> and their economic fluctuations, or lastly through chance events.<sup>35</sup> Following a successful foundation the threat of extinction is usually small, but over time it becomes steadily greater. Declining profitability may combine with fluctuations of the business cycle, changing market forms, and/or chance events and in consequence spiral into crisis. This constant threat of extinction is posed by decision sequences within the organization, which is why corporate historiography must devote most of its attention to them.

To bring these circumstances to life historically, let us look at a few examples taken entirely at random. The pattern formulated in theory here was uncovered in almost classic form by Lothar Gall in his history of Krupp prior to 1914 (*Krupp: Der Aufstieg eines Industrieimperiums*, Berlin 2000). At the same time Gall also (albeit unintentionally) marked out the bounds

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<sup>33</sup>Confusing organizational compulsions with individual motives is not redeemed even by asserting that certain individual motivations (that of management, for instance) characterize it. We know neither the motives of management nor whether they are 'representative' of an organization as a whole.

<sup>34</sup>The changing nature of market forms is crucial in this connection, because in the protected conditions of national markets quite different circumstances prevail than in connection with 'globalization'. The latter entails a change in the configuration of potential existential threats and hence a shift in what is expected of the organization, which then needs to calculate different uncertainty ranges into its mode of behavior.

<sup>35</sup>A well-known instance is what happened to IG Farben's plan to synthesize petrol. At first this seemed to make excellent business sense, but subsequent oil finds in Texas in the late 1920s robbed the project of its economic foundations. See below (in the text).

of a generally historical approach to corporate history. The act of founding his firm, the fundamental transformation brought about by mobilizing capital from within his family circle, enabled Alfred Krupp to realize substantial profits through an initial product innovation (followed by others). The principal/agent problem remained small at first within a personally controlled enterprise, so those profits were subsequently ploughed into further expansion. However, the decision-making semantics and decision-making rules that Alfred Krupp anchored in his firm increasingly lacked the complexity needed for such expansion, which occurred rapidly. In the context of the *Gründerkrise* of the 1870s, with innovation profits falling as organization costs rose sharply, this became a real threat, pushing the company to the edge. The only way to avoid collapse was by making a further foundation decision, this time in regard to the organizational form and the rules of decision-making. Even though externally the Krupp enterprise adhered to the fiction of personal management, internally a complete 'organizational revolution' ensued. Personal leadership of the company first by Alfred and subsequently by his son, Friedrich-Alfred, was in practice excluded. Instead, the company was subjected to a bureaucratic approach to decision-making more suited to its size and to the turbulent market development in which it was operating. Lothar Gall's general-historical analysis of the Krupp company in the years when Alfred was personally in charge is masterly, but this politico-biographical framework (as one might call it) fails so far as how the company developed after the 1870s is concerned. Here theoretical considerations could have helped.

Another example of the historiographical potential of the model developed here is the history of IG Farben after 1925, which most politically minded historians have at times grotesquely distorted, notably as regards the firm's involvement with National Socialism. However, here it is a question not of morally condemning particular events or personal modes of behavior but of laying bare the problems that underlay the group's development. Following intense internal argument,<sup>36</sup> IG Farben decided

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<sup>36</sup>On its own, the dispute about future corporate policy and investment can be seen as a classic example of the contingent nature of the repercussions of internal corporate decision-making that in no way complies with rationally prescribed solutions. See Wolfram Fischer, *Dezentralisation oder Zentralisation—kollegiale oder autoritäre Führung?*, in: Norbert Horn/Jürgen Kocka (eds), *Recht und Entwicklung der Großunternehmen im 19. und frühen 20. Jahrhundert*. Wirtschafts-, sozial-

in the 1920s to forge ahead with investment in synthesis production, which in the light of an anticipated fuel shortage looked correspondingly profitable. However, it was also risky. The Texan oil finds of the late 1920s saw the market collapse, and IG Farben found itself sitting on large specific investments that no longer appeared so promising. So the firm's readiness to service Hitler's political fuel market as part of his arms program (regardless of the political stance of management) had a simple economic background. This naturally promoted a path dependence that, culminating in the Four Year Plan, furthered expansion of the war effort—toward Auschwitz, of course, as well as in other directions.<sup>37</sup>

Additional examples from the banking sector,<sup>38</sup> from the motor industry,<sup>39</sup> and from the small and medium-sized business sector in the years 1933–45<sup>40</sup> throw much light on the economic contexts at issue here; so do more recent works of corporate history in the post-war years, which set out the importance of decision-engendered path dependences and their conditioning and constraining character. Here I will simply reiterate the core assertion advanced in these pages. Firms are organizations that live by sustaining price differentials as against markets and competitors. Sustaining those price differentials is essential to their survival. It springs from decisions, decision sequences, and hence path dependences that cannot be understood otherwise than in the context of their respec-

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und rechtshistorische Untersuchungen zur Industrialisierung in Deutschland, Frankreich, England und den USA (Kritische Studien zur Geschichtswissenschaft, Vol. 40), Göttingen 1979; Helmut Tammen, *Die IG Farbenindustrie AG (1925–1933). Ein Chemiekonzern in der Weimarer Republik*, Berlin 1978. For a general view, see Gottfried Plumpe, *Die IG Farbenindustrie AG. Wirtschaft, Technik, Politik 1904–1945*, Berlin 1990.

<sup>37</sup> See Peter Hayes, *The 'Gleichschaltung' of IG Farben*, Ann Arbor 1982.

<sup>38</sup> The structure of the German banking landscape, for instance, offers a typical instance of decision-induced path dependences, the changing nature of which over recent decades brought substantial additional costs. However, the outcome of those changes is still wholly unpredictable. See Lothar Gall et al., *Die Deutsche Bank 1871–1996* (also published in English), Munich 1996.

<sup>39</sup> See Hans Mommsen/Manfred Gieger, *Das Volkswagenwerk und seine Arbeiter im Dritten Reich*, Düsseldorf 1996, in which the authors show impressively what effects enforced survivals can have under extreme circumstances.

<sup>40</sup> Examples of enforced survivals in wartime economy can be found in Petra Bräutigam, *Mittelständische Unternehmen im Nationalsozialismus: wirtschaftliche Entwicklungen und soziale Verhaltensweisen in der Schuh- und Lederindustrie Baden-Württembergs*, Munich 1997 or in Astrid Gehrig, *Nationalsozialistische Rüstungspolitik und unternehmerischer Entscheidungsspielraum. Vergleichende Fallstudien zur württembergischen Maschinenindustrie*, Munich 1996.

tive historical settings. Such decisions, in other words, are neither based on rational models nor are they willed. Nor do successful decisions, once taken, obviate the need to make further decisions; quite the opposite, in fact. Successful decisions, once taken, coupled with the path dependences to which they give rise, generate the development dynamic that make firms more and more vulnerable to crisis as yields fall and costs rise—while at the same time making alternative decisions more difficult. In theory, therefore, the surprise is not so much that firms continue to exist, even though this can by no means be taken for granted. What is really astonishing is that some survive long enough to commission a *Festschrift*. Here theory falls silent and historical explanation steps up to the microphone.



# 5

## Business and Industry under National Socialism: An Interim Report

What was the relationship of German industry, or indeed of German business in general, to the National Socialist dictatorship, and to what extent can they rightly be made responsible for National Socialist policy? This question, already pertinent in the 1930s, is still relevant today. John Hartfield's world-famous photomontage ('Millions stand behind me!') was an early symbolization of the deep-rooted conviction of the Left prior to the seizure of power that Hitler was basically no more than a puppet of big business. This thesis was subject to intense debate before and after the war and was even canonized in areas of Soviet domination after 1935.<sup>1</sup> According to this argument, imperialistic profit lust and fear of revolution made big business back Hitler's tyrannical dictatorship and his war course, a position which soon found supporters in the Western

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*First Publication:* Werner Plumpe, *Unternehmen im Nationalsozialismus—Eine Zwischenbilanz*, in: Werner Abelshauser/Jan-Otmar Hesse/Werner Plumpe (eds), *Wirtschaftsordnung, Staat und Unternehmen. Neue Forschungen zur Wirtschaftsgeschichte des Nationalsozialismus*. Festschrift für Dietmar Petzina zum 65. Geburtstag, Klartext Verlag, Essen 2003, 243–66.

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<sup>1</sup> Klaus Mammach (ed.), *Die Brüsseler Konferenz der KPD (3.-15. Oktober 1935)*, Frankfurt a.M. 1975.

world as well: not only among English armchair Marxists and German émigrés,<sup>2</sup> but many trustbusters within the Roosevelt administration found these arguments plausible too, albeit that the theoretical frame was expendable.<sup>3</sup> So the immediate postwar period experienced a peculiar alliance of Marxists and Liberals, Social Democrats and representatives of the Frankfurt School,<sup>4</sup> who all perceived the Nuremberg Follow-up Trials to be the rightful consequence of the behavior of big companies prior to 1945. That said, while the Soviet Union thus deduced that the private ownership of the means of production was to be rejected within its sphere of influence as a matter of principle, and especially within the Soviet zone of occupation itself, the Americans were of a different opinion. Trusts had to be broken up and individual criminals prosecuted, but there were to be no consequences for the economic order as such in a non-capitalist sense. To the contrary, during the Cold War, the benefits of those very concerns and industrialists previously tried in Nuremberg became re-apparent. As a result, it was essentially a contradiction within American policy which made the topic so explosive in political terms during the postwar period: on the one hand, Americans in particular denounced big business in Germany through effective publicity and in court; on the other hand, Americans also blocked any measures which would have had a real effect on the power of big German industries and certainly by the height of the Cold War discovered the former to be practically an ally.

So up to the 1960s it remained a question of politics, whether one argued that industry was responsible for National Socialism or whether

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<sup>2</sup> This position had of course different nuances; cf. especially Franz L. Neumann, *Behemoth. Struktur und Praxis des Nationalsozialismus 1933–1944*, Köln 1976 (orig. Engl. 1942). Franz L. Neumann, *Wirtschaft, Staat, Demokratie. Aufsätze 1930–1954*, ed. by Alfons Söllner, Frankfurt a.M. 1978.

<sup>3</sup> Bernd Greiner, *Die Morgenthau-Legende. Zur Geschichte eines umstrittenen Plans*, Hamburg 1995. Wilfried Mausbach, *Zwischen Morgenthau und Marshall. Das wirtschaftspolitische Deutschland-Konzept der USA 1944–1947*, Düsseldorf 1996. The most obvious result of this American tendency is the so-called OMGUS reports, inter alia: *OMGUS, Ermittlungen gegen die I. G. Farbenindustrie A.G., September 1945. Übersetzt und bearbeitet von der Dokumentationsstelle zur NS-Sozialpolitik* Hamburg 1986; *OMGUS, Ermittlungen gegen die Deutsche Bank, 1946/1947. Übersetzt und bearbeitet von der Dokumentationsstelle zur NS-Politik*, Hamburg 1985.

<sup>4</sup> Herbert Marcuse's job at the OSS included the task of 'identifying those groups within fascist Germany which contributed to its economic rise', Leo Löwenthal, *Mitmachen wollte ich nie. Ein autobiographisches Gespräch mit Helmut Dubiel*, Frankfurt a.M. 1980, 112.

industry itself was seen as a victim of the regime's dictatorial measures.<sup>5</sup> Actual research on this question was scarce, especially as in the GDR any promising scholarship from a historiographical point of view was forced into the politically desired interpretation from the very beginning. Even Franz Neumann's work, for example, although inspired by sociological and political questions, was unable to bridge this gap in historical research. A crude mixture of recollections, politically motivated reports, broadsheets, and apologies as well as sensationalist 'investigative journalism'<sup>6</sup> dominated the picture until finally in the mid-1960s some impartial research was carried out which actually deserved its name.<sup>7</sup> Dietmar Petzina is undoubtedly one of the pioneers of this first phase of research. Having examined the empirical basis of the regime's Four Year Plan,<sup>8</sup> he refuted the crude polarization of attack and defense in an essay titled 'Hitler and German industry'.<sup>9</sup> Using newly available source material, Petzina's position was distinct from both orthodox Marxist and apologetic

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<sup>5</sup> These years are characterized by accusatory or apologetic positions. See Ian Kershaw, *Der NS-Staat. Geschichtsinterpretationen und Kontroversen im Überblick*, Reinbek bei Hamburg 1988, 89 ff. For a typical example of defensive writing, see Louis P. Lochner, *Die Mächtigen und der Tyrann. Die deutsche Industrie von Hitler bis Adenauer*, Darmstadt 1955; August Heinrichsbauer, *Schwerindustrie und Politik*, Essen 1948; Hans-Eckhardt Kannapin, *Wirtschaft unter Zwang. Anmerkungen und Analysen zur rechtlichen und politischen Verantwortung der deutschen Wirtschaft unter der Herrschaft des Nationalsozialismus im Zweiten Weltkrieg, besonders im Hinblick auf den Einsatz und die Behandlung von ausländischen Arbeitskräften und Konzentrationslagerhäftlingen in deutschen Industrie- und Rüstungsbetrieben*, Cologne 1966. For a critical examination of the way industry presented itself during this period, see S. Jonathan Wiesen, *West German Industry and the Challenge of the Nazi Past 1945–1955*, Chapel Hill 2001, a book which contains quite some interesting detail but basically fails to recognize the gray shades of change in the 'night of apologia'. It is interesting to note here that the current search for the postwar careers of the 'Nazi elites'—mainly pursued in the mass media—in some cases adopts the tenor and even vocabulary of the 'restoration literature' which dominated historical research during the early years of the Federal Republic; cf. Ernst-Ulrich Huster et al., *Determinanten der westdeutschen Restauration 1945–1949*, Frankfurt a.M. 1972. And more recently, cf. Norbert Frei (ed.), *Karrieren im Zwielicht. Hitlers Eliten nach 1945*, Frankfurt a.M. 2001.

<sup>6</sup> See numerous publications by Kurt Pritzkolet.

<sup>7</sup> One of the first studies based on a sound approach: Arthur Schweitzer, *Big Business in the Third Reich*, Bloomington/Ind. 1964.

<sup>8</sup> Dietmar Petzina, *Autarkiepolitik im Dritten Reich. Der nationalsozialistische Vierjahresplan*, Stuttgart 1968. For the overall picture see Ian Kershaw, *Der NS-Staat* (see note 5).

<sup>9</sup> Dietmar Petzina, *Hitler und die deutsche Industrie. Ein kommentierter Literatur- und Forschungsbericht*, in: *Geschichte in Wissenschaft und Unterricht (GWU)* 17 (1966), 482–91.

camps. Quite in the spirit of the debate in the second half of the 1960s,<sup>10</sup> he identified two distinct phases in the history of relations between the regime and industry prior to 1939, with the regime certainly gaining the upper hand by 1935–36. While the role of IG Farben appeared very significant in the context of the Four Year Plan in particular—a proposition which has been refuted by recent scholarship—Petzina regarded this to be atypical. Although the Four Year Plan had led to ‘a fusion of industrial and state areas’ and to a privatization of economic policy ‘to the benefit of large monopoly groups’,<sup>11</sup> he argued that these results should not be generalized. In his view, political dictates clearly dominated from 1936 at the latest. This significantly restricted private enterprise’s scope for action.

Yet in 1966, Petzina also made the important point that research on this question was insufficient, rightly and expressly adding this reservation to his own results. In the meantime, the research landscape has totally changed, but it was a lengthy process before the history of individual companies became the focus of research in a methodically appropriate manner.<sup>12</sup> Nevertheless, under the lasting impression of the controversies about the responsibility of industry for Hitler’s politics and war, research continued to intensively examine the question of whether and how industry supported Hitler prior to 1933 or whether industry even brought him to power.<sup>13</sup> The fact that this was effectively a non-question within GDR research needs no additional explanation<sup>14</sup>; but in the former Federal Republic of the 1970s, easy answers were also welcome.<sup>15</sup>

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<sup>10</sup> On the question of primacy, see Kershaw, *Der NS-Staat* (see above, note 5), 92–6.

<sup>11</sup> Petzina, *Autarkiepolitik im Dritten Reich* (see above, note 8), 197.

<sup>12</sup> This may also be linked to the fact that economic history was long dominated by macro-economic questions. A micro-economic turn with a strong preference for company-level research only took place in the last decade. See also Hansjörg Siegenthaler, *Arbeiter verstehen: Zur Interpretation individuellen Handelns im Nationalsozialismus*, in: Werner Abelschäuser/Jan-Otmar Hesse/Werner Plumpe (eds), *Wirtschaftsordnung, Staat und Unternehmen. Neue Forschungen zur Wirtschaftsgeschichte des Nationalsozialismus. Festschrift für Dietmar Petzina zum 65. Geburtstag*, Essen 2003, 267–78.

<sup>13</sup> Dick Geary, *The Industrial Elite and the Nazis in the Weimar Republic*, in: Peter Stachura (ed.), *The Nazi Machtergreifung*, London 1983, 85–100.

<sup>14</sup> Eberhard Czichon, *Wer verhalf Hitler zur Macht? Zum Anteil der deutschen Industrie an der Zerstörung der Weimarer Republik*, Cologne 1967.

<sup>15</sup> For example, Eike Hennig, *Thesen zur deutschen Sozial- und Wirtschaftsgeschichte 1933 bis 1938*, Frankfurt a.M. 1973; or Dirk Stegmann, *Kapitalismus und Faschismus in Deutschland 1929–1934. Thesen und Materialien zur Restituierung des Primats der Großindustrie zwischen Weltwirtschaftskrise*

Henry A. Turner was long the exception with his view that industry had not been one of the most prominent financial backers of Hitler and that industry had not helped Hitler to power, if indeed that had actually been a possibility—a proposition which today finds little criticism among historians while also remaining little known.<sup>16</sup> The popular belief that the NSDAP was a party close to industry was probably not finally dispelled until the publication of Jürgen Falter's analysis of the history and sociology of electoral behavior. It also finally quashed the widespread notion that Hitler was financed by industry and voted for by the middle class.<sup>17</sup>

In terms of business history, the insights provided by these early debates remained limited—aside from some historical details. Essentially, these involved the source-based rejection of certain popular preconceptions. Research 'on the middle classes' was the only exception, pulled center stage by the 'theory of fascism' with its assumption that the so-called old middle class of traders and craftsmen had provided fertile social grounds for the National Socialist mass movement.<sup>18</sup> In many cases, this research provided evidence that a certain affinity of middle-class, social protectionist 'milieus' to National Socialism did indeed exist: but the counter arguments were so plentiful,<sup>19</sup> that simple propositions, as for example still upheld by Arthur Schweitzer in the 1960s,<sup>20</sup> can hardly be defended today.<sup>21</sup> In addition, the differentiation of research in social history since the 1980s has shown that the working classes were not as strong in their opposition to Hitler as some historians had believed for a long time.<sup>22</sup>

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*und beginnender Rüstungskonjunktur*, in: Gesellschaft. Beiträge zur Marxschen Theorie 6, ed. by H.-G. Backhaus et al., Frankfurt a.M. 1976, 19–91.

<sup>16</sup> Henry Ashby Turner jr., *Die Großunternehmer und der Aufstieg Hitlers*, Berlin 1985.

<sup>17</sup> Jürgen W. Falter, *Hitlers Wähler*, Munich 1991.

<sup>18</sup> Adelheid von Saldern, *Mittelstand im 'Dritten Reich'. Handwerker—Einzelhändler—Bauer*, Frankfurt a.M. 1979.

<sup>19</sup> Harald Winkel, *Geschichte der Württembergischen Industrie- und Handelskammern*, Stuttgart 1981.

<sup>20</sup> Arthur Schweitzer, *Die Nazifizierung des Mittelstandes*, Stuttgart 1970.

<sup>21</sup> Cf. the recent publication Adelheid von Saldern, *Leistungsdruck und Handwerk während der Nationalsozialismus-Zeit*, in: Thomas Großbölting/Rüdiger Schmidt (eds), *Unternehmerwirtschaft zwischen Markt und Lenkung. Organisationsformen, politischer Einfluß und ökonomisches Verhalten 1930–1960*, Munich 2002, 39–68.

<sup>22</sup> Ulrich Herbert, *Arbeiterschaft im 'Dritten Reich'. Zwischenbilanz und offene Fragen*, in: *Geschichte und Gesellschaft* (GG) 15 (1989), 320–60.

Yet publications on the history of individual companies (or, analogously, individual branches) remained isolated up to the 1980s and were also controversial. These were either commemorative volumes of no great historical weight<sup>23</sup> or an indictment of dubious historical value.<sup>24</sup> It was not before the end of the 1980s that a stream of publications developed which then became broader, so that today research on 'companies under National Socialism' can be regarded as satisfactory in empirical terms.<sup>25</sup>

Three different strands can be identified within this research debate. Although these are often blurred together within individual publications, it is worthwhile examining them separately: the first involves the responsibility of industrialists within and in relation to politics; the second involves the relationship between industry, business, and politics in the context of the National Socialist economic order, especially the contribution of the former to the way it functioned and its performance; and the third involves the history of individual companies or branches and their development under the National Socialist regime. In the context of this chapter, the third aspect is of the greatest interest, so a brief summary of the first two will suffice.

Within the first area, research on individual industrialists and businessmen, such as Hermann-Josef Abs,<sup>26</sup> dominated for a long time; over

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<sup>23</sup> A typical example: Heiner Radzio, *Unternehmen mit Energie. Aus der Geschichte der VEBA*, Düsseldorf 1990.

<sup>24</sup> For example, Otto Köhler, ... *und heute die ganze Welt. Die Geschichte der IG-Farben und ihrer Väter*, Hamburg 1986. Similarly *Das Daimler-Benz-Buch. Ein Rüstungskonzern im 'Tausendjährigen Reich'*, ed. by Hamburger Stiftung für Sozialgeschichte des 20. Jahrhunderts, Nördlingen 1987. For its historical value, see Volker Hentschel's discussion *Daimler-Benz im Dritten Reich*, in: *Vierteljahrsschrift für Sozial- und Wirtschaftsgeschichte* 74 (1988), 74–100.

<sup>25</sup> While no single overview of research to date can be referred to, existing summaries indicate that research on big companies is extensive and that some progress has been made in research on small and middle-sized companies. Cf. the introduction in Lothar Gall/Manfred Pohl (eds), *Unternehmen im Nationalsozialismus* (Schriftenreihe der Zeitschrift für Unternehmensgeschichte 1), Munich 1997, 7–13. For an older research summary with some interesting interpretations, see Paul Erker, *Industrieeliten in der NS-Zeit. Anpassungsbereitschaft und Eigeninteresse von Unternehmen in der Rüstungs- und Kriegswirtschaft 1936–1945*, Passau 1993. So a broad discussion of current research cannot be drawn on here. It is especially noteworthy that this research has not led to a fundamental debate on the relationship between politics and the economy under National Socialism.

<sup>26</sup> Exemplary for contemporary East German publications Eberhard Czichon, *Der Bankier und die Macht. Hermann Josef Abs in der deutschen Politik*, Cologne 1970. For current research, see Lothar Gall, 'A Man for all Seasons'. *Hermann-Josef Abs im Dritten Reich*, in: *Zeitschrift für Unternehmensgeschichte* 42 (1998), 123–75.

the last ten years, research into the German middle classes and elites has gained influence and significance.<sup>27</sup> Two conclusions are of interest here. On the one hand, industrialists or, more generally, businessmen were and are part of the middle-class/conservative spectrum. However, within this spectrum, political behavior (N.B. not economic operations as company head) was equally individual; as a pattern, it would probably correspond to Gaussian normal distribution. Prior to 1933, there are extreme examples, such as Emil Kirdorf and Fritz Thyssen,<sup>28</sup> who directly declared their allegiance to Hitler, while democratic behavior is documented for the chemical and the electro-technical industries.<sup>29</sup> Some such as Gustav Krupp<sup>30</sup> had high hopes of the Nazi regime; others saw it as a career opportunity, such as in the cases of Paul Pleiger and Hans Kehrl. Others again were increasingly revolted by the regime<sup>31</sup>; others even joined or supported the resistance.<sup>32</sup> Long-term biographical studies are the most informative, as they allow the phase of National Socialism to be seen in terms of a whole life span. While the story of Fritz K. cannot be generalized, there are some indications that those who hoped for more social recognition—subjectively felt to have been previously denied—were especially susceptible to National Socialism.<sup>33</sup> This may have played a role in the case of other industrial careerists such as Pleiger, Kehrl, or Koppenberg. National Socialism provided them with the opportunity to have a say in what had up to this point been the well-ordered world of

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<sup>27</sup> Dieter Ziegler (ed.), *Großbürger und Unternehmer. Die deutsche Wirtschaftselite im 20. Jahrhundert*, Göttingen 2000.

<sup>28</sup> While Kirdorf did join the NSDAP prior to 1933, he also left the party again later. Thyssen paid the price for his behavior early on: Fritz Thyssen, *I paid Hitler*, London 1941.

<sup>29</sup> Werner Abelshauer (ed.), *Die BASF. Eine Unternehmensgeschichte*, Munich 2002. On Friedrich Carl v. Siemens cf. Wilfried Feldenkirchen, *Siemens. Von der Werkstatt zum Weltunternehmen*, Munich 1997.

<sup>30</sup> Werner Abelshauer, *Rüstungsschmiede der Nation? Der Kruppkonzern im Dritten Reich und in der Nachkriegszeit 1933 bis 1951*, in: Lothar Gall (ed.), *Krupp im 20. Jahrhundert. Die Geschichte des Unternehmens vom Ersten Weltkrieg bis zur Gründung der Stiftung*, Berlin 2002, 267–472.

<sup>31</sup> The case of the IG Farben Chairman in: Karl Holdermann, *Im Banne der Chemie. Carl Bosch—Leben und Werk*, Düsseldorf 1953.

<sup>32</sup> Joachim Scholtyseck, *Robert Bosch und der liberale Widerstand gegen Hitler 1933 bis 1945*, Munich 1999; Joachim Scholtyseck, *Robert Bosch und der 20. Juli 1944*, Stuttgart 1999.

<sup>33</sup> Hartmut Berghoff/Cornelia Rauh-Kühne, *Fritz K. Ein deutsches Leben im 20. Jahrhundert*, Stuttgart 2000.

German industry.<sup>34</sup> This impression is supported by various biographical essays edited by Paul Erker and Toni Pierenkemper,<sup>35</sup> and Dieter Ziegler,<sup>36</sup> respectively. Experienced, older industrialists or the offspring of established industrialist families seem to have resisted the *political* temptations of National Socialism without exception, while for the upwardly mobile National Socialism represented some kind of opportunity. That said, further research will no doubt continue to refine this picture, and regional and confessional differences will probably receive greater attention.<sup>37</sup> The following tentative proposition can still be made that the political susceptibility of German industrialists and businessmen to National Socialism probably corresponded to average levels within German society during these years. This picture also corresponds to recent research which emphasizes the susceptibility of a particular generational cohort for the 'opportunities' of National Socialism.<sup>38</sup>

While certain National Socialist measures such as the elimination of the workers' movement met with approval, it is difficult to actually illustrate that the social and economic role of companies brought their representatives into an immediate political affinity to National Socialism. It was far more the case that the recognizable crisis of parliamentarism in the Weimar Republic and its presumed helplessness in the face of social and economic structural crises resulted in the industrialists' rejection of the Republic which then made it easy for National Socialism to present itself as an alternative. But even here within this well-researched field there are nuances which need to be emphasized. Neebe<sup>39</sup> has highlighted the differences in standpoints with regard to solutions of the Great Depression

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<sup>34</sup> For more on Koppenberg, who led the Junkers group for the National Socialists, see Lutz Budraß, *Flugzeugindustrie und Luftfrüstung in Deutschland 1918–1945*, Düsseldorf 1998, 326–8.

<sup>35</sup> Paul Erker/Toni Pierenkemper (eds), *Deutsche Unternehmer zwischen Kriegswirtschaft und Wiederaufbau. Studien zur Erfahrungsbildung von Industrie-Eliten*, Munich 1999.

<sup>36</sup> Ziegler, *Großbürger und Unternehmer* (see note 27).

<sup>37</sup> Cornelia Rauh-Kühne/Michael Ruck (eds), *Regionale Eliten zwischen Diktatur und Demokratie. Baden und Württemberg 1930–1952*, Munich 1993.

<sup>38</sup> Ulrich Herbert, *Best: Biographische Studien über Radikalismus, Weltanschauung und Vernunft 1903–1989*, Bonn 2001. Michael Wildt, *Generation des Unbedingten. Das Führungskorps des Reichssicherheitshauptamtes*, Hamburg 2002.

<sup>39</sup> Reinhard Neebe, *Großindustrie, Staat und NSDAP 1930–1933. Paul Silverberg und der Reichsverband der Deutschen Industrie in der Krise der Weimarer Republik*, Göttingen 1981.



within the large industrial associations, so we now know that leading industrialists of the chemical and electro-technical industries did not flirt with the idea of National Socialism at all. Support for National Socialism within business and industry was clearly the strongest where the consequences of the Depression met upon a social protectionist milieu, such as within the medium-sized companies of the metal-working industry in Saxony, or in the case of many chambers of industry and commerce. After the National Socialist seizure of power and the regime's consolidation, the majority of industrialists and businessmen adopted an ultimately opportunistic political stance. While this may seem distasteful, it was at the same time to be expected in historical terms. That process of creeping adaptation which culminated in mass crimes, the dimension of which were barely imaginable at the beginning, also holds true for industrialists.<sup>40</sup>

Second, and this explains the greater susceptibility of the generation which was young in the early 1930s, National Socialism signaled a marked acceleration in the circulation of elites. Under National Socialism, new 'entrepreneurs' replaced the gentlemen of the Kaiserreich and the Weimar Republic, in part for biographical reasons, in part due to political compulsion. The speed of change experienced in the management and supervisory boards increased during the 1930s, reaching a previously unknown level during and after the war, yet to be repeated.<sup>41</sup> Clearly, National Socialism presented additional career opportunities, not least through the elimination of Jews from the boardrooms of German companies<sup>42</sup>; it placed a premium on a type of behavior already mentioned above. The terms used to describe this type vary and range from 'party book industrialist', 'party official manager' to the 'technical manager' without any notable scruples. Especially Speer's organization for the war economy created possibilities previously unheard of for these (mostly young) men, so

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<sup>40</sup>Hans Mommsen, *Die Realisierung des Utopischen: Die "Endlösung der Judenfrage" im Dritten Reich*, in: GG 9 (1983), 381–420.

<sup>41</sup>Stefan Unger, *Die Wirtschaftselite als Persönlichkeit. Zur Selbstdarstellung von Unternehmern und Managern im Ruhrgebiet während der Zwischenkriegszeit*, in: Volker Berghahn/Dieter Ziegler/Stefan Unger (eds), *Die deutsche Wirtschaftselite im 20. Jahrhundert. Kontinuität und Mentalität*, Essen 2003, 295–316.

<sup>42</sup>Avraham Barkai, *Vom Boykott zur 'Entjudung'. Der wirtschaftliche Existenzkampf der Juden im Dritten Reich 1933–1943*, Frankfurt a.M. 1988.

there was talk of 'Speer's kindergarten'.<sup>43</sup> Of course many of these careers came to an abrupt end in 1945. Even though the opposite impression has dominated for a long time, the end of the war and the occupation of Germany did in fact mark the end of the careers of the mass of incriminated industrialists and businessmen, especially of those party political industrialists whose standing in industry had been questionable anyway. After 1945, this was the last group which could have hoped to fall softly. Prominent examples to the contrary make little difference.<sup>44</sup>

So we may conclude that prior to 1933 German industrialists were skeptical of the Republic and not willing to put any effort into its defense. This was not due to an affinity to National Socialism, which received only little financial or other forms of support from industry, but developed from the critique of parliamentarism's failure to combat the economic crises of the interwar years. Of course, once in power, National Socialism did profit from the everyday opportunism of many company heads and met with approval in questions such as the regulation of the labor market, the elimination of the labor movement, and the expansion of autonomy in company management. By contrast, examples of active political support for National Socialism are rare, and these cases mainly involved members of a young generation competing to secure its own position: National Socialism provided career opportunities which would have otherwise been highly improbable. There is no empirical basis for deducing a political affinity to National Socialism from the functional

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<sup>43</sup> Erker, *Industrieeliten* (see note 25), 32.

<sup>44</sup> As spotlighted in the current version of 'politics using the Nazi past' ('Vergangenheitspolitik') so as to create the impression of a continuity which didn't exist. For an example of such 'history-based politics' ('Geschichtspolitik'), see Frei (ed.), *Karrieren im Zwielicht* (see above, note 5). It becomes abstruse at the point at which Paul Erker admits that there was an abrupt replacement of personnel in 1945 while arguing this fact away, claiming it had no relevance for the behavior of companies and managers, and that 1968 represented the first true transition, Paul Erker, *Einleitung: Industrie-Eliten im 20. Jahrhundert*, in: Paul Erker/Toni Pierenkemper (eds), *Deutsche Unternehmer zwischen Kriegswirtschaft und Wiederaufbau. Studien zur Erfahrungsbildung von Industrie-Eliten*, Munich 1999 (Quellen und Darstellungen zur Zeitgeschichte 39), 16–8. This type of argumentation is strongly reminiscent of the satirical verse, according to which things unthought of cannot be ('Und dann schließt Kalle messerscharf, daß nicht sein kann, was nicht sein darf!'). For a systematic underestimation of the influence of the radical change in 1945 on the self-understanding of German businessmen and industrialists, see also Wiesen, *West German Industry* (see above, note 5), who essentially repeats claims made during the restoration debate of the early 1970s.

role as ‘industrialist’. In this sense, industrialists and businessmen should be un-demonized and equated with average people.

The functioning of the National Socialist economic order and its performance during the preparations for war and during wartime have played a prominent part in economic history<sup>45</sup> for decades. Research was long dominated by controversies concerning the efficiency of the Nazi economy. Today its efficiency is judged in a more level-headed manner. While some still speak of a National Socialist economic miracle, and although the improvement in the performance of the German war economy after 1941 remains undeniable,<sup>46</sup> it was far more the case that the upward swing was distorted and that it neglected existing growth opportunities in favor of rearmament.<sup>47</sup> However, this still does not answer the question pertinent here about the relationship between state and industry within the Nazi economic order. Research is still far removed from being able to provide definitive answers,<sup>48</sup> albeit that contours are emerging.<sup>49</sup> An independent, National Socialist, economic system, in the sense of a planned economy, a command economy, or a central economic administration, and so on did not exist. National Socialism respected private property in principle and the autonomy of private sector enterprise in decision-making, being aware that a ‘state ownership’ of large parts of the economy would have unavoidably meant a drop in efficiency.

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<sup>45</sup>There is no good overview of the development of economic history research under National Socialism. Although the title sounds promising, Michael von Prollius’ PhD thesis proves to be of little use; see Michael von Prollius, *Das Wirtschaftssystem des Nationalsozialismus 1933–1939. Steuerung durch emergente Organisation und politische Prozesse*, Paderborn 2003.

<sup>46</sup>Werner Abelshäuser, *Kriegswirtschaft und Wirtschaftswunder*, in: Vierteljahrshefte für Zeitgeschichte (VfZ) 47 (1999), 503–38. For a critical response see Christoph Buchheim, *Die Wirtschaftsentwicklung im Dritten Reich—mehr Desaster als Wunder*, in: VfZ 49 (2001), 653–664.

<sup>47</sup>Christoph Buchheim, *Zur Natur des Wirtschaftsaufschwunges in der NS-Zeit*, in: Christoph Buchheim/Harold James/Michel Hutter (eds), *Zerrissene Zwischenkriegszeit*. Knut Borchardt zum 65. Geburtstag, Baden-Baden 1994, 97–122.

<sup>48</sup>Cf. inter alia Avraham Barkai, *Das Wirtschaftssystem des Nationalsozialismus. Ideologie, Theorie und Politik*, Frankfurt a.M. 1988. See also Christoph Buchheim/Jonas Scherner, *Anmerkungen zum Wirtschaftssystem des ‘Dritten Reichs’*, in: Abelshäuser/Hesse/Plumpe (eds), *Wirtschaftsordnung, Staat und Unternehmen* (see above, note 12), 81–98.

<sup>49</sup>See Werner Plumpe, *Die Wirtschafts- und Unternehmensgeschichte des Nationalsozialismus. Überlegungen aus systemtheoretischer Perspektive* (Beitrag zu einem von Hansjörg Siegenthaler organisierten Panel des Wirtschaftshistorischen Ausschusses des Vereins für Socialpolitik, Berlin 2003), in: *Jahrbuch für Wirtschaftsgeschichte* 2004/2, 241–5.

As a result, it found itself faced with the dilemma of not wanting to interfere in the market economy for reasons of efficiency while being forced to control its economic results in the interests of rearmament and war. National Socialist economic policy in general, and in particular its uneasy institutional structure, the overlap of state and private economic institutions, the continual issue of armaments programs, the incessant personnel roundabout, and so on should be seen in the light of this self-inflicted dilemma. Admittedly, the result was not the one intended by the National Socialist dictatorship, that is, an economy streamlined to the purposes of the totalitarian state. However, National Socialism succeeded in decisively shaping the 'milieu' in which private sector enterprises made their investment and production decisions.

This takes us to the last (and most important) strand of research to be discussed here, the history of individual companies. For various reasons, this area was the last in which the relevant source-based research was undertaken. Issues raised by an open approach of companies toward their own history played as much a part in this 'delay' as concomitant legal disputes; of course there was also the in part justified fear that historical scholarship would fail to approach the history of companies in an impartial manner. However, since the late 1980s the picture has fundamentally changed.<sup>50</sup> Following studies on the history of forced labor in large German companies (and at the same time: the issue of compensation for former forced laborers), the number of company histories which examine the developments between 1933 and 1945 in an open and critical manner has rapidly increased. It is worth noting that the big companies—concerned about their international reputation—took on a pioneering role, with Deutsche Bank at the forefront.<sup>51</sup> Other big companies within

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<sup>50</sup> Comments on recent research: Gall/Pohl (eds), *Unternehmen im Nationalsozialismus* (see above, note 25). Further Thomas Großbölting/Rüdiger Schmidt, *Unternehmerwirtschaft in Deutschland zwischen 1930 und 1960—Stand und Perspektiven der Forschung*, in: Thomas Großbölting/Rüdiger Schmidt (eds), *Unternehmerwirtschaft zwischen Markt und Lenkung: Organisationsformen, politischer Einfluß und ökonomisches Verhalten 1930–1960*, Munich 2002, 9–38.

<sup>51</sup> Harold James, *Die Deutsche Bank und die Diktatur*, in: Lothar Gall et al., *Die Deutsche Bank 1870–1995*, Munich 1995, 315–408. Harold James, *Die Deutsche Bank und die 'Arisierung'*, Munich 2001. Jonathan Steinberg, *Die Deutsche Bank und ihre Goldtransaktionen während des Zweiten Weltkrieges*, Munich 1999. Comprehensive work on the history of Dresdner Bank and Commerzbank is underway. Cf. Johannes Bähr, *Der Goldhandel der Dresdner Bank im Zweiten Weltkrieg*, Leipzig 1999.

the insurance industry,<sup>52</sup> the electro-technical industry,<sup>53</sup> the chemical industry,<sup>54</sup> heavy industry,<sup>55</sup> within the transport sector,<sup>56</sup> and the automobile industry<sup>57</sup> followed; even the commemorative literature still being written turned to new questions.<sup>58</sup> At the same time—and not least due to the opening up of archives—the number of independent academic monographs has increased markedly, providing the research picture with greater nuances. The ‘early’ works of Hermann Gustav Seebold on the Bochumer Verein,<sup>59</sup> of Gerhard Th. Mollin on Vereinigte Stahlwerke,<sup>60</sup> or of Peter Hayes<sup>61</sup> and Gottfried Plumpe<sup>62</sup> on IG Farben were now rapidly supplemented by further research, on the airplane industry,<sup>63</sup> state-owned

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<sup>52</sup> Gerald D. Feldman, *Die Allianz und die deutsche Versicherungswirtschaft 1933–1945*, Munich 2001.

<sup>53</sup> Feldenkirchen, *Siemens* (see note 29).

<sup>54</sup> Most recently, cf. Raymond G. Stokes, *Von der I.G. Farbenindustrie AG zur Neugründung der BASF (1925–1952)*, in: Werner Abelshäuser (ed.), *Die BASF. Eine Unternehmensgeschichte*, Munich 2002, 221–358.

<sup>55</sup> Werner Abelshäuser, *Rüstungsschmiede der Nation?* (see note 30).

<sup>56</sup> Klaus Hildebrand, *Die Deutsche Reichsbahn in der Zeit der nationalsozialistischen Diktatur 1933–1945*, in: Lothar Gall/Manfred Pohl (eds), *Die Eisenbahn in Deutschland. Von den Anfängen bis zur Gegenwart*, Munich 1999, 165–250.

<sup>57</sup> Bernd Heyl/Andrea Neugebauer (eds), ‘... ohne Rücksicht auf die Verhältnisse’. *Opel zwischen Weltwirtschaftskrise und Wiederaufbau*, Frankfurt a.M. 1997. Hans Mommsen/Manfred Grieger, *Das Volkswagenwerk und seine Arbeiter im Dritten Reich*, Düsseldorf 1996.

<sup>58</sup> VEW AG (ed.), *Mehr als Energie. Die Unternehmensgeschichte der VEW 1925–2000*, Essen 2000. Wilfried Feldenkirchen/Susanne Hilger, *Menschen und Marken. 125 Jahre Henkel 1876–2001*, Düsseldorf 2001. Cf. also Hans Pohl, *Buderus 1932–1995. Band 3 der Unternehmensgeschichte*, Wetzlar 2001.

<sup>59</sup> Gustav-Hermann Seebold, *Ein Stahlkonzern im Dritten Reich. Der Bochumer Verein 1927–1945*, Wuppertal 1981.

<sup>60</sup> Gerhard Th. Mollin, *Montankonzerne und ‘Drittes Reich’. Der Gegensatz zwischen Monopolindustrie und Befehlswirtschaft in der deutschen Rüstung und Expansion 1936–1944*, Göttingen 1988.

<sup>61</sup> Peter Hayes, *Industry and Ideology. IG Farben in the Nazi Era*, Cambridge 1987.

<sup>62</sup> Gottfried Plumpe, *Die I.G. Farbenindustrie AG. Wirtschaft, Technik und Politik 1914 bis 1945*, Berlin 1990.

<sup>63</sup> Budraß, *Flugzeugindustrie und Luftrüstung* (see above, note 34). Further Hartmut Pophanken, *Gründung und Ausbau der ‘Weser’-Flugzeugbau GmbH 1933 bis 1939. Unternehmerisches Entscheidungsverhalten im Kontext der nationalsozialistischen Luftrüstung*, Bremen 2000.

companies,<sup>64</sup> the automobile sector,<sup>65</sup> the ship-building industry,<sup>66</sup> the precision tool-making and optical industry,<sup>67</sup> as well as from the broad field of medium-sized companies.<sup>68</sup> In the meantime, even foreign companies have had to face up to their past critically too.<sup>69</sup> For purposes here however, this must suffice as an albeit incomplete list of individual publications on single companies. The number of publications which examine individual aspects of company history in essay or other form has now become almost limitless.<sup>70</sup> In addition, significant pieces of work should be mentioned which focus on specific issues, in particular the question of Aryanization/'dejudaization'<sup>71</sup> of German companies, of forced labor, and recently the treatment of companies within German-occupied

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<sup>64</sup> Barbara Hopmann, *Von der Montan zur Industrieverwaltungsgesellschaft (IVG) 1916–1951*, Stuttgart 1996. Cf. also Andrea H. Schneider, *Die Vereinigte Industrieunternehmungen AG (VIAG) und der Vierjahresplan*, Frankfurt a.M. 1999.

<sup>65</sup> Neil Gregor, *Stern und Hakenkreuz. Daimler-Benz im Dritten Reich*, Berlin 1997. Further Michael Ehrmann, *Die Geschichte des Werkes Sindelfingen der Daimler-Motoren-Gesellschaft und der Daimler-Benz AG*, dissertation, Stuttgart 1998. Also informative: Horst Mönnich, *BMW. Eine deutsche Geschichte*, Munich 1991, esp. 234–448.

<sup>66</sup> Andreas Meyhoff, *Blohm & Voss im 'Dritten Reich'. Eine Hamburger Großwerft zwischen Geschäft und Politik*, Hamburg 2001.

<sup>67</sup> Rolf Walter, *Carl Zeiss*, Vol. 2: 1905–1945, Cologne 2000.

<sup>68</sup> But still very limited; see Berghoff/Rauh-Kühne, *Fritz K.* (see note 33), 12. One example: Hartmut Berghoff, *Zwischen Kleinstadt und Weltmarkt. Hohner und die Harmonika 1857–1961*, Paderborn 2006. Further: Petra Bräutigam, *Mittelständische Unternehmer im Nationalsozialismus. Wirtschaftliche Entwicklungen und soziale Verhaltensweisen in der Schuh- und Lederindustrie Badens und Württembergs*, Munich 1997. Also: Astrid Gehrig, *Nationalsozialistische Rüstungspolitik und unternehmerischer Entscheidungsspielraum. Vergleichende Fallstudien zur württembergischen Maschinenbauindustrie*, Munich 1996.

<sup>69</sup> Edwin Black, *IBM und der Holocaust. Die Verstrickung des Weltkonzerns in die Verbrechen der Nazis*, Munich 2001. This type of publication no doubt reinforced the misgivings within many companies concerning the so-called critical public. It involves a sensationalist portrayal and dubious theses which were intended to scandalize and serve not historical understanding.

<sup>70</sup> A bibliography of all publications since the mid-1990s alone already comprises of several hundred titles.

<sup>71</sup> In general, Barkai, *Vom Boykott zur 'Entjudung'* (see note 42). Further Avraham Barkai, *Die deutschen Unternehmer und die Judenpolitik im Dritten Reich*, in: *Geschichte und Gesellschaft* 15 (1989), 227–47. Peter Hayes, *Big Business and Aryanization in Germany 1933–1939*, in: *Jahrbuch für Antisemitismusforschung* 3 (1994), 254–81. 'Aryanization' and support for the relevant measures have particularly been examined in the case of the bank sector; cf. Harold James, *Die Deutsche Bank* (see note 51). Dieter Ziegler, *Die Verdrängung der Juden aus der Dresdner Bank*, in: *VFZ* 47 (1999), 187–216; Keith Ulrich, *Aufstieg und Fall der Privatbankiers. Die wirtschaftliche Bedeutung von 1918 bis 1938*, Frankfurt a.M. 1998.

Europe.<sup>72</sup> This has increased knowledge of Aryanization significantly; indeed, the question of the treatment of forced laborers has now probably been researched sufficiently, even though our knowledge can of course always be expanded in empirical terms. The activities of German companies abroad, especially within the occupied territories, promise to be a worthwhile field of research in the future, especially as work on the occupied territories in Central Eastern and Eastern Europe has now become possible.<sup>73</sup>

Today, it is fair to say that the history of a great number of large German companies between 1933 and 1945 has been researched quite well and that medium-sized industries are at least represented in some cases. Nevertheless, there are still big gaps in regional research, particularly with regard to the important Central German industrial area, work has also to be done on companies within the consumer goods industry, and finally, in most cases, only little or insufficient light is thrown on the question of how these companies actually accommodated National Socialist stipulations in their own decision-making programs. Yet numerous studies provide a surprising wealth of material with which this question could be pursued. Nonetheless, it seems that current historiography is content to document the details of companies 'taking part' or 'playing along' while providing only general answers (profit lust, force) to the question of how and why this took place.

At this point, we can proceed to the question of advances made in research over the last years and decades. After 35 years of scholarship in the wake of Petzina's monograph on autarky, has the historiography of economic and business history made any decisive steps forward? From one

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<sup>72</sup> See Heidrun Homburg, *Wirtschaftliche Dimensionen der deutschen Besatzungsherrschaft in Frankreich 1940–1944*, in: Abelshäuser/Hesse/Plumpe (eds), *Wirtschaftsordnung, Staat und Unternehmen* (see above, note 12). In general Richard J. Overy/Gerhard Otto/Johannes Th. M. Houwink ten Cate (eds), *Die 'Neuordnung' Europas. NS-Wirtschaftspolitik in den besetzten Gebieten*, Berlin 1997.

<sup>73</sup> For some initial work, see Christopher Kopper, *Die 'Arisierung' der deutsch-böhmischen Aktienbanken*, in: Boris Barth et al. (eds), *Konkurrenzpartnerschaft. Die deutsche und die tschechoslowakische Wirtschaft in der Zwischenkriegszeit*, Essen 1998, 236–45. Further Harald Wixforth, *Auftakt zur Ostexpansion. Die Dresdner Bank und die Umgestaltung des Bankwesens im Sudetenland 1938/39*, Dresden 2001. On the role of Berthold Beitz, cf. Thomas Sandkühler, *'Endlösung' in Galizien. Der Judenmord in Ostpolen und die Rettungsinitiativen von Berthold Beitz 1941–1944*, Bonn 1996.

important point of view, the answer must be positive—without reservation. Petzina's claim that ultimately political factors were decisive for the economic and business history of National Socialism has been fully confirmed, even in the case of IG Farben and the Four Year Plan which was highly disputed at the time. In a case which was spectacular in terms of research too, the conclusions of Peter Hayes and Gottfried Plumpe clearly revealed the primacy of political authorities and of political decisions—thus of course provoking a further question of no less explosive nature, of why such a large and influential company as IG Farben let itself be turned into an instrument of crime, indeed its taking part allowed the unhindered progress of crimes. Parallel to the evidence for the primacy of politics, research has also illustrated in detail that the notion of National Socialism being staged by big business, is an influential legend but one for which there is no evidence. In this context, it would be very interesting to examine how and in which way this idea could gain such prominence that it was able to decisively influence American occupation policy up to the end of the 1940s at least. It also made the process of disentanglement possible in semantic terms which later proved to not make economic sense. In addition to providing evidence for the primacy of politics, business history research presents two further important results. The majority of studies reveal a paradoxical situation. On the one hand, companies retained their autonomy in decision-making in formal terms; exceptions were extremely rare. On the other hand, the scope for decision-making was increasingly restricted in political terms whether certain options were forbidden or extremely restricted, or because a financial premium was placed on choices of action desired by the regime.<sup>74</sup> This paradox was perhaps best embodied by Speer's apparatus with which industry in Germany effectively regulated itself on the orders of state.<sup>75</sup> In sum, while companies retained their autonomy, its use was influenced by the regime to a high degree.

Within this framework, and here scholarship is unanimous, most companies followed the regime's political stipulations insofar as this made a minimum of economic sense, and of course the regime was as

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<sup>74</sup>Typical, for example, Christopher Kopper, *Zwischen Marktwirtschaft und Dirigismus. Bankenpolitik im Dritten Reich*, Bonn 1995.

<sup>75</sup>On the functioning of the war economy system, cf. Richard J. Overy (ed.), *War and Economy in the Third Reich*, Oxford 1994.



a rule at pains to financially reward such taking part. This ‘taking part’ ranged not only from taking on armament orders and ultimately shifting fixed capital in favor of extensive armament and war production. It also included—admittedly to varying degrees—the readiness to take part in the ‘dejudaization’ of German industry and the Aryanization of companies; it included the readiness to expand into occupied territories and to promote the integration of companies located there into the German economy; finally, it normally included the readiness to employ forced laborers (ranging from privileged Western workers to those barely treated as humans such as Russian prisoners of war and those enslaved in concentration camps) and to at least tolerate their racist treatment. It is striking that companies ‘took part’<sup>76</sup>; independent initiatives were rare, even though in the case of Aryanization, there was sometimes quite some commotion, and during the latter half of the war, more and more companies strove to secure their status of being vital to the war effort, and thus the use of forced labor. Over and above this, it is remarkable that existing publications all emphasize that companies had an eye to their own advantages and that the fulfillment of political wishes was also partly used to gain a latitude for autonomous actions, not least in the context of preparations for the postwar period. Overall, it can be said that companies were all at great pains to maintain or indeed expand their autonomy. Here ‘taking part’, and in some cases even the fostering of relations to the Nazi bureaucracy, seemed to be the appropriate means, as only function-

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<sup>76</sup>How far the employment of forced and slave labor was based on self-initiative is debatable even in the case of the IG plant in Monowitz; see the review of Peter Hayes, *Zur unstrittenen Geschichte der I.G. Farbenindustrie*, in: GG 18 (1992), 405–15; Gottfried Plumpe, *Antwort auf Peter Hayes*, in: GG 18 (1992), 526–32. In most cases, the desire to remain essential to the war effort and thus to secure the allocation of raw materials and the assignment of workers was decisive in companies’ acceptance of the assignment of forced laborers. It must be noted, however, that just as self-initiative was lacking in the employment of forced labor, there is little evidence of companies’ refusal to do so. Only the treatment of forced laborers within companies appears to have varied greatly which indicates that companies did have room to maneuver autonomously. For the case of Siemens, cf. Carola Sachse, *Siemens, der Nationalsozialismus und die moderne Familie. Eine Untersuchung zur sozialen Rationalisierung in Deutschland im 20. Jahrhundert*, Hamburg 1990, 104 ff. The controversial debate of the case of Daimler-Benz became exemplary for this discussion. Following the first heavily criticized publication in which the treatment of forced laborers was still presented in far too positive a light (Hans Pohl, *Die Daimler-Benz AG in den Jahren 1933–1945*, Wiesbaden 1986), a thorough and detailed examination of developments followed in 1994, cf. Beate Brüninghaus et al., *Zwangsarbeit bei Daimler-Benz*, Stuttgart 1994. A recent publication on Krupp: Abelschäuser, *Rüstungsschmiede der Nation?* (see note 30), 400–31.

ing companies, that is, to say only companies with access to raw materials, preliminary products, and a workforce, were able to act autonomously at all. In this sense, 'taking part' was necessary in order to avoid 'taking part'. This could be described as the Schindler phenomenon. However, this would wrongly suggest that many companies took part specifically in order to undercut the policy on race and on war. Yet this was rarely the case. While open political commitment is seldom to be found within the group of industrialists and businessmen, any indications of a rejection of the Nazi regime are just as scarce. Some industrialists or businessmen (not companies!) avowed Nazis, belonged to Himmler's close circle of friends or received the title of 'Military Procurement Officers'; others were disinterested in National Socialism; others rejected it as plebeian; some found it too vulgar; and others still were unable to accept the regime's policy on race and on war due to their own general ethical and/or Christian convictions.

Business history today focuses on the key question of why companies 'took part', particularly in those areas in which basic principles of business ethics and humanity were spectacularly contravened. Indeed, research can be said to focus on the attempt to reveal which factors made the entwinement of companies with the Nazi regime possible. While a multitude of factors have been identified, they share a common base: the pursuit of individual gain<sup>77</sup> or the interest in company profits.<sup>78</sup> In research, this problem is clearly regarded as solved once the motives of the individuals involved have been revealed, that is, those who are believed to

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<sup>77</sup> Here the pursuit of individual gain should be taken as a broad category. It may have been the case that Aryanization led to personal enrichment; it may have been the case that a devil-may-care approach was thought to secure bigger career opportunities; it may have been linked to the attempt to make up for feelings of inferiority through the borrowed influence as a party official; finally, it may have involved the desire of belonging to a group whatever the cost. Business history publications provide a wealth of examples which indicate that in particular the pursuit of a career (and the fear of punishment) within middle management brought individuals within many companies to behave in a way which according to their own standards no longer corresponded to common-sense morals.

<sup>78</sup> This is a point already made by Mark Spoerer in his thorough PhD thesis: Mark Spoerer, *Von Scheingewinnen zum Rüstungsboom. Die Eigenkapitalrentabilität der deutschen Industrieaktiengesellschaften 1925–1941* (Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte, Supplement no. 123), Stuttgart 1996.

have made 'taking part' possible.<sup>79</sup> Ultimately, it was then bad character and profit lust (or from a different perspective: compulsion) which initially promoted the rise of National Socialism, then welcomed the suppression of the labor movement, perceived the elimination of Jews as a career opportunity and one for personal gain, recognized the possibilities for expansion in Aryanization, accepted forced labor as way of money-making, and finally justified holding out in the endeavor not to be shut down so close to the end. Opposition to National Socialist targets (or even better: non-fulfillment) was and is again seen from this perspective as a question of the specific company interests involved. The relative success of National Socialism in the implementation of its economic goals then appears as the result of a policy which continually tried to motivate companies to take part and did not shy away from employing a wide range of means and methods in the process.

Nonetheless, this line of argumentation does not really represent real progress compared to the debates of the years prior to Petzina. The reasons for taking part were already discussed in the immediate postwar period. Here, either the greed for profits or the forced economy were cited, the relevant arguments drawn up and the accompanying motives deduced. More advanced forms of business history research should however raise the question of whether the examination of the motives of industrialists, businessmen, and companies is in fact the right way of making the development between 1933 and 1945 plausible in historiographical terms. And this brings us to a second evaluation of current research. It is indisputable that we now know a lot more, and that National Socialism is no longer believed to be a conspiracy of big business, at least in most cases. It is also indisputable that some individual behavior can be made plausible in empirical terms by making assumptions about the motives involved. But it is another question entirely, and one still to be answered, whether

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<sup>79</sup>We now have a comprehensive, but as far as I can see, basically fruitless debate of the question, whether companies profited from forced labor; see Mark Spoerer, *Profitierten Unternehmen von KZ-Arbeit. Eine kritische Analyse der Literatur*, Stuttgart 1998. Cornelia Rauh-Kühne, *Hitlers Hehler? Unternehmerprofite und Zwangsarbeiterlöhne*, in: *Historische Zeitschrift* 275 (2002), 1–55; Abelschäfer, *Rüstungsschmiede der Nation?* (see note 30), 400–31. Today, current developments in research do not allow any simple answers to the question of whether forced labor was 'economical' or not. Contemporaries probably also had at best only vague ideas about the question of the 'economy' of forced labor.

company decision-making was determined by the motives of those individuals involved in the decision-making process.

The following, however, is based on the proposition that while the validity of terms such as ‘profit-seeking’ or ‘compulsion’ may be illustrated by individual facts, they ultimately conceal the problem to be solved more than placing it at the center of the research focus. The question is, how do companies make decisions and how do political stipulations influence these decision programs? This question is not raised in the relevant literature, neither do publications on company histories under National Socialism raise any general questions with regard to their research subject. Yet a brief glance at precisely this literature reveals that all companies examined clearly had dominant decision-making routines in 1933 which continued in the same vein thereafter, as if adhering to a once chosen technological path. This finding is of course compatible with the assumption that decision-making processes were determined by motives. So here further considerations of a more fundamental nature are required. The assumption that company decisions are determined by motives is just as popular as questionable. Quite apart from the question, whether organizations have motives at all and, if so, whose motives would then be binding for an organization according to which decision-making procedure,<sup>80</sup> the question is pertinent how motives, the justification of which can only be demonstrated in the future, can determine decisions in the here and now. Clearly, it is more the case that expectations make decisions possible, given that motives themselves can be uncertain and changeable, while companies as complex organizations in particular need to guarantee that predictable routines prevail, as the existence of an organization cannot be made dependent on the contingent motives of its members.<sup>81</sup> Max Weber provides a lucid formulation of this point:

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<sup>80</sup> Which raises the question of how decisions can for their part be justified by motives. Again by motives? By profit motives? That is a logical impossibility. For more on the generally half-baked nature of the ‘profit motive debate’, cf. the strenuous yet fruitless efforts of Malcolm Dunn to save the profit motive, in: Malcolm Dunn, *Das Unternehmen als soziale Organisation. Ein sozialwissenschaftlicher Beitrag zur Neuen Mikroökonomie*, Berlin 1998.

<sup>81</sup> The main purpose of organizational structures and bureaucratic career paths is precisely to block any motivated initiatives of members within the organization, as otherwise—to overstate the case—the ability of an organization to function would depend on the moods of its members. Of fundamental relevance, Niklas Luhmann, *Organisation und Entscheidung*, Opladen 2000.

‘The growing impersonality of the economy,’ as he wrote in *Economy and Society*,

on the basis of association in the market place follows its own rules, disobedience to which entails economic failure and, in the long run, economic ruin. Rational economic association always brings about depersonalization, and it is impossible to control a universe of instrumentally rational activities by charitable appeals to particular individuals. The functionalized world of capitalism certainly offers no support for any such charitable orientation. In it the claims of religious charity are vitiated not merely because of the refractoriness and weakness of particular individuals, as it happens everywhere, but because they lose their meaning altogether. Religious ethics is confronted by a world of depersonalized relationships which for fundamental reasons cannot submit to its primeval norms.<sup>82</sup>

And in the *Protestant Ethic*, Weber was clearer still:

The capitalistic economy of the present day is an immense cosmos into which the individual is born, and which presents itself to him, at least as an individual, as an unalterable order of things in which he must live. It forces the individual, in so far as he is involved in the system of market relationships, to conform to capitalistic rules of action. The manufacturer who in the long run acts counter to these norms, will just as inevitably be eliminated from the economic scene as the worker who cannot or will not adapt himself to them will be thrown onto the streets without a job. Thus, the capitalism of to-day, which has come to dominate economic life, educates and selects the economic subjects which it needs through a process of economic survival of the fittest.<sup>83</sup>

Consequently, we need to lay bare the specific way decisions are made in organizations. Here it becomes clear that motives are not so important as the formation of expectations within organizations,<sup>84</sup> which in the

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<sup>82</sup> Max Weber, *Economy and Society*, ed. by Günther Roth and Claus Wittich, Berkeley 1978, 585.

<sup>83</sup> Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, translated by Talcott Parsons, New York 2003 (1958), 54 f.

<sup>84</sup> This does actually correspond to classical economic thought, as for example propounded by John Maynard Keynes. Here the emphasis is simply that reference is being made to the formation of expectations as an organizational achievement and not as one on a personal level. Similarly, refer-

face of an uncertain future nevertheless allows for certainty in decision-making. The internal formation of expectations is essential to companies. It is important to remember that a company cannot 'not decide'. Its existence is based on continuous decision-making; companies can also be described as systems which maintain their demarcation to their environment through continuous, recursive decisions. It inevitably then follows that decisions (and in the background: the formation of expectations) cannot be left to chance but must be carried out in an organized manner. Indeed, company organizations fulfill precisely this purpose of allowing decisions to be made on the basis of the routine formation of expectations. The question is, what these routines consist of? Basically, they involve the monitoring of prices, that is, of both internal costs and market prices (and also the prices of competitors, of demand, etc.). On the basis of price differences accrued in this manner, expectations about future price differences can be deduced, whether on the basis of the cost expectation of one's own company, or on the basis of expectations of future market prices for company products or competitor products. The decisions made possible by this formation of expectations then relate to measures which aim at maintaining a positive price difference for the company in the future as well, and they steer decisions on investment and production according to the expectations formed as outlined above. In the process, it is apparent that within organizations, activities involve expectations and not certainties, so that in the interests of continued existence, it is highly probable that those decisions are preferred which seem to entail a smaller degree of uncertainty.<sup>85</sup>

Yet all decisions are not equal. It is quite evident that the bigger the bureaucratic organization, the more decisions follow bureaucratically formed expectations, as the bureaucracy routinely tests locations, monitors markets, organizes research labs, calculates investment, and keeps a

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ence is not being made to the expectations of individual people but to what is communicated in a consensual manner within an organization as an 'expectation', thus providing the basis for decisions and follow-up operations. For more on this non-personal concept of expectation, see Niklas Luhmann, *Einführung in die Systemtheorie*, ed. by Dirk Baecker, Heidelberg 2002, 103 f.

<sup>85</sup>A statement made with all due caution. Big companies do indeed tend to a certain degree of organizational conservatism and risk aversion; at least there is some evidence for this. Whether this is necessarily the case, or whether even the opposite is true, cannot be answered here.

watchful eye on competitors. The non-bureaucratic head of a company, as Horst Bosetzky<sup>86</sup> described company leadership in the early 1970s, mainly concentrates itself on guaranteeing the continuation of these routines for forming expectations and for thus making decisions through internal monitoring. Beyond this, it concentrates on risk assessment and makes its own decisions particularly in those cases where expectations cannot be formed nor decisions prepared bureaucratically. In medium-sized and small companies in which bureaucratic structures are less dominant or even lacking, expectations are formed by staff and decisions are correspondingly made 'in a close circle'.<sup>87</sup>

Taking the formation of expectations within companies as the basis for unavoidable and recursive decision processes against the background of their specific bureaucratic forms, it is then possible to revise existing findings on the history of companies under National Socialism. Such a recapitulation would perhaps achieve a higher degree of historiographical plausibility than an interpretation which conceals decision processes with motives and basically offers suspected motives as an explanation.

In the light of these considerations, the first aspect to become apparent is that the processes involved in the formation of expectations and decision-making routines within German companies did not change after 1933. National Socialism appears to have not represented a significant challenge for the organizational structures and decision-making processes within (big) German companies. Neither did organizational structures have to be altered significantly after 1933, nor did National Socialist intervention have to be reversed after 1945. The changes in company law, which Johannes Bähr explores in his essay, followed long-term developments and were in this sense not a National Socialist project, so correspondingly no one thought to reverse these changes after 1945.<sup>88</sup> Indeed, disentanglement and de-cartelization after the Second World

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<sup>86</sup>Horst Bosetzky, *Grundzüge einer Soziologie der Industrieverwaltung. Möglichkeiten und Grenzen der Betrachtung des industriellen Großbetriebes als bürokratische Organisation*, Stuttgart 1970.

<sup>87</sup>It is not surprising that as a result there is sometimes a wide divergence between the self-description and description of managers by others on the one hand and of autonomous businessmen on the other; for an overview, see Sandra Markus, *Bilanzieren und Sinn stiften. Erinnerungen von Unternehmern im 20. Jahrhundert*, Stuttgart 2002.

<sup>88</sup>Johannes Bähr, 'Corporate Governance' im Dritten Reich, in: Abelshäuser/Hesse/Plumpe (eds), *Wirtschaftsordnung, Staat und Unternehmen* (see above, note 12), 61–80.

War were not responses to developments which resulted from National Socialist intervention into existing company structures. In fact, it was far more the case that company structures in Germany—which had grown over a century—were to be modified according to the American model as demanded by US military government advisors. The little evidence we have suggests that big companies at least upheld their decision-making procedures despite National Socialism. There are no known cases in which big joint-stock companies diverted from the principle of collective leadership, and in small and medium-sized companies led by owner-managers, the ‘leadership principle’ (*Führerprinzip*) only represented a new semantic version of existing decision-making practice. Decision-making in the collectives of the board and/or supervisory council was certainly upheld in big companies. The elimination of Jews from these bodies was clearly also not used to change decision-making procedures. So at least within big joint-stock companies, the *Führerprinzip* appears to have not been used as a decision-making principle even if it was strongly emphasized in dealings with the Council of Trust (*Vertrauensrat*) and the ‘workforce of followers’ (*Gefolgschaft*) while at the same time great effort was put into keeping the National Socialist Factory Cell Organization (NSBO, *Nationalsozialistische Betriebszellenorganisation*) and the German Labour Front (DAF, *Deutsche Arbeitsfront*) beyond the factory gates.<sup>89</sup> In sum, concern structures and decision-making procedures were barely influenced by National Socialism, and, aside from the DAF, such an influence was not really sought after, particularly as companies under Nazi control did not operate in a structurally different way but more aggressively than their private counterparts.

The way expectations were formed and the processes through which decisions were made did not change after 1933 either. The bulk of company decisions remained path-dependent routine decisions, in accordance with bureaucratic assessment. It is striking that, in the course of time, these routines processed genuinely political impulses more and

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<sup>89</sup> The major Nazi projects to reform hierarchies, work processes, and control structures within German companies, as for example instigated by the DAF’s Institute for Industrial Science, failed in general to have a significant impact on big companies; cf. Tilla Siegel, *Leistung und Lohn in der nationalsozialistischen ‘Ordnung der Arbeit’*, Opladen 1989, who emphasizes the significance of these projects but is unable to demonstrate their practical relevance.



more often: with increasing militarization and the concomitant policy of economic autarky, the risks for companies grew as investment and production decisions were less and less based on an autonomous formation of expectations which necessarily calculates on the basis of future market scenarios. This was true of the steel industry which had no interest in German ores and overcapacities; this was true of the airplane construction industry which saw no expansion of civil markets; this was true of the chemical industry whose autarkic products were basically not marketable. On the other hand, the 'militarization' of production was not such a sudden shock. It did not really lead to a questioning of company routines for expectation formation and decision-making but first furtively surfaced as a welcome extension to the sales order situation faced by companies still shaken by the Depression. While the reaction at Krupp to the resumption of armaments production was mixed, this did not prevent the reactivation of existing armament capacities already available within the company. Even beyond this decision-making routine, there was a readiness to participate in the Research Society for Metallurgy and thus in the silent financing of war as positive effects for the market overall were expected. Similarly in the case of IG Farben, the company's international orientation did not prevent it from putting 'petrol synthesis', its problem child, back on its feet on the basis of a Nazi guarantee for sales and prices and to even promise an expansion of capacities despite the de facto expected development of the global market.

Against this background, further developments can only be explained in genetic, that is to say, historical terms. The broad readiness of all companies to profit from politically initiated anti-crisis and armament programs, although it was clear that these would not be continued under normal market conditions, can still be explained with respect to the repercussions of the crisis and was within expected terms. The next points at which the course was set (the crisis of foreign exchange and raw materials from 1934, the labor shortage from 1936, increasing control of investment through public programs after 1936, the direct intervention into the capacities of industries 'non-vital to the war effort' from 1937 onwards—which had been previously neglected, the imposition of control over the labor market from 1938, and this all in the context of a continual increase in the regulation of normal business operations including price and wage controls, the

prohibition of imports and exports, forced cartelization, the monitoring of investments, etc.) successively became absorbed by the decision-making programs within companies. Of decisive importance here was that the growing risks involved in the militarization of the economy were compensated for by the state's successive taking over of the risks. The programs for the formation of expectations and decision-making processes referred to market observations less and less and to political targets as well as results of political negotiations more and more. In this situation, companies were at no point prepared to give up their internal process of expectation formation and to accept politically motivated projects of high risk. Negotiations over deliveries, quality, and prices, such as those described by Mommsen and Grieger in the case of VW or by Abelshausen in the case of Krupp, use a language of persuasion: at least as far as company decisions were concerned, there was no talk of patriotically motivated altruism.

From this perspective, it becomes clear that National Socialism led to a perversion of decision-making routines through changes in the environment in which they were made, especially through guaranteed sales and prices which reduced the uncertainties faced by companies when making decisions. Companies adapted to this and ultimately focused their internal decision-making preparations on political stipulations or on the results of political price negotiations, while a positive expectation with regard to a favorable price difference still remained decisive. However, such expectations were no longer formed on the basis of market observations but followed political stipulations. Such decision-making processes did not require a particularly pronounced greed for profits. They occurred anyway—and the National Socialist target was to secure the desired results through the control of some parameters. This is basically true of the bulk of decisions made after 1933 regarding plant location, production, and investment. Here National Socialism used legal restrictions and force but above all the minimization of risks in order to achieve a reprogramming of decision-making processes in terms of content. Even in such extreme cases, such as the choice of location for the new IG Farben Buna plant which was finally constructed close to the concentration camp of Auschwitz, the records of the preparations involved now available show that locations were assessed in the established routine

manner of earlier decades.<sup>90</sup> A special 'profit motive' cannot be identified here; if IG's internal expectations had been the only point of reference, no new plant would have been set up at all, especially not in Eastern Upper Silesia. Yet because the plant was demanded for political reasons and a location in the West was unacceptable, all possible locations were tested to the degree of perfectionism expected at that time of the IG departments involved and the final decision was made according to rational parameters. While these unquestionably also included the expectation of securing a sufficient workforce in the near future, this did not mean slave labor. In retrospect, it is this routine choice of location, to which no morals were affixed and which became the epitome of mass murder, which is alarming. Nevertheless, it still remains that this decision was based on a routine process which ultimately involved the professional approach of technicians and engineers.

Of course, the reference to the perversion of decision-making routines within companies through political intervention covers only one part of business industry after 1933. In all the other cases, in which no decision-making routines were in existence, and where decisions about decisions and decision procedures had to be explicitly redefined, the situation was very different. This was the case across the whole area of Aryanization as well as in the context of the expansion of economic activities into Austria, the Sudetenland, and later in the territories under military occupation after 1938. Here scholarship has uncovered remarkable differences in the behavior of companies which clearly was linked to the degree of penetration by a politically convinced leadership. This degree of penetration was of course higher where the state's grasp on these companies was stronger and this in turn correlated to their economic weakness during the Depression. Clearly involved were such companies as the Dresdner Bank, which wanted to seize every opportunity to improve on its failing position<sup>91</sup>; or those state-owned companies close to the regime such as the Reichswerke 'Hermann Göring', which were unscrupulous in their

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<sup>90</sup> Following Peter Hayes, this is illustrated in detail by Stokes, *Von der I.G. Farbenindustrie AG* (see note 54).

<sup>91</sup> Michael Hepp, *Deutsche Bank und Dresdner Bank. Gewinne aus Raub, Enteignung und Zwangsarbeit*, in: 1999. *Zeitschrift für Sozialgeschichte des 20. und 21. Jahrhunderts* 15 (2000), 64–116.

drive for profits in the East<sup>92</sup>; it was those small and medium-sized companies which ‘swallowed’ their Jewish competitors.<sup>93</sup> As here no decision-making routines existed, it can be assumed that decisions about decisions were consciously made in a political way—perhaps and not improbably motivated by the desire for profits but also out of motives of greater character, not for profits but to provide assistance. Yet these are only isolated examples. Overall, future research needs to reconstruct the whole stream of decisions within single companies and industry and to examine the precarious relationship of decision-making routines and extraordinary decisions in the context of varying decision-making environments within companies (region, branch, company constitution and size, etc.) in order to make any conclusive judgments.

Even so, the basic contours of development can already be detected in existing research and the plausible interpretation thereof. First of all, Petzina’s proposition that industry was neither innocent nor mainly responsible has broadly speaking been supported by research. Without being able to draw on the wealth of monographies and other publications available today, the sober, source-based approach brought Petzina to the sober and clear conclusion that ultimately industry and companies had to accommodate political stipulations. Detailed analysis today reveals that this primacy of politics led to companies ‘taking part’. This needs to be examined more closely—not only to understand business history under National Socialism but also to place it in the context of the modern business history of the capitalist world.

The dimensions of such an explanation are as follows:

1. The state did not abolish private enterprise; but it established a totally new framework for its activities through (a) its albeit inefficient but comprehensive claim to planning and controls, and (b) through the intensive use of control means—legislation, money/resources, power, and publicity. As a result, there was a massive legal pressure to pursue operations in accordance with the wishes of the regime, a variety of

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<sup>92</sup> August Meyer, *Das Syndikat. Reichswerke ‘Hermann Göring’*, Brunswick 1986.

<sup>93</sup> Here Aryanization inevitably focused on those areas in which Jewish companies were strongly represented such as the financial sector and the retail trade. So the numerous cases of scrupulous enrichment in these areas cannot be projected—whether in a good or bad sense.

material incentives to do so, with as a rule the threat of force to back the fulfillment of the regime's expectations which in individual cases was put into practice, as well as finally, public opinion which at least failed to approve of a company's deviating, passive, or neutral stance. The use of these means of control varied over the course of time: at first the desire to control was weak, but it continually increased, finally leading into the total war economy. The significance of these means of control also varied; during the war, the access to resources and direct force was decisive while previously legislation and money had played a big role, and the medium of public opinion should not be underestimated for the early years. So private enterprise as it developed after 1933 had a dwindling scope for private decision-making.

2. In this manner, the regime created possibilities for action and dilemmas which conditioned the autonomy of action enjoyed by companies to a great degree, albeit without any automatisms. Companies did not act in a way so as to directly adopt and implement the regime's wishes or demands; far more companies worked on their own independent reformulation of the dictatorship's expectations prior to their realization. In each case, the condition was that positive behavior in the regime's interests only took place if it corresponded to the internally formed expectations of the company organization which themselves served the goal of continued existence. Yet when taking a closer look at company actions, these very factors make it difficult to draw a general conclusion, as the formation of expectations varied within each company (dependent on the branch, size, technology, market position, etc.) as did the organizational structures for decision-making routines. Essentially however, expectations were formed to make continued existence probable, which in turn made decisions in line with the wishes of the regime possible. And the more that the expectations and demands of the regime moved away from regular market conditions in peacetime, the more companies demanded that the state provide guarantees to cover risks, so that in the end the state was only able to make the relevant company decisions probable through providing the relevant financial bonuses. Companies now found the test of the market replaced by the political negotiating skill of its agents.

3. Any possibility of evading this development did not exist for the majority of companies: companies do not choose their political environment; this would require a comprehensive and short-term regional mobility of all production factors. So companies have to adapt. The question is not whether companies 'took part', but how they did so. And under National Socialism, varying degrees of freedom still existed which need to be defined in detail and should be examined in future research in the field of business history. In rough terms, it seems that these degrees of freedom in or scope for decision-making were linked to the branch involved/its relevance to the war effort and the size and the material situation of the company. And finally, the personal character of company leadership had a role to play especially when decisions were not routine. Particularly with regard to this last factor, we find an exceptional heterogeneity of character traits displayed by the company leaderships analyzed so far. A joyful participation in crime is rarely found; open support for the aims of National Socialism is already more common; an unscrupulous careerism is not seldom in the case of younger and not yet respected industrialists; indifference and disinterest are also widespread. But cases of stubborn behavior, of providing help for those in distress or a more or less open rejection of the regime's brutality, are also not uncommon. The behavior of industrialists and businessmen presents a picture which is probably as varied as that of the whole population. This much can be said: once the conditions had been established, whether for Aryanization or the use of forced labor, individual character was decisive in determining actual practice. Neither Aryanization nor forced labor were the inventions of the companies themselves, nor did companies have the ability to prevent them in principle. Yet ultimately it was a question of individual decency whether and how one participated.

We still lack an overall evaluation of the 'National Socialist economic system' as well as a nuanced analysis of the relationship between politics and industry under National Socialism. A conclusive judgment is also not probable in the near future. National Socialism set the framework within which companies had to act. They were unable to evade

this setting as the continued economic existence of the company was at stake—and over the course of time all the more so. The question of the development of companies after 1933 is not therefore one of taking part or of daily opportunism; this question may be raised, but the answers are neither surprising nor morally shocking. Of interest to business history is far more the question of *how* companies took part and what they used their resulting scope for action for. Here I can identify three phases.<sup>94</sup> During the initial phase up to 1936, companies nearly all took part and used the ensuing opportunities to consolidate their position following the setbacks of the Depression. During the second phase between 1936–37 and 1941–42, *how* they took part was already significantly more differentiated; it ranged from heavy industry's rejection of smelting German ore to the taking on of official tasks by IG Farben; it ranged from the active promotion of Aryanization and the acquisition of land within the occupied territories to providing assistance for threatened Jewish business people. In the last and third phase between 1942 and the end of the war, *how* companies joined in was already determined by the logic of war; companies now strove to become essential to the war effort in order to secure scope for action for their own survival, even beyond the expected defeat of National Socialism as well. The condition of and basis for company actions was always the issue of a company's continued existence; this was the point at which National Socialism could infiltrate. In the end then, the political possibilities of National Socialism allowed the formation of expectations within companies to be influenced according to its own wishes, through the use of money, legislation, force, and public pressure, and to make decisions possible which companies would never have made under the conditions of the Weimar Republic. This was not least a reason why National Socialism had no consequences in economic terms, as with its collapse the use of politics as an instrument to control companies also disappeared. The fact that Erhard compelled companies to return to an orientation toward regular market expectations in 1948–49 cannot be underestimated in this context, just as a restoration of relations as had dominated prior to 1945 thus became impossible.

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<sup>94</sup> Cf. Paul Erker, *Industrieeeliten* (see note 25), inter alia 25 f.

# 6

## 1968 and German Firms: On Marking Out a Field of Research

### ‘1968’—More than a Number: An Event

The ‘student rebellion’ year of 1968 has gained a unique reputation in the postwar history of West Germany.<sup>1</sup> In the eyes of some (often supporters of the extra-parliamentary opposition and its many offshoots), it stands for the second foundation of the republic, its ‘fundamental liberalization’ (Habermas) and democratization as against the restoration spirit of the

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*First Publication:* Werner Plumpe, 1968 und die deutschen Unternehmen. Zur Markierung eines Forschungsfeldes, in: Zeitschrift für Unternehmensgeschichte 49 (2004), 44–65. The present chapter is a revised version of a lecture given in May 2003 as part of a public lecture series organized by the Gesellschaft für Unternehmensgeschichte: ‘1968 und die deutschen Unternehmen’. The lecture format has largely been retained. My thanks are due to Roman Köster of Frankfurt for his great encouragement and many pointers.

<sup>1</sup> Obviously, ‘1968’ was not a phenomenon confined to West Germany but a truly international symbol of political unrest and accelerated structural change. Nor was there a single, clearly defined ‘68er movement’. However, in what follows, key differences will be largely overlooked in favor of delineating an area of corporate-historical research. They will be treated in blanket terms; otherwise, no coherent line of argument could be presented within the confines of a lecture. For those key differences, recommended sources include Ingrid Gilcher-Holtey (ed.), 1968—vom Ereignis zum Gegenstand der Geschichtswissenschaft, Göttingen 1998. For the global context (albeit with weaknesses), see Ingrid Gilcher-Holtey, Die 68er Bewegung. Deutschland—Westeuropa—USA, Munich 2001.



Adenauer era. For others, 1968 signals the start of a disastrous process of institutional destruction headed mainly by self-interested dabblers in politics who when they talked about the ‘Long March through the institutions’ were actually thinking only of their own careers.<sup>2</sup> For some, the ’68er movement nourished all that is good in recent West German history; for others, it was the root of most evil.<sup>3</sup>

Views differ, but in their polemical full-on stance, they have a common core—namely, stressing the enormous importance of the year 1968. The history written in future years will reappraise that importance. Such efforts are already redoubling.<sup>4</sup> The year ‘1968’ is starting to look very different. From the standpoint of short-term politics, the year presents quite different characteristics than when viewed in the perspective of medium- to long-term social change. There it is seen as marking some sort of climax—even, indeed, the point at which that process of change took an abrupt U-turn. In addition to the familiar political events of 1968, the date is now associated with an accelerated structural change in society, notably the advent of a new hedonistic lifestyle in a country (West Germany) once known for idealizing thrift but now deemed part of the ‘consumer society’.<sup>5</sup>

Both aspects must be taken into account in any treatment of ‘1968 and German firms’. On the one hand, it is a question of how the leadership of the movement and businesses in Germany saw each other. We need to ask: how did they interrelate and what were the long-term consequences of their mutual opposition? How far did business feel threatened by the

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<sup>2</sup> It is amazing how deeply today’s controversies colored the picture back then. See Helmut Schelsky, *Die Arbeit tun die anderen. Klassenkampf und Priesterberrschaft der Intellektuellen*, Opladen 1975. Another important source is Arnold Gehlen, *Moral und Hypermoral: eine pluralistische Ethik*, Frankfurt a.M. 1969.

<sup>3</sup> Gerd Langguth, *Mythos 68. Die Gewaltphilosophie von Rudi Dutschke. Ursachen und Folgen der Studentenbewegung*, Munich 2001.

<sup>4</sup> For an overview of the literature, see Klaus Weinhauer, *Zwischen Aufbruch und Revolte. Die 68er-Bewegungen und die Gesellschaft der Bundesrepublik der sechziger Jahre*, in: *Neue Politische Literatur* 46 (2001), 412–32, and Gabriele Metzler, *Breite Straßen, schmale Pfade. Fünf Wege zur Geschichte der Bundesrepublik*, in: *Neue Politische Literatur* 46 (2001), 244–67.

<sup>5</sup> Worth reading as an essayistic outline of this transition to a hedonistic world is Arne Andersen, *Der Traum vom guten Leben. Alltags- und Konsumgeschichte vom Wirtschaftswunder bis heute*, Frankfurt a.M. 1997. On the 1960s in general, see Axel Schildt/Detlef Siegfried/Karl Christian Lammers (eds), *Dynamische Zeiten. Die 60er Jahre in den beiden deutschen Gesellschaften*, Hamburg 2000.

movement, and in what light did the movement see German firms? As for the second aspect, it is fairly clear that what the '68ers wanted and the overall direction of social change were by no means identical, even though the '1968' generation (men and women now in their sixties) are happy to reap the positive fruits of such social change for themselves.<sup>6</sup> Remember, the more or less elitist aims of the 'student rebellion' movement ran counter to such hedonism. The movement targeted primarily the destruction and reformation of institutions, whereas the everyday lives of ordinary people (that is to say, the principal *locus* of the fundamental liberalization recently re-diagnosed by Ulrich Herbert)<sup>7</sup> were either rejected as 'bourgeois' or regretted as evidence of alienation.<sup>8</sup> But particularly when social change is not indiscriminately ascribed to '1968', the question arises in emphatic form: what part did firms play in this development? The fact is, social change was not confined to altered interpersonal relations or a new conception of 'state and society'; it also found expression in the development of new products, in the emergence of new and dynamic markets that were no longer circumscribed from the outset by purely national frontiers, markets in which firms were now obliged to operate, markets that they themselves had a hand in shaping but in which they could on no account fail. That is why historians must study the role of firms in bringing about social change. Was it not perhaps firms that with their internal adaptation dynamic and their external market strategies wrought a crucial change in everyday life in West Germany, with the result that the consumer society in fact prevailed—not least against its critics among the '68ers? In this connection, the questions raised recently by Christian Kleinschmidt are of particular importance. What changes did firms themselves undergo in the period under discussion here as they experimented with new organizational models, abandoned obsolete

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<sup>6</sup> As one example among many, see Wolfgang Kraushaar, '1968'. *Das Jahr, das alles verändert hat*, Munich 1998.

<sup>7</sup> Ulrich Herbert, *Liberalisierung als Lernprozess. Die Bundesrepublik in der deutschen Geschichte—eine Skizze*, in: Ulrich Herbert (ed.), *Wandlungsprozesse in Westdeutschland. Belastung, Integration, Liberalisierung 1945–1980*, Göttingen 2002, 7–49.

<sup>8</sup> Whichever way Adorno's cultural critique is read, it boils down to rejection of a society of mass consumption, notably of its immediately obvious attributes: television, the tabloid press, mass tourism, and so on.

authoritarian decision-making structures, and reconsidered their relationship to the public?<sup>9</sup>

A further, very general question arises in this connection: how far does the image of a private sector clinging obstinately to old mindsets correspond to reality? Surely it is much more a case of the private sector itself constituting one of the most dynamic elements in German society since the 1950s. The current state of research allows for a floating of hypotheses only. The present piece is less a presentation of actual findings than a marking out of a future area of research. Our outline distinction between '1968' as political event on the one hand and as cipher for social change on the other is of major importance as regards effective demarcation work. The connection between 'political rebellion' and social structural change should not be swept under the carpet, of course. The two areas do not coincide. The political changes of the period must be kept quite distinct from the trends toward structural change in social and economic affairs. Yet at the same time, the two aspects (both private firms and the protagonists of the movement) were then and are still now deemed by the public to have been closely interwoven—so much so, indeed, that it may have been that very closeness that gives today's settling of accounts (who is responsible for what, who can bang which drum?) some of its occasionally polemical fierceness.<sup>10</sup> In what follows we shall outline, first, how the '68er movement and firms/entrepreneurs regarded one another before the medium- and long-term alterations in production and marketing strategies, and go on to look at the transformation that the organization and thinking of the private sector has undergone since. Only

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<sup>9</sup> Christian Kleinschmidt, *Das '1968' der Manager: Fremdwahrnehmung und Selbstreflexion einer sozialen Elite in den 1960er Jahren*, in: Jan-Otmar Hesse/Christian Kleinschmidt/Karl Lauschke (eds), *Kulturalismus, Neue Institutionenökonomik oder Theorienvielfalt. Eine Zwischenbilanz der Unternehmensgeschichte*, Essen 2002, 19–31. In this connection, see also the excellent study by Luc Boltanski and Eve Chiapello, *Le nouvel esprit du capitalisme*, Paris 1999, which by evaluating management literature demonstrates the repercussions of the critique of capitalism associated with '1968' on French firms. For a German overview, see Luc Boltanski/Eve Chiapello, *Die Rolle der Kritik in der Dynamik des Kapitalismus und der normative Wandel*, in: *Berliner Journal für Soziologie* 4 (2001), 459–77.

<sup>10</sup> An exemplary source here is Hermann Lübke, *Väter und Söhne. Wider die politromantische Verklärung der 'Kritischen Generation'*, in: *Aus Politik und Zeitgeschichte (APuZ)* [a supplement to the German weekly *Das Parlament*], Vol. 20, 13 May 1988.

by combining these two different perspectives shall we gain an objective picture of the role of private enterprise in bringing about social change.

## The '68ers and the Private Sector. Did They Get Each Other Wrong?

The 1968 movement, albeit decidedly anti-capitalist, did not at first worry overmuch about capitalist firms. A capitalist publishing group, Springer Verlag, may have formed the focus of the 1968 clashes, but that was a case of a political 'special relationship' developing in a typical Berlin Cold-War milieu, with protesting students on the one hand and a conservative popular press on the other. The true background to the struggle lay in conflicts within the Free University of Berlin, which from 1966 onward spread increasingly to the streets; a frontier-town political issue quickly linked up with a generalized left-wing intellectual rejection of the Erhard government<sup>11</sup> and protests against the Vietnam War. Although the basis of such protests widened following the formation of the 'Grand Coalition', they remained confined to a few centers in West Germany and to specific topics: Vietnam, extra-parliamentary opposition, emergency legislation, general democratization, later the 'Red Spot' public transport boycotts.<sup>12</sup> Escalations were occasional; true radicalization of the protest behavior of major sections of society (as in France, for instance) did not occur in West Germany. The half-baked drawing-room Marxism of certain Außerparlamentarische Opposition (APO) or Sozialistischer Deutscher Studentenbund (SDS) spokesmen<sup>13</sup> led to a widely held anti-capitalism that in some ill-defined way advocated an

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<sup>11</sup> A typical source are the pieces published in Hans-Werner Richter (ed.), *Plädoyer für eine neue Regierung oder—keine Alternative*, Reinbek 1965. The list of contributors reads like a *Who's who* of 1960s left-wing intellectuals.

<sup>12</sup> For a fine overview of the period, see Uwe Bergmann, *Rebellion der Studenten oder die neue Opposition*, Reinbek 1968.

<sup>13</sup> Dutschke's alternative approaches boiled down to 'community-building' exercises among like-minded people; they always tended toward Protestant Christian thinking. See 'Rudi Dutschke zu Protokoll', a TV interview by Günter Grass, *Voltaire-Flugschrift*, Frankfurt 1968.

uprising.<sup>14</sup> In essence, however, no clash with German firms took place before the summer of 1968 and hence the final phase of the SDS.<sup>15</sup>

Following the dissolution of the SDS, some '68ers very successfully took up the 'Long March through the institutions'. Others organized themselves in communist, anarchist, and suchlike circles that explicitly made firms and particularly the private sector workforce their targets for agitation.<sup>16</sup> In this connection, the notorious 'wildcat strikes' of autumn 1969 looked as if they signaled the outbreak of revolution. However, it seems to have been overlooked at the time that the wage demands of the workers concerned resulted mainly from the unions' hands being tied by a new legal obligation to participate in 'Concerted Action'. This meant that they could not push through pay demands in line with the then current economic upswing.<sup>17</sup> Once the wage demands had largely been approved and the unions had of necessity deviated so far from 'Concerted Action' that their followers had allowed themselves to be 'recaptured', so to speak, independent action by workforces waned relatively quickly. Already in the case of the wildcat strike at (metallurgy group) Hoesch AG, left-wing student representatives complained that neither students nor workers had recognized the 'eminently political nature' of the strike.<sup>18</sup>

In the period that followed, there was repeated agitation against firms, much of which was fought out in the media, too, where relatively large numbers of '68ers had found employment.<sup>19</sup> For instance, there were

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<sup>14</sup> See more recently Rudi Dutschke, *Jeder hat sein Leben ganz zu führen. Die Tagebücher 1963–1979*, Cologne 2003.

<sup>15</sup> Siegwald Lönnendonker (ed.), *Linksintellektueller Aufbruch zwischen 'Kulturrevolution' und 'kultureller Zerstörung': Der Sozialistische Deutsche Studentenbund in der Nachkriegsgeschichte 1946–1969. Dokumentation eines Symposiums*, Opladen 1998. See also Willy Albrecht, *Der Sozialistische Deutsche Studentenbund. Vom parteikonformen Studentenverband zum Repräsentanten der Neuen Linken*, Bonn 1994.

<sup>16</sup> Gerd Langguth, *Protestbewegung. Entwicklung—Niedergang—Renaissance. Die Neue Linke seit 1968*, Cologne 1983.

<sup>17</sup> Wolfgang Lefevre, *Einige Konsequenzen aus der Streikbewegung im September 1969 für unsere Arbeit*, in: *Neue Kritik* 54 (1969). On the subject of 'Concerted Action', see also Tim Schanetzky, *Sachverständiger Rat und Konzertierte Aktion: Staat, Gesellschaft und wissenschaftliche Expertise in der bundesrepublikanischen Wirtschaftspolitik*, in: *Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte* 91 (2004), 310–31.

<sup>18</sup> Werner Kurzlechner, *Die Unternehmer und die Herausforderung der 1968er im Spiegel der öffentlichen Meinung*, Master's thesis, Frankfurt 2003, 72.

<sup>19</sup> Kurzlechner, *Die Unternehmer* (see note 18), 151 ff.

more television documentaries than before that included explicit criticism of firms. Shareholder AGMs were found to offer an additional platform, and increasing use was made of this approach. But the main thrust (not least on agitational grounds, no doubt) remained selective, targeting specific instances of misconduct by firms. One example was agitation against the many German companies that helped to build the Cahora Bassa dam (1971), which can be said to have marked the start of questioning the involvement of firms in projects that would benefit politically dubious countries (the *apartheid* government in South Africa was among those to draw energy from the dam).<sup>20</sup> However, there was little questioning of the structural role of firms within the capitalist system.

So here is something that still needs to be explained. In the current context of a critique of globalization, firms operating internationally attract particular criticism for using network connections and flexibility of location to dodge government regulations, yet half a century ago, the private sector was at first largely overlooked by the '68ers. Later, too, it was above all the actual behavior of firms that provoked criticism, not so much their structural role within the capitalist system.<sup>21</sup> One reason may have been the high value that critical theory placed upon the 'culture industry' and its (abusive) role in consciousness-building. In the influential economic ideas of Friedrich Pollock, for example, the state operated as overall capitalist, guaranteeing the loyalty of the mass by manipulating public opinion.<sup>22</sup> There would be no prospect of seeing how things really were until those manipulation strategies had been exposed and action taken to counter them. Here (the mass-circulation Springer tabloid) *Bild*

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<sup>20</sup> Rainer Müller, *Zur politischen Funktion kritischer Gruppen in der Öffentlichkeit: eine soziologische Untersuchung der Cahora-Bassa-Kampagne in der BRD und in Westberlin*, MS, Berlin 1972.

<sup>21</sup> Among the few exceptions was Jörg Huffs Schmidt, *Die Politik des Kapitals. Konzentration und Wirtschaftspolitik in der Bundesrepublik*, Frankfurt a.M. 1970. Huffs Schmidt was one of the few economists in the movement known generally as 'the Left'. Its relative lack of sensitivity to the business world may have had something to do with its mainly social and arts-based educational program. This was traditionally marked by reserve toward firms, tending at most to adopt a moralistic stance.

<sup>22</sup> Friedrich Pollock, *Stadien des Kapitalismus*, edited and introduced by Helmut Diebel, Munich 1975.

constituted a clear target. By actually joining in the game, the paper also made itself an easy target.<sup>23</sup>

Beyond that, it simply has to be accepted that, within the anti-capitalist framework of the '1968' movement, the macro-economic paradigm dominated economic thinking. Marxism as well as the Keynesian upheaval in economic theory cast commercial firms in a more or less subordinate role. For a while they remained 'economic character masks'<sup>24</sup> of capital relations, deemed of no importance in their own right within the system. As late as 1970, the organization chart of the German economy drawn up by Hans Magnus Enzensberger and writers from various other Hoppenstedt publications did not highlight the role of the individual firm. Attention was drawn instead to the way in which its decision-making autonomy tended to disappear as a result of multiple interpersonal links and partnership relations. The end effect was that it was no longer individual firms but the system itself that was brought to the fore.<sup>25</sup> The approach gradually changed during the 1970s, but firms (measured by their importance as organizations of social life) remained in the shadow of politics.<sup>26</sup>

However, in spite of this macro-economic perspective (and ultimately under tension with it), a tendency to personalization is discernible among '68ers. It led them to think more about entrepreneurs than the firms they established. This was connected on the one hand to the actual or assumed role played by such individuals in the 'seizure of power', which without the funding and protection of Hitler by big industry and high finance would have been impossible. The supposed connection between (a) capitalism and (b) fascism/war (the Vietnam War was similarly blamed on capitalism) that crops up in the writings of critical theorists as early as the 1930s found a striking personal parallel when entrepreneurs were

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<sup>23</sup> See also Gudrun Kruij, *Das 'Welt'-Bild des Axel Springer Verlags. Journalismus zwischen westlichen Werten und deutschen Denktraditionen*, Munich 1999, 217 ff.

<sup>24</sup> For the term [*ökonomische Charaktermasken*], see Karl Marx, *Das Kapital. Kritik der politischen Ökonomie*, Vol. 1, MEW 23, 100.

<sup>25</sup> Hans Magnus Enzensberger/Karl Markus Michel (eds), *Kapitalismus in der Bundesrepublik. Kursbuch 1971*, Berlin 1970.

<sup>26</sup> Granted, in communist splinter groups, there was much talk of monopolies and big capital. However, these ideological schemata did not as a rule correspond to the kind of nuanced examination of the structure and *modus operandi* of economic organizations that were 'covered' (so proponents thought) by such terms as 'greed for profit', 'exploitation', and 'suppression'.

dubbed ‘Steigbügelhalter Hitlers’ (literally, people who held the stirrup for Hitler to mount).<sup>27</sup> These tendencies received heavy reinforcement from official quarters in former East Germany, when of course the ‘Nazi’ past of many protagonists was tellingly wielded as a Cold War weapon in the postwar years. In the 1960s and 1970s, this was particularly the case, even though any self-denunciation (to the effect that the ’68ers had first launched the dispute, breaking their own cover) is probably fictitious. On the other hand, labor relations in German industry were increasingly brought to the attention of the public, partly by Günter Wallraff’s *Reports from the industrial front*, the first edition of which was published in 1970<sup>28</sup> and subsequent editions of which became a big hit in succeeding years. The working conditions described (notably with regard to piecework in large-scale production units) made it quite clear that, ‘economic miracle’ and ‘consumer society’ notwithstanding, the Federal Republic was far from being a ‘fortunate isle’, even though the people in charge of business could have done something about those conditions. Here, then, from several angles simultaneously, was a challenge to that status group demanding a reaction from the group itself.

## Between Challenge and Agitation: Entrepreneurs and the ’68ers

Even though businesses were not a primary target for the ‘1968’ movement at first, so far as their public image was concerned, German firms had been on the defensive since the mid-1960s.<sup>29</sup> They became more defensive still in the late 1960s, notably when a socialist–liberal federal government made it a policy to impose more and more restrictions on firms’ ability to make their own decisions. Even though the ’68ers’ greater

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<sup>27</sup> See also Werner Plumpe, *Unternehmen im Nationalsozialismus. Eine Zwischenbilanz*, in: Werner Abelshausser/Jan-Otmar Hesse/Werner Plumpe (eds), *Wirtschaftsordnung, Staat und Unternehmen. Neue Forschungen zur Wirtschaftsgeschichte des Nationalsozialismus*, Festschrift für Dietmar Petzina zum 65. Geburtstag, Essen 2003, 243–66.

<sup>28</sup> Günter Wallraff, *Industriereportagen. Als Arbeiter in deutschen Großbetrieben*, Reinbek 1970.

<sup>29</sup> See also Peter Brückner, *Das Selbstbild des Unternehmers. Eine empirisch-sozialpsychologische Untersuchung für die Bundesvereinigung der Deutschen Arbeitgeberverbände*, Heidelberg 1966.



focus on business was not wholly in line with the policy of the new government, both together could count on support from a public grown increasingly critical of firms and those who founded and managed them. The reaction of entrepreneurs to this development consisted (so far as certainty goes at this point) of rejection, uncertainty, and a search for new strategies—as later became crystal clear, notably from 1972 onward.

Current research permits few definite statements as to how entrepreneurs in West Germany dealt with ‘1968’ as a political event, but we do know for certain that there was debate.<sup>30</sup> As proof, I cite below a source from the estate of Otto A. Friedrich,<sup>31</sup> which sets out instructively the forms such debate assumed. At Friedrich’s urging, a joint meeting of management and supervisory-council personnel from (among others) the firms Flick, Daimler–Benz, Dynamit Nobel, and Buderus was held at Flick AG on 20 August 1969. The meeting looked at the student disturbances.<sup>32</sup> Friedrich’s brother Karl Joachim was an influential German jurist and former professor at Harvard, so he had intimate knowledge of US circumstances. His address to the Flick managers dealt with the similarities and differences between the student protest movements on both sides of the Atlantic and assured listeners of a will to power among the hard core of SDS members that advocated revolution or at least seizing certain key positions. According to the minutes, discussion turned to ‘clear efforts on SDS’s part to infiltrate its revolutionary ideas into schools and later spread them among students and apprentices’. Participants also spoke from the floor of ‘heartening advances made recently by level-headed elements at various universities (Marburg, Göttingen, and Frankfurt were mentioned) in terms of exerting a positive influence on university elections’. Karl Joachim Friedrich went on to say: ‘Up to now there have been no percussions on the shop floor (as in France, for instance), although here too the under-40s are doubtless more persuadable. Affluence is no

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<sup>30</sup> Contemporary witness statements show nonetheless that such debate could vary widely from firm to firm as well as from one branch to another.

<sup>31</sup> On the subject of Friedrich, see the thorough coverage in: Volker R. Berghahn/Paul J. Friedrich, *Otto A. Friedrich. Ein politischer Unternehmer: sein Leben und seine Zeit 1902–1975*, Frankfurt a.M. 1993.

<sup>32</sup> Archiv für Christlich-Demokratische Politik (ACDP), I-093–097/4, Nl. Otto A. Friedrich, Studenten 1969. I am grateful to my colleague Tim Schanetzky, currently researching political discussion in the 1960s and 1970s, for drawing my attention to this source.

compensation for loss of belief. The relativization of all values by college teachers and other elements of the so-called “Establishment” feeds the general atmosphere of uncertainty, which given the slightest occasion will subsequently break out.’ The meeting then asked ‘whether the organized revolutionary power of APO and SDS can be smashed and brought under control before it spreads to broader areas of life—and does so from the bottom up, so to speak: namely in schools, factories, and so on. Particularly violence in imitation of America will have far-reaching consequences here, threatening the security of the nation on a wider scale than in the US.’ Friedrich took the view that even greater efforts must be made to contain such violence since, in his view, organized direction of unrest on the margins of the communist world ‘holds greater risks than is the case in the US, for example’.

There was also discussion of ‘whether entrepreneurs would react any differently than university professors to the kinds of violent disturbance on the shop floor that have occurred in the corridors of academia’. The minutes are silent on that point, but the insecurity voiced on this occasion concerning managers’ ability to manage in altered circumstances (insecurity for which there is ample evidence elsewhere) was famously widespread and triggered reactions accordingly. We know this not only from the sociological studies commissioned by industry but also from the vigorous debates about modernizing management style that the larger firms were holding at the time.

Certainly the wildcat strikes of the autumn of 1969 will have fanned the flames of confrontation—the more so since at the same time the new socialist–liberal government in Berlin introduced a reformist policy aimed at making profound interventions in the corporate sphere. Think only of the fashionable talk of ‘corporate constitution’ and ‘co-determination’ as well as of the introduction of ‘workplace-humanization programs’, new trading regulations, new apprentice-training regulations, and so on.<sup>33</sup> In part because of these planned interventions, many entrepreneurs felt increasingly in the early 1970s that a socialist *coup d’état* could happen at

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<sup>33</sup>For the policy program of the Federal government, see the *Regierungserklärung* or government statement issued by Chancellor Willy Brandt on 28 October 1969. It is reprinted in: Ingo von Münch (ed.), *Regierungserklärungen 1949–1973*, compiled by Peter Pulte, Berlin 1973, 227–59.

any moment. The irrational alarm stirred up as a result contributed to fierce agitation against the socialist–liberal coalition, culminating in the chant of ‘We can keep silent no longer’ that accompanied the 1972 parliamentary elections. Germany’s employer associations campaigned explicitly against the policy of the coalition and in favor of the opposition. Many entrepreneurs felt penned in by a society that was drifting leftward, a government determined to interfere with the autonomy of their decision-making, and not least a hostile media now increasingly infiltrated by ’68ers.<sup>34</sup>

The fact was the image of business in the media constituted a grave problem. Since the mid-1960s, those who established and ran firms had found themselves occupying a defensive position. It was one that Allensbach Institute polls (among other published sources) interfaced empirically. Such polls had already, back in 1964, reflected a negative (certainly rather insipid) view of German firms.<sup>35</sup> The way private enterprise was portrayed in the media certainly called for action of some kind. Entrepreneurs often felt falsely represented in the eyes of a public that had been growing increasingly critical since the late 1950s. Clearly, however, they knew little about dealing with the media themselves.<sup>36</sup> So when there was a pollution scandal, it hardly helped to talk of an ‘exceptional case’ when it was precisely such ‘exceptional cases’ that attracted media interest.<sup>37</sup> Structural change in the mass media went hand in hand with a mounting insecurity among business leaders. Business, which had yet to find its role in altered circumstances, had also to combat the fact that the new functional demands being made of its professional image were difficult to convey through the media. The ‘stars’ of the time were Hermann Josef Abs<sup>38</sup> and

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<sup>34</sup> Kurzlechner, *Die Unternehmer* (see note 18), 73 ff.

<sup>35</sup> See also Dirk Schindelbeck/Volker Ilgen, ‘Haste was, biste was!’ *Werbung für die soziale Marktwirtschaft*, Darmstadt 1999, 181.

<sup>36</sup> See also Kurzlechner, *Die Unternehmer* (see note 18), 43 ff.

<sup>37</sup> Kurzlechner, *Die Unternehmer* (see note 18), 47.

<sup>38</sup> In the eyes of the ‘Left’, of course, this also elevated Abs into a symbol not only of the power of the banks but of the Nazi past as well; see Eberhard Czichon, *Die Bank und die Macht. Hermann Josef Abs, die Deutsche Bank und die Politik*, Cologne 1995—a typically East German book; incidentally, the first West German edition of which had to be amended in key points following a series of legal judgments.

Berthold Beitz<sup>39</sup>—representing two types of manager whose gift for self-presentation made them stand out from the crowd in a way that matched neither the distorted picture of the corporate patriarch (whose autocratic aura cast a spell even so) nor the typical image of the colorless technocrat.<sup>40</sup>

However, even if firms and entrepreneurs found themselves in most cases unjustly caricatured in the mirror of public opinion, the specific problems they faced were seen as being situated in their dealings with the public. They consequently redoubled their efforts to adapt to a shifting media landscape. At the same time, they devoted more thought to their position in relation to an undeniable process of social change. Indeed, some entrepreneurs wondered how far they were themselves to blame for projecting such a negative image in the public mind. Others reacted to the challenge of '1968' by highlighting their social responsibility and preaching the gospel of social business. Furthermore, the increased press activity of the mid-1960s called for more vigorous debate with those leftist journalists who were now using shareholder meetings as a platform for voicing their critical concerns. This in turn led to some bizarre excesses, as when entrepreneurs took courses in Marxist dialectics in order to be able to trade blows more tellingly with their professional critics. However, that only makes plain their determination to adapt more effectively to the altered demands being made on their own professional image.<sup>41</sup> It was a clear case of 'once bitten, twice shy'. To begin with, the self-image that entrepreneurs projected in public now changed in the wake of a revised association policy. Above all, it was Hanns-Martin Schleyer, president of the Confederation of German Employers' Associations (Bundesvereinigung der Deutschen Arbeitgeberverbände or BDA), who from 1973 pushed through a more positive strategy within individual

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<sup>39</sup> Diana Maria Friz, *Die Stahlgiganten: Alfred Krupp und Berthold Beitz*, Frankfurt 1990. Incidentally, Beitz's active intervention on behalf of persecuted persons in occupied Eastern Europe during the Second World War clearly continued to play a very minor role in the early 1970s; see Thomas Sandkühler, 'Endlösung' in Galizien. *Der Judenmord in Ostpolen 1941–1944 und die Rettungsaktionen von Berthold Beitz*, Bonn 1996.

<sup>40</sup> See Andrea Rehling's study of 'type' formation, *Die deutschen Wirtschaftseliten in der öffentlichen Wahrnehmung am Beispiel von Spiegel, Stern und Quick*, in: *Akkumulation* 18 (2003), 1–13. Particularly the 'corporate patriarch' still (in the 1950s) enjoyed a positive correlation with the 'economic miracle'.

<sup>41</sup> Kurzlechner, *Die Unternehmer* (see note 18), 78 ff.

employers' associations, steering the confederation toward a more uniform approach. Guided by him, entrepreneurs increasingly abandoned their former defensive stance and pursued a more proactive strategy.<sup>42</sup>

It remains to record, therefore, that with certain exceptions (e.g. Hans-Heinz Porst, Philipp Rosenthal) simply confirming the rule Germany's business class either rejected the political reform proposals associated with '1968' or at least looked upon them with indifference. The reasons for such rejection were not always objective. Exaggerated fears on the part of individual firms sometimes also played a role, particularly so far as the risk of an imminent socialist uprising was concerned.<sup>43</sup> The initial effect of such a risk was to heighten the existing sense of insecurity among German entrepreneurs, notably in regard to how they were viewed by the public—something they were no longer sure of. But there was another possibility. Ought that insecurity to be seen as confirming the theory (recently advanced once again by Paul Erker) that in the mid-1950s, the mindset of German entrepreneurs, unchanged since the Second World War, began to move away from an authoritarian, patriarchal, 'I wear the trousers here' stance to a more open, more liberal approach?<sup>44</sup> However, a degree of skepticism is in order. The repudiation of '1968' as a political event has less to do with fixed mindsets than with well-understood self-interest. Refusing the political demands of the '1968' movement did not necessarily require a mindset dating from the first half of the twentieth century. Under no circumstances are entrepreneurs likely to back explicitly anti-capitalistic protest movements. So any reference to a *typische Mentalität* is unhelpful. Furthermore, such statements from the entrepreneurial side as did reach public ears almost invariably did so through

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<sup>42</sup>For background, see the tendentious but highly informative portrayal by Walter Simon, *Macht und Herrschaft der Unternehmensverbände BDI* [Bundesverband der Deutschen Industrie, the Federation of German Industry], *BDA und DIHT* [Deutscher Industrie- und Handelskammertag, Congress of German Chambers of Commerce and Industry] *im ökonomischen und politischen System der BRD*, Cologne 1976, 134 ff.

<sup>43</sup>It is important to bear in mind here that warnings of a coup also served a purely tactical purpose: demonizing the student movement and the left-wing fringe of the new coalition government was half the battle. Not the *whole* battle, of course—not by any means!

<sup>44</sup>Paul Erker, *Einleitung: Industrie-Eliten im 20. Jahrhundert*, in Paul Erker/Toni Pierenkemper (eds), *Deutsche Unternehmer zwischen Kriegswirtschaft und Wiederaufbau. Studien zur Erfahrungsbildung von Industrie-Eliten*, Munich, 1999, 1–18, esp. 18.

association policy. That is why drawing conclusions from the social history of the post-1945 business class should be done with caution.<sup>45</sup>

In particular, the question of mindsets easily dissolves into a quite different point—namely, the extent to which entrepreneurial conduct obeys fixed mindsets at all, even where they exist. When this happens, in borderline cases, market dynamics may simply be overlooked. *Entrepreneurial* reactions to ‘1968’ as a political event are one thing; the significance of *firms* as organizations driving social change quite another. It is the latter that the following two sections seek to outline.

## Firms as Social Organizations and the Dynamics of Markets

When Wolfgang Kraushaar sets out to characterize the ’68ers as a post-materialist value elite,<sup>46</sup> he says nothing (in what is already an almost ironic way) about one key fact: the reason why the generation that was in its twenties and thirties in 1968 needed to spare so little thought for material goods was that, compared with their parents’ generation, they had relatively easy access to such goods.<sup>47</sup> Hence the question: what linked the protest movement that broke out in 1968 and the overarching, indeed worldwide social change that Arnold Sywottek noted in the early 1990s?<sup>48</sup> As Michael Wildt puts it: ‘Escaping the constraints of want, discovering the new, taking possession of the apparently limitless world of goods, and not least expanding one’s horizons with such new media as television or by holidaying abroad—none of these things sat

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<sup>45</sup>The same objections apply to an otherwise highly informative study by Volker R. Berghahn, *Unternehmer und Politik in der Bundesrepublik*, Frankfurt 1985.

<sup>46</sup>Wolfgang Kraushaar, ‘1968’ als Mythos, *Chiffre und Zäsur*, Hamburg 2000, 248.

<sup>47</sup>Regarding the material living conditions of the late 1960s, the reader is once again referred to Andersen, *Der Traum* (see above, note 5).

<sup>48</sup>Arnold Sywottek, *The Americanization of everyday life? Early trends in consumer and leisure-time behavior*, in: Michael Ermath (ed.), *America and the shaping of German society 1945–1955*, Oxford 1993, 132–52.

well with a rigidly conservative way of life.<sup>49</sup> So it was the ‘children of Marx and Coca Cola’<sup>50</sup> who as ’68ers rose up against the Establishment.

Certainly the assumption that people’s perception of consumer choices could be seen as providing an introduction to democratic conduct (in other words, that there was a positive correlation between freedom of choice in a consumer society and democratization) appears in Wilhelm Röpke, who had spoken of the ‘democracy of consumers’ back in the late 1950s and regarded steering of the economy as resulting from a constant process of consumer ‘voting’.<sup>51</sup>

Here, however, the question arises: is it enough to take one’s bearings solely from consumer behavior (which in many respects was governed by postwar Germany’s need to ‘catch up’, as Wildt so thoroughly sets out) when it comes to accounting for changes in social constellations? There would seem to be a need to take another look at what was indeed a seismic change in the world of consumption and study it more closely in terms of the forces that sustained it. But that prompts the further question: was it not precisely private firms (as one might say—sharpening the argument, possibly) that opened up those various options by offering the products among which consumers could ultimately choose? In other words, the significance of private firms as regards the massive social upheaval at issue here stemmed not so much from a change in entrepreneurial mindsets. It was more a result of the inherent systemic logic of economic organizations and social operating systems that since the mid-1950s at least had been vigorously driving forward structural change in the economy, increasing affluence, and (in parallel to both processes) altering the tradi-

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<sup>49</sup> Michael Wildt, *Am Beginn der Konsumgesellschaft: Mangelersfahrung, Lebenshaltung, Wohlstand in Westdeutschland in den 50er Jahren*, Hamburg 1994, 299.

<sup>50</sup> See also Norbert Kosicki, *Die Kinder von Marx und Coca Cola. Kulturelle Streiflichter aus dem Revier der 60er Jahre*, Herne 1990.

<sup>51</sup> Wildt, *Am Beginn* (see above, note 49), 267. To Ludwig Erhard’s way of thinking, the connection between the consumer society and democracy was as good as constitutive; see Ludwig Erhard, *Wohlstand für alle*, Düsseldorf 1957. However, another link was seen—namely that a generation of young people manipulated by the economy in consumption matters was also going to be susceptible to political manipulation. See Detlef Siegfried, *Vom Teenager zur Pop-Revolution. Politisierungstendenzen in der westdeutschen Jugendkultur 1959–1968*, in: Schildt/Siegfried/Lammers (eds), *Dynamische Zeiten* (see note 5), 582–623, esp. 593.

tional social environment and overturning the sometimes rigid semantics that guided it.<sup>52</sup>

At the level of individual attitudes, social change in the 1950s and 1960s found expression mainly in the replacement of once-dominant ideals of thrift by a hedonistic lifestyle. It chimed well with this that the overall structural changes to the economy of the period were characterized by an increase in the importance of the consumer goods industries and a contrasting decline in the importance of heavy industry, which affected consumption only indirectly. The economic upswing following the Second World War saw a rapid rise in personal income, more of which was now spent on private consumption. Average working times were falling, so leisure time was increasing, as was the need to fill it.<sup>53</sup> New products were moving into private households, some of which (television sets, washing machines) had enormous social repercussions. And the economy was increasingly 'discovering' a new phenomenon: the spending-power of youth. In 1970, young people had an estimated 20 billion DM to spend, the largest share of which (five billion DM) went on fashion.<sup>54</sup> Clearly, in the competition over that spending-power, only the firms that best catered to the taste of their young consumers would survive. The music industry, for instance, to which this applied particularly, enjoyed an enormous upswing. And it was precisely in such markets that German firms encountered increasing competition from international rivals. This was particularly true of their American counterparts, who had had far longer to learn how the consumer culture worked.<sup>55</sup>

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<sup>52</sup> On the economic-history and social-history background, see Werner Abelshauser, *Die langen fünfziger Jahre. Wirtschaft und Gesellschaft der Bundesrepublik Deutschland 1949–1966*, Düsseldorf 1987; Gerd Hardach, *Krise und Reform der sozialen Marktwirtschaft. Grundzüge der wirtschaftlichen Entwicklung der Bundesrepublik der 50er und 60er Jahre*, in: Schildt/Siegfried/Lammers (eds), *Dynamische Zeiten* (cf. note 5), 197–217.

<sup>53</sup> Hardach, *Krise und Reform* (see note 52). For detailed statistical evidence, see Statistisches Bundesamt Württemberg (ed.), *Bevölkerung und Wirtschaft 1872–1972*, Stuttgart 1972, 177, 254 f.

<sup>54</sup> Michael Jungblut, *Die Reichen und die Superreichen in Deutschland*, Hamburg 1971, 15. On youth culture, see Kaspar Maase, *Grenzenloses Vergnügen. Der Aufstieg der Massenkultur 1850–1970*, Frankfurt 1997; Kaspar Maase, *Bravo Amerika—Erkundungen zur Jugendkultur der Bundesrepublik in den fünfziger Jahren*, Hamburg 1992.

<sup>55</sup> See Jost Hermand, *Die Kultur der Bundesrepublik 1965–1985*, Frankfurt 1990; also Jost Hermand, *Pop International. Eine kritische Analyse*, Frankfurt 1971.



Given this situation, firms could not remain passive, even in the face of demand for new products that offended against 'good morals'. Schering (a German pharmaceutical manufacturer) and the pill constitute a telling example; the aggressive advertising methods used by the firm to market its product from the early 1960s speak for themselves.<sup>56</sup> In fact, advertising assumed especial importance in this connection.<sup>57</sup> Advertising designers such as Charles Wilp with his well-known 'Afri Cola' campaign initiated a clearly recognizable change of style in the late 1960s. Confined to a few products at first, their work already suggested what was to come. A younger consumer group was lured with slogans intended to suggest a fresh, venturesome life experience. Innovative advertising techniques began invading branches (brewing was one example) that struggled with an old-fashioned image. And finally, as early as the mid-1960s, one firm after another discovered sex as a promising means of publicity.<sup>58</sup> In 1971, the Fa firm used a naked woman in a TV ad for the first time. Here is a hint at least that the increasing sexualization of everyday life was being promoted more emphatically by advertising than by deliberate taboo-breaking among small groups of students.<sup>59</sup>

Clearly, new-fangled advertising strategies of this kind met the expectations of consumer criticism with positively ideal types. However, not only did the publicity industry itself assimilate relatively large numbers of former '68ers; it also, in the early 1970s, explicitly abandoned (even at association level) the claim simply to portray actual product qualities.<sup>60</sup> When the manipulative nature of advertising was openly admitted, the theoretical shortcut of manipulation that covered its own tracks no longer functioned as it should. However, the problem lay deeper: to what

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<sup>56</sup> See Ute Kätzel, *Die 68erinnen. Porträt einer rebellischen Frauengeneration*, Hamburg 2002, 175 f.

<sup>57</sup> On what follows, see Siegfried J. Schmidt/Brigitte Spiess, *Die Kommerzialisierung der Kommunikation. Fernsehwerbung und sozialer Wandel, 1956–1969*, Frankfurt a.M. 1996.

<sup>58</sup> Angela Schulze, *Werbung an der Grenze. Provokation in der Plakatwerbung der 50er bis 90er Jahre*, Wiesbaden 1999.

<sup>59</sup> See, incidentally, the interesting female shift of perspective to the interior life of communes in Kätzel, *Die 68erinnen* (see above, note 56).

<sup>60</sup> Kurzlechner, *Die Unternehmer* (see above, note 18), 153 ff. Actually, in the debate about advertising, this topic goes back quite some way. There was talk in the very early 1950s of the 'side benefits' of products. In this connection, see also Hans Domitzlaff, *Die Gewinnung des öffentlichen Vertrauens. Ein Lehrbuch der Markentechnik*, Hamburg 1951.

extent did such taste preferences originate with young people and to what extent did they result from the manipulative strategies of business, aiming to sell its own products? As Michael Jungblut noted in 1971: ‘When it comes to young money, the older generation possesses a vast store of empathy with and limitless understanding of the (consumer) problems of adolescence.’<sup>61</sup> Even in a climate of increasing politicization, integrating the subcultural impetus into the spirals of commercialization proved quite easy, which threw down a challenge to the critics. Yet those ’68ers who were critical of consumption must surely have been aware that this could pose a major problem for the movement’s ideological spokespersons?<sup>62</sup> A glaring example was the Düsseldorf *Jugendmesse* (dubbed [in English] the ‘teenage fair’), a very popular event with young people at which student groups protesting against consumption met with a reaction that ranged from the chilly to the actively hostile.

For firms, however, product and advertising strategies mainly reflected the fact that they did not see the young as being so easily manipulated. Looked at microeconomically, firms were subject to a powerful competition dynamic. Under constant pressure to innovate, they were obliged to adopt proactive strategies in the areas of production and publicity.<sup>63</sup> However, these failed to achieve the goal of truly ensuring long-term business success. Firms would doubtless have been delighted if complaints about their absolute power of manipulation by the critics of consumption had come anywhere near the truth.<sup>64</sup> In the end, they had to anticipate the needs and longings of youth culture and launch new products unasked,

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<sup>61</sup> Jungblut, *Die Reichen* (see above, note 54), 16.

<sup>62</sup> On the connection between protest culture and lifestyle, we know that demonstrators often remembered exactly what they were wearing at the time. See Kraushaar, ‘1968’ als Mythos (see above, note 46), 10.

<sup>63</sup> It is no accident that in West Germany the 1960s saw the start of the soaring careers of consultants and publicity experts, people who took advantage of the insecurity they were able to inspire among firms facing major structural changes on the economic front and unpredictable consumer conduct; see Dirk Reinhardt, *Von der Reklame zum Marketing. Geschichte der Wirtschaftswerbung in Deutschland*, Berlin 1993.

<sup>64</sup> See also the introduction *Kursorische Überlegungen zu einer Werbegeschichte als Mentalitätsgeschichte*, in: Rainer Gries/Volker Ilgen/Dirk Schindelbeck, *Ins Gehirn der Masse kriechen! ‘Werbung und Mentalitätsgeschichte*, Darmstadt 1995, 1–29. Incidentally, there is an almost eerie correspondence here between the perception of left-wing consumption-criticism and many authoritarian attitudes; see Siegfried, *Vom Teenager* (see above, note 52), 586 ff.

so to speak. This actually had the opposite effect. By increasing the span of consumer choice, it failed, ultimately, to solve the problem of insecurity of expectation. The self-reinforcing nature of this development, the institutionalized compulsion to diversify, further reduced product lifetimes, and so on, all found expression in an enhanced market dynamics that firms could ignore only at the cost of their own demise.

Precisely because of such misrepresentations, firms were compelled to become key vehicles and agents of the social-change process. From the late 1950s onward, this turned West Germany into an open, liberal, consumer-oriented, 'Western' affluent society. Not only did its firms play a part; other elements were involved as well. But Germany's entrepreneurial sector was certainly no bastion of traditionalism against which such social change had to be forced through. The actual situation was not quite what the socio-ideological clash suggested. Given such enhanced dynamics and the international interconnectedness of markets, companies were unable to react to an existing demand if they did not wish to fail in those markets—and the list of those that did fail is a long one.<sup>65</sup>

## The American Challenge: Changes in Corporate Organization

The process of change outlined manifested itself not only in international orientation, new products, and cutting-edge advertising strategies on the part of firms. Businesses themselves changed during the period, experimenting with new organizational models and career paths, trying out new forms of communication, and beginning to reconsider their relationship with the public.<sup>66</sup> Here (one might assume) conservative mindsets influenced internal corporate management and organization to a greater

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<sup>65</sup> This says nothing about the motives of those involved. It is based solely on the part played by firms in structural change, which is independent of the motives of individual entrepreneurs or managers.

<sup>66</sup> For a general view of this subject, see Gareth P. Dyas/Heinz T. Thanheiser, *The emerging European enterprise. Strategy and structure in French and German industry*, London 1976.

extent than was the case with products and marketing strategies.<sup>67</sup> Such was not necessarily the case (and the often cited iron and steel industry certainly cannot be taken to represent the entire German economy), which merely clarifies yet again the danger of interpreting the economic history of West Germany purely against the background of the presumed or actual findings of a social history of entrepreneurs mired fast in bygone times.

The problem of corporate management was addressed by sociologist Heinz Hartmann in a book that first appeared in the USA in 1959 (a German edition being published in Frankfurt subsequently).<sup>68</sup> In it he noted that, unlike in the USA, in Germany firms were still based on centralized management and ‘meritocratic’ (as opposed to functional) authority. By contrast, American firms had gone some way further—making great advances in decentralized decision-making, for instance. The result was that in American firms, generally a more productive climate tended to prevail. There is evidence, however, that as early as the 1950s and 1960s German firms had embarked upon a gradual process of change; corporate structures were undergoing alteration and new management models being tried out. Exploiting a pithy common denominator, Christian Kleinschmidt dubbed the development ‘management’s “1968”’.<sup>69</sup>

A special role in this connection so far as German firms were concerned was played by the ‘productive glance’ (Kleinschmidt’s *produktiver Blick*) that they cast at the American example, from which Hartmann saw them as being so far removed.<sup>70</sup> Before the ‘Third Reich’, German entrepreneurs had cultivated very intensive contacts with America, and after the war those contacts were revived quite quickly. The ‘American example’ played an important role in reconstructing the German economy, reintegrating it into the world market, and closing the technology gap

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<sup>67</sup>Of crucial importance, no doubt, were the modes of consultancy used in each case; see Alfred Kieser, *Moden und Mythen des Organisierens*, in: *Die Betriebswirtschaft* 56 (1996), 21–39.

<sup>68</sup>Heinz Hartmann, *Authority and organization in German management*, Princeton 1959; published in German as *Die Unternehmer. Autorität und Organisation*, Frankfurt 1968.

<sup>69</sup>Kleinschmidt, *Das ‘1968’ der Manager* (see above, note 9).

<sup>70</sup>For an overview, see Christian Kleinschmidt, *Der produktive Blick. Wahrnehmung amerikanischer und japanischer Produktions- und Managementmethoden durch deutsche Unternehmer*, Berlin 2001.

that existed between Germany and the USA after the war. But not only were production methods borrowed and adapted; American management methods and forms of industrial organization were also absorbed, although the US concept of 'human relations' never managed to prevail over the German co-determination model. Moreover, by the 1970s at the latest, most German big businesses had completed the transition from functional to divisional organizational structures that also had its prototype in the US economy or was justified on the basis of alleged experiences in America.<sup>71</sup>

The fact that more than a generation has passed since the mid-1960s has undoubtedly accelerated the process of organizational structural change, given that in this case the age-cohort situation meant that the generational turnover was particularly clean. A large percentage of the members of the age cohorts lying between the generations (people in their late teens but above all those in their early twenties) had died on the battlefields of the Second World War. According to Otto A. Friedrich, the knock-on effects of this with regard to workplace atmosphere were thoroughly negative, since without a middle-aged generation between them, the old and the young would clash with particular virulence.<sup>72</sup> However, decentralization of decision-making had in fact begun even before the imminent generational upheaval. Hartmann's uncompromising thesis to the effect that, in contrast to the USA, Germany still preferred an authoritarian management model was probably no longer accurate (viewed as a whole) when his book came out in West Germany.<sup>73</sup>

At the same time, corporate managements faced a needs profile that was changing generally. The authoritarian patriarch of the early 1970s had ceased to fit either the *Zeitgeist* or the growing complexity of environmental challenges. Bit by bit, people were falling out of love with the notion of the 'charismatic entrepreneur', whose success flowed from his

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<sup>71</sup> Kleinschmidt, *Der produktive Blick* (cf. note 70).

<sup>72</sup> ACDP, I-093-097/4 NI, Otto A. Friedrich, *Studenten*, 1969 (cf. note 32).

<sup>73</sup> Dyas and Thanheiser noted in this connection that, while the organizational stance of big businesses in West Germany may have lagged behind the US prototype in the early 1970s, it came much closer to it than in France or the UK. Why the trend toward divisionalization began relatively late in the Federal Republic may have been in part because companies that had already taken the first steps in this direction before 1945 were among the principal victims of Allied anti-trust policy in the postwar years.

intuitively correct decision-making.<sup>74</sup> The ability to lead a firm was no longer deemed (even by leaders themselves) to lie ‘in the blood’; part of it must be learnt. Traditionally, entrepreneurs had ‘learned on the job’. To boost the image projected by the ‘entrepreneurial personality’, that inconvenient fact had gone unmentioned. Now, though, things were changing. Entrepreneurs and their paid ‘managers’ (the English word was already creeping into the German vocabulary) were increasingly offered training seminars based on America’s ‘business schools’.<sup>75</sup> Granted, saying goodbye to the ‘patriarch’<sup>76</sup> had particular consequences for the public image of the entrepreneur. The complaint was that the new management-oriented entrepreneur, who no longer relied on native skill alone, tended to assume a drab, increasingly technocratic appearance. One might almost say that these image problems were in part reactions to a different set of demands being placed upon the new managers, requiring them to display a different public face. In other words, they were not signs of backwardness at all.

Quite the opposite, in fact. There are signs that the 1960s and 1970s saw traditional patterns of management recruitment regaining ground, National Socialism and the postwar period having brought much greater fluidity to Germany’s elites. One reason for this was that following the Second World War a great many corporate management personnel had been forced to vacate their positions.<sup>77</sup> From the 1960s onward, a normalization of staff recruitment based on long-term, in-house careers is observable, with the result that most appointments to the board come after a decade or more spent working for one and the same firm. The

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<sup>74</sup>On this tension, see Brückner, *Das Selbstbild* (see above, note 29), 17, 52 f., esp. (on different management styles) 45 ff.

<sup>75</sup>On how entrepreneurial needs profiles were changing, see Barbara Koller, *Psychologie und Selektion. Zur Entwicklung persönlichkeitsbezogener Anforderungsprofile an die Wirtschaftselite seit den sechziger Jahren*, in: Volker R. Berghahn, Stefan Unger, Dieter Ziegler (eds), *Die deutsche Wirtschaftselite im 20. Jahrhundert. Kontinuität und Mentalität*, Essen 2003, 337–51.

<sup>76</sup>It should be pointed out that waving off the ‘patriarch’ was more about parting from a particular image of the entrepreneur than from any patriarchal reality, which in its pure form had only ever existed in the minds of observers!

<sup>77</sup>Stefan Unger, *Die ‘Herren aus dem Westen’ in den Jahren 1933 und 1945. Die personellen Konsequenzen der Errichtung und des Untergangs der nationalsozialistischen Diktatur für die Wirtschaftseliten des Ruhrgebiets*, in: Abelshauser/Hesse/Plumpe (eds), *Wirtschaftsordnung* (see above, note 27), 321–37.

numbers of outside appointments to non-bureaucratic management bodies (board of management, supervisory council), having been relatively high in the postwar period, went down again accordingly. Firms returned to their tried and tested, functionally determined recruitment patterns, which National Socialism and war had temporarily interrupted.<sup>78</sup>

Nevertheless, as early as the 1950s and 1960s (albeit slowly at first), firms were changing internally in the direction of adaptation to American approaches to entrepreneurial organization but in conjunction with German traditions. Evidently, all this stemmed not from an anti-authoritarian underlying conviction on the part of entrepreneurs but from a realization that, given the mounting complexity of environmental demands, strongly centralized decision-making structures were proving less and less efficient. Decentralizing corporate organization, delegating decision-making to lower-management or even foreman level, emphasizing teamwork, and relativizing purely formal hierarchies all added up to one way of meeting those environmental requirements. Equally, breaking down the old management model as part of bureaucratizing corporate organization in the 1970s flowed not from ideological preferences but from operational impulses—chief among them the fact that firms were growing larger. In much the same way, it would turn out to be impossible to reduce the behavior of firms after the Second World War to any ideological inclination, although ideology must always be allowed for as regards the tempo and nature of such adaptation. Nevertheless, rapidly

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<sup>78</sup> See also Wilhelm Bartmann/Werner Plumpe, *Gebrochene Kontinuitäten? Anmerkungen zu den Vorständen der IG-Farbenindustrie AG Nachfolgesellschaften 1952–1990*, in: Berghahn/Unger/Ziegler (eds), *Die deutsche Wirtschaftselite* (see above, note 75), 153–86. This normalization in how internal labor markets function has been said in a section of the literature of the social sciences to mark a return to the social exclusivity of the entrepreneur class (one instance being Michael Hartmann, *Der Mythos von den Leistungseliten. Spitzenkarrieren und soziale Herkunft in Wirtschaft, Politik, Justiz und Wissenschaft*, Frankfurt 2002). However, that was an interpretation, and it is neither empirically convincing nor plausible in terms of organizational sociology. Yet even if from the 1960s onward the business class had once again constituted a closed bourgeois social milieu, what would that say about how it conducted itself? Nothing! Besides, particularly the problem of management recruitment makes clear how widely the various theoretical approaches differ in outcome. Hartmann starts out from Pierre Bourdieu's dispositional concept, where it is primarily social background that governs the distribution of life opportunities and a particular cast of mind that determines behavior in organizations. On the other hand, it is very obvious that a systems theory approach is preferred here—an approach that sees firms more as social organizations dependent only to a very limited extent upon mental attitudes among their managements and staffs.

shifting market circumstances, accelerating technological change, and finally less and less predictable consumer conduct called for variations in reaction that for their part lent fresh impetus to structural change.

## Looking Forward

I said at the outset that it was not my purpose in this chapter to present definite research findings. My purpose is twofold: first, to mark out an area for research into corporate history, and second to use the hypotheses set out here to steer that research, either suggesting directions in which answers might be found or perhaps prompting fruitful criticism. It is time to map out that future research field in more detail.

1. As yet the area is very much under-explored; the blend of rejection, uncertainty, and possible avenues of solution characterizing how firms reacted to the political event we simply call by its date cannot be properly delineated, either in the proceedings of associations and discussion groups or within firms themselves. Furthermore, little is known about the people who took part in such debates, about how their views differed, and the practical consequences that flowed from those differences. For instance, we are still ignorant as to whether anyone in the associations or within firms themselves spoke in favor of dealing with what '68ers had experienced—or even, for that matter, whether any major clashes or rows were provoked as a result. However, initial studies and discoveries among sources promise rich research pickings. The year '1968' was obviously talked about inside firms and obviously sparked uncertainties. These led to certain activities that in turn provoked reactions, not only among the public and politicians but also within the '68er movement itself and its offshoots. Furthermore, not only should corporate managements and employers' associations be taken under the spotlight; there should also, from the micro-political standpoint, be some study of the concrete repercussions of '1968' within firms. What disputes resulted, how they were dealt with, and can links be drawn between these phenomena and organizational change in the corporate sphere, including a reappraisal of industrial relations?



2. If a connection is assumed between the kind of socio-structural change known as 'liberalization' and the nature of the consumer society, questions need to be asked about the place of business in this development. One key task of future research will be to elaborate more precisely, on a source-supported basis, the part played by firms in effecting social change. Another will be to incorporate the history of marketing and publicity more tightly into corporate history in general, while a third will be to draw aspects of stylistic history into the study of individual advertising agencies in such a way as to illuminate the corporate-historical background of altered advertising strategies.

In any case, there would seem to be an urgent need finally to bury the hoary idea (stuck fast in outworn mindsets) that social change had to be forced through against opposition from the business world. Even if entrepreneurs (with a few basically unimportant exceptions) rejected the political event that was '1968', they drew benefit from or themselves gave form to new markets that had been in being since the 1950s. In this context, the question of the functioning and meaning of 'collective mindsets' and how they changed is not of the first importance. Granted, in relation to the social history of the German entrepreneur after 1945 it seems, heuristically speaking, entirely sensible to discuss what characterizes each generation. However, generation-specific semantics certainly do not account for how organizations will behave. The only way to deduce this, ultimately, is through the internal systems logic of organizations and functional systems. And the chief reason for respecting such internal systems logic is that it defines the scope of action and decision-making within which such organizations can usefully unfold. Beyond that, however, so far as the social history and ways of thinking of German entrepreneurs in the Federal Republic are concerned, there is a need for wider-ranging research, even though some important groundwork has already been done.<sup>79</sup>

3. The creeping structural alterations that took place in large German firms from the 1950s onward have already been studied on a broad

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<sup>79</sup> See also Berghahn, *Unternehmer und Politik* (see above, note 45); Berghahn/Unger/Ziegler (eds), *Die deutsche Wirtschaftselite* (see note 75); Erker/Pierenkemper (eds), *Deutsche Unternehmer* (see above, note 44).

source basis in one important respect—namely, awareness of American production and management methods. Nevertheless, more research is needed here; these processes must be described exactly at the level of the micro-economics and micro-politics of individual firms. First of all, there is the key question of how new forms of organization and structures of communication were debated and implemented in companies. A further subject of great interest is: how did altered forms of organization and structures of communication affect daily life within companies and above all the success of those companies? It is particularly important to look into the mechanics of managerial recruitment since this is where on the one hand an essential element of the organization (its career structures) appears as well as a key area of decision-making (staffing decisions). In addition, the question of generational change in the 1960s and 1970s may well, deep down, have facilitated certain new approaches within companies. More subtle preparatory work, particularly as regards the latter problem, would also make it possible to avoid some of the only superficially plausible short-circuiting of the rough classifications so popular with certain sections of empirical sociology.<sup>80</sup>

4. Lastly, in connection with the social-change question, the problem of how to deal with the past also arises. German firms dating from the National Socialist era quite fundamentally face the problem that, although personal guilt (the only kind there is) disappears with death, in principle at least firms remain legal entities for an indefinite period and may therefore become objects of blame—well, for as long as they exist, basically. When public opinion levels blame at firms, the accusation has both a legal and a moral dimension. The former presents less of a problem because where there is doubt, the court's decision will clear it up. From the moral standpoint, however, people of quite different generations and natures, insofar as they represent the firms in question, have to deal with the historical guilt ascribed to such firms even where those who were strictly speaking responsible have long since passed away. For a long time, this peculiar mix-up so dominated

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<sup>80</sup> See also Hartmann, *Der Mythos* (see above, note 78).

the way in which firms dealt with their own history that at best they could be said to have ‘said nothing’.<sup>81</sup>

Reprocessing the National Socialist past as a whole has a lot to do with ‘1968’ as a political event, despite the fact that in this connection too detailed attributions of blame are strongly disputed. The topic was debated with mounting virulence in the 1960s and 1970s, and while firms did not at first form the focus of such debate (with the exception of the IG Farben Group, which had been prominently represented in NS circles), it soon became evident that there was a problem here. The entrepreneurs of the reconstruction years, sometimes themselves implicated in the National Socialist era, hardly mentioned the war—a phenomenon, incidentally, that was not specifically German.<sup>82</sup> The next generation, who were not necessarily at personal risk of accusation, namely the business sector of the late 1960s and early 1970s, seems also to have reacted by rejecting public debate and private insecurity in the matter of the country’s past. So far as we know today, it was only the third generation of corporate managements following the Second World War that adopted a hostile stance toward the post-1933 period. But here too research is in its early stages. We have yet to discover why and from what motives businesspeople reacted in so comparatively defensive a fashion about a matter that preoccupied the West German public so intensively in the years following 1968. Why, indeed, did public discussion of what happened in the corporate sphere under National Socialism not really get going until the second half of the 1980s? Sweeping references to psychological mechanisms according to which people repressed that past tend to prevent us from reaching a nuanced understanding of the problems involved. Since the late 1970s at least, such ‘repression’ has scarcely been possible. To this day, it remains an entirely open question how the problem was talked about within firms (if at all), whether managements were afraid

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<sup>81</sup> See Hermann Lübke, *Der Nationalsozialismus im deutschen Nachkriegsbewußtsein*, in: *Historische Zeitschrift* 236 (1983), 579–99.

<sup>82</sup> For a check on this, see Peter Novick, *Nach dem Holocaust. Der Umgang mit dem Massenmord*, Munich 2001.

of damaging the company image,<sup>83</sup> what momentum ‘corporate legends’ developed (in the case of [media giant] Bertelsmann, for instance), or whether people were simply frightened of potential challenges. Another question would be: what part did feelings of loyalty toward members of the older generation play where it was known or suspected that they had somehow been involved with the National Socialist regime? Presumably the wider question of ‘dealing with the past’ was bound up with that of the structure and mode of operation of recruitment processes for top managers in the postwar years, notably the chains of loyalty that were forged here—and that the second postwar generation may still have found hard to break. Lastly, there is the further question of how the then current management generation became able to talk openly about their firms’ past behavior. Was it simply worry over forfeiting reputation in America?<sup>84</sup>

To sum up, the hypothesis of a major social transformation raises problems of attribution that do not allow of any clear solution. We can neither hope to prove a strict causal relationship between the shaping of the consumer society and the processes underlying the so-called liberalization of society, nor trace explicit links between the shaping of the consumer society and the emergence of a protest movement. Nevertheless, pointing to socio-economic developments of which firms were the main driver (and beneficiary, of course!) offers a better explanation than attribution to a numerically limited protest movement, the protagonists of which see themselves today as the authors of a social change that at the time they would by no means have welcomed in every aspect. In particular, assuming a broad process of social change that cannot be ascribed to the

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<sup>83</sup>For a reference to this, see (among other sources) Wolfgang Zollitsch, *Arbeiter zwischen Weltwirtschaftskrise und Nationalsozialismus. Ein Beitrag zur Sozialgeschichte der Jahre 1928 bis 1936*, Göttingen 1990, 16.

<sup>84</sup>Mark Spoerer points to a clear correlation between export quotas and willingness to participate in compensation funds, but that is not to say that a purely economic calculation is being performed here. There is also evidence that settlement of compensation claims relating to forced labor has led to a marked decline in the commissioning of independent historians to write up the histories of the firms concerned. The relevant wave does indeed appear to have passed its peak. Nevertheless, the reality of communications within firms is probably more complex than it looks from outside. See Mark Spoerer, *Moralische Geste oder Angst vor Boykott? Welche Großunternehmen beteiligten sich aus welchen Gründen an der Entschädigung ehemaliger NS-Zwangsarbeiter?* In: *Perspektiven der Wirtschaftspolitik* 3 (2002), 37–48.

intentions of particular political tendencies avoids the teleologies of which the modern history of the Federal Republic is so fond—teleologies that invariably encode designation and description of change within a moral framework. The effect is to interpret the '68ers as heroes of a postwar German success story that released the country from the dark legacy of National Socialism precisely by having it adopt a Western-style liberalism devoted to the blossoming of the individual. The '68ers become engines of a liberalization of society against which (if Ulrich Herbert is to be believed) many people battled for more than a decade because they would have felt uncomfortable with the teleological rationalization of the world they lived in without preserving their traditional milieu.<sup>85</sup> Ultimately, of course, tales of this kind are invariably over-simplified. Affirmations of the status quo may charm certain observers; they will never do justice to the complexity of present-day social change. Corporate history, on the other hand, could give important impetus to contemporary scholars researching '1968'. This they could do in two ways: by bringing out the importance of firms as social organizations affecting everyday life, and by tracing the contours of the part firms played in the context of the social change that has transformed our world so radically since the 1950s and is in the process of changing it further—with results that remain to be seen!

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<sup>85</sup> Herbert, *Liberalisierung* (see above, note 7), 40 ff.

# 7

## The Economy of the *Kaiserreich*: Notes on the Genealogy of German Capitalism

By every economic measure, the German empire or *Kaiserreich* led the economic field in Europe before the First World War by a long way. Back in the middle of the nineteenth century, Germany had been seen as something of a laggard, but with its defeat of France in 1871 the new nation proclaimed that the old days were no more. The following decades, and most notably the period from the 1890s onward, brought a truly dramatic turn of events. In an initial ‘economic miracle’, Germany stormed up on and overhauled Great Britain, for so long the frontrunner in the European economic stakes. The newly dynamic *Kaiserreich* moved up into the second place behind only the USA. For in the eyes of many German and other European industrialists, the country across the Atlantic had achieved ‘benchmark’ status well before 1914. European parameters faded into insignificance as the USA became the standard with which the whole German nation compared itself first and foremost. Germans felt an affinity with the way the USA did business.

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*First Publication:* Werner Plumpe, *Die Wirtschaft des Kaiserreiches—Anmerkungen zur Genealogie des deutschen Kapitalismus*, in: Tilman Meyer/Karl Heinz Paqué/Andreas H. Apelt (eds), *Modell Deutschland*, Duncker & Humblot, Berlin 2013, 13–37.

The Elberfeld industrial chemist Carl Duisberg was reported as saying as early as 1896: ‘However, the two things that most attract attention in American industry are its extensive division of labor and its wide use of machinery—two elements that have contributed not a little to the huge upswing that industry has experienced over there. I hope everyone who can find the time [the speaker ended his very interesting and thoroughly clear remarks by saying] will go over there and observe with open eyes. He will see many things that displease him and that we do better, but he will also find much that he can use to benefit our domestic industry.’<sup>1</sup> And addressing some American engineers who visited Leverkusen on the eve of the First World War, he said (in English):

We in this country are not as rich as you. We are in a more difficult position. You have all kinds of mineral in your soil, and on the surface of your soil all kinds of agricultural products can be gained. It is not so with us. Many of these products must be imported from you and we are compelled to work harder than you to be able to compete and to hold our place under the sun. Although among all nations the American and German nations are the most prosperous and it will redound to our mutual good to hold together, to be good friends and to remain so forever.<sup>2</sup>

That was how the business elites of imperial Germany saw themselves: hard work had by 1914 put them in a position that amazed certain foreign observers—by no means to those observers’ delight. This was how a French journalist described the positively dangerous fascination of Germany’s state of development at the start of the First World War:

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<sup>1</sup>‘Vortrag C. Duisbergs im Verein für Kunst und Gewerbe zu Barmen über seine Reise nach den Vereinigten Staaten von Nordamerika’, as reported in the *Barmer Zeitung* of 19 December 1896; reprinted in Friedrich Carl Duisberg, *Abhandlungen, Vorträge und Reden*, [Part I:] Aus den Jahren 1882–1921, Berlin 1923, 242.

<sup>2</sup>Carl Duisberg, ‘Ansprache beim Besuch der amerikanischen Ingenieure (American Society of Mechanical Engineers) in Leverkusen am 30.6.1913’, reprinted in Duisberg, *Abhandlungen* (cf. note 1), 465. This comment was also true. Prior to 1914, the American and German economies were the most dynamic in the world. Their growth structures, too, showed greater similarities than was the case for the UK or France. See Alfred D. Chandler, *Scale and Scope—The Dynamics of Industrial Capitalism*, Cambridge (Mass.) 1990.

Germany, once poor, was suddenly rich. Its total income had been put at some 21 billion marks in 1895. In 1913, estimates ranged between 40 and 50 billion, and the country's national wealth was valued at 320 billion marks [...] Multiple signs have brought this enormous rise in affluence to the attention of even the most short-sighted observer. The reason why the adjective "colossal" looms so large in the German language today is that German designs have not only become "colossal" but are executed with great rapidity [...] Our own perspective is limited and mean. We design only for the immediate future, thinking no more than ten or twenty years ahead. We are afflicted by a kind of economic myopia. By contrast the Germans, between 1880 and 1913, looked ahead in a broad-minded, far-sighted manner. When building a post office or a railway station or a school they not only met the requirements of the immediate present but planned in terms of the potential requirements of fifty years thence [...] Faced with the need to enlarge Hamburg harbor, rather than adopt a piecemeal approach they took up picks and dynamite and carved out great chunks of land to accommodate the new basin. So well did they execute their intentions that in a very short time visitors barely recognized the former Hanseatic League city. Another thing took people by surprise (and I am not talking about trippers here but the observant travelers who now quartered the country more and more often), namely the mounting degree of luxury, the extravagant way houses were constructed, the fashions people wore and the food they consumed. In twenty years German mores, even among the middle and lower-middle classes, had changed utterly. It became commonplace to eat white bread and drink wine. Folk developed a predilection for clothes made of British cloth and tailored in the British style. With the avarice of the upstart, Germany strove to partake of every new pleasure, as if seeing such things as a sign that, at long last, it had entered the circle of the educated, civilized nations of the western world.<sup>3</sup>

The brilliance and greatness of imperial Germany largely disappeared in the 'Great War' and were eventually gambled away completely by Hitler in the Second World War. Traces of those years nevertheless live on in today's German economy, notably on the credit side in the structure and productivity of German industry. Not only do many corporate histories of the 1860s and 1870s until now testify to that fact. Confirmation

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<sup>3</sup> Gerhard A. Ritter/Jürgen Kocka, *Deutsche Sozialgeschichte. Dokumente und Skizzen*, Vol. 2: 1871–1914, Munich 1977, 18f.



comes in the way key institutions of scientific support and educational and social policy have retained their effect until the present. And just as prior to 1914, so too in the present day it is the might of German industry that arouses the world's admiration—as well as its surprise and a certain misgiving. There are striking parallels, in fact, with the current international perception of Germany, particularly in the context of the worldwide debt crisis. So perhaps it is time we took a fresh, more nuanced peep into the nursery of 'German capitalism'.

## Economic Ups and Downs, Structural Change

Even just the dry figures for growth and recession give a very varied picture of the period between 1871 and 1914. Seen through Schumpeterian spectacles,<sup>4</sup> the empire was set up during the final phase of an upturn, which reached its peak in 1873 and with the *Gründerkrach* [literally 'founder crash', the dramatic end of the period of rapid industrial expansion in Germany following 1871] entered a lengthy downswing phase. The years 1873–95 were something of a mixed bag economically, but the relative numbers of boom and bust years did not balance one another out; hard years came substantially more often than had been the case before and was to be the case afterwards. The older literature speaks somewhat inaccurately of a *Große Depression*, by which it is chiefly referring to a widespread deflationary experience. Actually, in the wake of the *Gründerkrach* and as part of the subsequent downswing phase, a protracted wave of economic development saw prices for agricultural and industrial goods declining, margins shrinking, and company profits falling as a result—despite a period of generally moderate overall growth. Nothing changed until 1895, when the slump gave way to a prolonged upswing phase lasting until the outbreak of hostilities. So the Wilhelminian Age, which had begun in 1888, was for the most part one

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<sup>4</sup>Joseph A. Schumpeter, *Konjunkturzyklen. Eine theoretische, historische und statistische Analyse des kapitalistischen Prozesses*, Göttingen 1961, 314ff.

of markedly favorable economic circumstances. Only years 1902, 1908–09, and 1913 brought mild recessions.<sup>5</sup>

Average annual growth rate of per-capita income (GDP/inhabitant) between 1870 and 1913 was 1.66% (as estimated by Angus Maddison).<sup>6</sup> The figure is not in itself exceptional; its significance becomes clear only in comparison. Average percentage growth in Western and Central Europe lay at 1.33, making Germany (along with Switzerland) the European country with by far the highest level of growth. Back in the period 1820–70, German growth had been in line with the European average, with Belgium, Switzerland, and the UK all growing very much faster over that period than the German territories. Probably as early as the 1850s but more obviously from the 1890s onward the balance in Europe shifted. In Germany, growth continued to speed up while France and Great Britain gradually fell behind in both absolute and relative terms. Germany and France each generated some 6.5% of the world's GNP in 1870, with the UK enjoying a clear lead at 9%. The 1913 result stood this outcome on its head. Germany now led with 8.7%, whereas the British share had shrunk to 8.2% and the French share had even plummeted to 5.3%. Germany's rise is slightly qualified, of course, when North America is taken into account. Over the same period, the US share of global production soared from 8.9% to 18.9%.<sup>7</sup> On a global scale, the real economic revolution occurred in North America; in the European context, however, it was Germany that enjoyed pride of place.<sup>8</sup>

Key factors in Germany's economic rise were (in quantitative terms) its comparatively low-cost and progressively better-trained workforce and, with the country's growing population, its expanding domestic market. However, the chief factor was the extraordinarily high and, up until the First World War, increasing level of investment, which was well above that of Western Europe as a whole. The European average

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<sup>5</sup>In this connection, see also Reinhard Spree, *Wachstumstrends und Konjunkturzyklen in der deutschen Wirtschaft von 1820 bis 1913*, Göttingen 1978.

<sup>6</sup>Angus Maddison, *The world economy. Historical statistics*, Paris 2003.

<sup>7</sup>All data from Maddison, *The world economy* (see above, note 6).

<sup>8</sup>On Europe, see also Alan S. Milward/B. S. Saul, *The development of the economies of continental Europe, 1850–1914*, London 1977; another source being Sidney Pollard, *Peaceful conquest. The industrialization of Europe, 1760–1970*, Oxford 1981.

(i.e. including Germany) for gross fixed-asset investments before 1913 never exceeded 15% of domestic product, but when Germany, particularly in the Wilhelminian Age, is considered in isolation the figure was as high as 20%.<sup>9</sup> In the *Gründerzeit* [literally, ‘founder period’, the years between the 1850s and 1873 that saw an explosive industrial expansion in Germany, with many firms being established; the word is popularly misused today as a synonym for *Wilhelmismus* or ‘Wilhelminianism’, which relates to the reign of Emperor Wilhelm II, 1890–18], investment focused chiefly on railway-building, construction, and only then the industrial sphere. However, in the following decades railway investment tailed off as the focus moved increasingly to industry and to certain industrial sectors in particular (heavy industry, machine-building, but also such new areas as electrical engineering and chemicals), the construction sector, and agriculture. Later on, during the ‘Wilhelminian economic miracle’ proper, it was industry that enjoyed the lion’s share of investment activity. Simultaneously the volume of industrial investment capital was substantially enhanced and renewed.<sup>10</sup> So the upswing of those years was not a purely quantitative affair; it was also, as we shall see, due to intensive structural change.

In a nutshell, the new German empire began with a turbulent upswing, the so-called *Gründerboom*, before entering more than two decades of structural difficulties. This period culminated in a fresh upswing that lasted for 20 years and eventually propelled the country to top position among industrialized nations. Angus Maddison’s unadorned figures tell the story: in 1870, Germany’s per-capita GDP (in dollars) was \$1840; only Great Britain (with \$3900), Belgium (\$2930), and France (\$1876) were ahead of it in Europe; by 1913 Germans were earning \$3648 per capita and were right up there with Europe’s leaders, having overhauled most European countries. The balance had certainly shifted. The French commentator cited at the outset was not wrong.

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<sup>9</sup> Data from Ludger Lindlar, *Das mißverständene Wirtschaftswunder. Westdeutschland und die westeuropäische Nachkriegsprosperität*, Tübingen 1997.

<sup>10</sup> Investment data taken from Hans-Ulrich Wehler, *Deutsche Gesellschaftsgeschichte*, Vol. 3: Von der ‘Deutschen Doppelrevolution’ bis zum Beginn des Ersten Weltkrieges, 1849–1914, Munich 1995, 582, 597.

One important driver of the change was what happened to population. Examining population growth as a whole in the period before the First World War, we find a near-perfect pyramid. Of a total population (in the area covered by the German territories back in 1871) of some 67 million, in 1913 almost 35% were below 15 years of age—statistics that nowadays occur only in developing countries. On the other hand, only 5% of the population was over 65. So before the First World War, the German *Reich* had an exceptionally youthful population. The structure of that population reflected the rapid growth that had begun in the early nineteenth century and that not even continuing economic development had halted. In 1871 (the time of the *Reich's* foundation), the German population numbered a good 41 million, and at 76 inhabitants per square kilometer its density was extremely low. By 1890, the total figure was nearly 50 million, and in 1911 it stood at 65 million while the density figure had risen to 120.<sup>11</sup> Even though the number of births per woman had been declining since the 1880s (albeit at different rates in different population groups), numbers of newborns continued to rise: 1.5 million children were born in 1871, 1.75 million in 1890, and nearly 2 million in 1910. Currently, with a very much larger population of some 82 million, at least 500,000 are born each year.<sup>12</sup> So before 1914, the German *Reich* faced a quite different yet in one way not dissimilar demographic problem to present-day Germany: namely, the fraction of the population not in gainful employment was high. In fact, at over half it was even higher than today. However, these were not, as today, the elderly retired but people too young to be in gainful employment. It followed that a steadily growing number of children and young people required education and training. In Prussia alone, the number of pupils attending elementary school rose from 3.9 million in 1871 to 6.5 million in 1911, while teacher numbers increased from around 48,000 to 120,000.<sup>13</sup> None of this would have been possible without substantial levels of investment

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<sup>11</sup> Figures quoted from Gerd Hohorst/Jürgen Kocka/Gerhard A. Ritter, *Sozialgeschichtliches Arbeitsbuch II. Materialien zur Statistik des Kaiserreichs 1870–1914*, Munich 1978, 22–4.

<sup>12</sup> On the subject of demographic history, see Josef Ehmer, *Bevölkerungsgeschichte und historische Demographie 1800–2000*, Munich, 2004.

<sup>13</sup> Hohorst/Kocka/Ritter, *Sozialgeschichtliches Arbeitsbuch* (see above, note 11), 157.

in the requisite schooling and vocational-instruction infrastructure,<sup>14</sup> even though senior school and college education remained the preserve of a vanishingly small fraction of the population.

A very young and (on the international scale) comparatively well-educated population offered clear advantages in economic terms. French observers were aware of this very point when they complained of very slow growth among their own citizenry. Right up until the turn of the century, France was the country with the largest population in Europe (excluding Russia). However, when the First World War began Germany had well over 20 million more inhabitants than its western neighbor. It also possessed an educational system that was an example to the world.<sup>15</sup> Moreover, Germans enjoyed a dramatically improved quality of life. Pictures from as late as the first half of the nineteenth century show Germany to have been a rural, agrarian, sleepy, small-town sort of place; it had very few cities. The largest conurbation in the German Confederation was Vienna, and in 1875 (in the subsequent *Reich*) only Berlin had over 300,000 inhabitants. Between 1875 and 1911 Berlin's population doubled, going from one million to two million (nearly four million in the conurbation known as 'Groß-Berlin'). Hamburg, which in 1875 had some 270,000 inhabitants, crossed the million threshold shortly before the First World War began. The highest figures outside Berlin were achieved by commercial hubs and the emergent industrial centers, notably in the Ruhr District, but Frankfurt am Main, Leipzig, and Breslau also grew very quickly.<sup>16</sup> Altogether, settlement structure turned right around in this period. Urbanization increased steadily from mid-century onward. In 1871, almost two-thirds of the population still lived in villages and towns of fewer than 2000 inhabitants. By 1910 that fraction was down to 40%. Yet it was by no means the small and medium-sized towns that grew most strongly; cities of more than 100,000 inhabitants saw their share of the total population rise from 4.8 to a massive 21.3%.

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<sup>14</sup> Government spending on education rose (with some fluctuation) from 5.6% in 1871–74 to 17.9% in 1910–13, although it still accounted for only some 2.6% of national income; Hohorst/Kocka/Ritter, *Sozialgeschichtliches Arbeitsbuch* (see above, note 11), 148.

<sup>15</sup> Wolfram Fischer, *Wirtschaft und Gesellschaft Europas 1850–1914*, in: Wolfram Fischer (ed.), *Handbuch der europäischen Wirtschafts- und Sozialgeschichte*, Vol. 5, Stuttgart 1985, 11–44.

<sup>16</sup> Hohorst/Kocka/Ritter, *Sozialgeschichtliches Arbeitsbuch* (see above, note 11), p. 45.

It was these cities (particularly the industrial conurbations) that increasingly shaped everyday life in Germany.<sup>17</sup>

This mass urbanization, notably in the newly emergent or expanding industrial areas, posed great challenges—and not only for the construction industry. Living conditions often remained difficult. Nevertheless, house-building increased sharply; the construction industry as a whole was a key pillar of the economic development to be described later in these pages. A typical feature of the urban landscape, at least in Berlin and certain other large German cities, became the *Mietskaserne* [literally ‘tenement barracks’, an apartment block erected swiftly to a uniform plan], in which only some of the units met superior standards of design; most were pokey and primitively equipped. However, these small apartments could also be let to workers at a profit, even though the relatively low rents were more than many workers could afford. Bed-sharing, subletting, and overcrowding were very much the order of the day. But there was some improvement here, and toward the end of the *Kaiserreich* multiple occupation of apartments did, on average, show some decline.<sup>18</sup>

The accommodation situation (particularly among the poorer sections of the population) may have remained critical, but in another respect living conditions were changing for the better. One can speak with some justice of the headlong growth of towns and villages leading to a genuine process of urbanization. In other words, a newly civilized way of life emerged: urban living. The key factor here was the development of communal welfare provision. In the *Kaiserreich* this had begun at a relatively early stage, and Germany already cut a very respectable figure on the world stage in this regard.<sup>19</sup> It was usual in these years for the initial provision or rigorous extension of water supply, sewage disposal, schooling, medical care, hospitals, parks, cultural provision, and so on to be deemed the responsibility of the community. Of course, here too there was the social differentiation that was not untypical of imperial Germany, usually

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<sup>17</sup>Jürgen Reulecke, *Geschichte der Urbanisierung in Deutschland*, Frankfurt 52005.

<sup>18</sup>Jürgen Reulecke (ed.) *Geschichte des Wohnen*, Vol. 3: 1800–1918. Das bürgerliche Zeitalter, Stuttgart 1997.

<sup>19</sup>On this subject see Marcus Gräser, *Wohlfahrtsgesellschaft und Wohlfahrtsstaat. Bürgerliche Sozialreform und welfare state building in den USA und in Deutschland 1880–1940*, Göttingen 2008.

putting high culture out of reach so far as the lower strata of society were concerned. In general, however, the German society of the *Kaiserreich* underwent a fundamental change in this regard. One expression of this was the rising tide of *Kulturkritik* that marked the period. In fact, such 'critique of civilization' can almost be seen as a seismograph, measuring the social 'modernization' of Germany.<sup>20</sup>

On the whole, this development was certainly impressive. Prior to the outbreak of the First World War Germany was a quite densely settled country. Its hubs were marked out by industrial towns of high population density. At the same time living conditions had undergone a clear change. Germany became steadily more urban as agrarian subsistence livelihoods lost their attraction. City life was characterized by (a) higher levels of formal education and (b) by a dependence on communal infrastructure and welfare provision. In future the picture was determined by the way in which market conditions underpinned existences. At the same time the city created an entirely new habitat. It was one that many people found challenging, since it must first be tamed.<sup>21</sup> Unsurprisingly, lifestyle reform<sup>22</sup> and metropolitan criticism became fashionable trends around this time.<sup>23</sup>

Such a population expansion and (closely bound up with it) so radical a shift in everyday living conditions would have been impossible to assimilate unless accompanied by far-reaching economic structural change. On the other hand, finding itself in a dynamic environment an expanding population might well respond by functioning dynamically on its own behalf. Between the 1850s and the First World War economic developments uncovered in Germany a major dynamic force not only in the scope of the country's business activity but also in the structural change contorting it. Gauged by numbers employed, the processing industries

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<sup>20</sup> Corona Hepp, *Avantgarde. Moderne Kunst, Kulturkritik und Reformbewegungen nach der Jahrhundertwende*, Munich 1987.

<sup>21</sup> See for instance Joachim Schlör, *Nachts in der großen Stadt. Paris, Berlin, London 1840–1930*, Munich 1991.

<sup>22</sup> Florentine Fritzen, *Gesünder leben. Die Lebensreformbewegung im 20. Jahrhundert*, Stuttgart 2008.

<sup>23</sup> A fundamental source remains Georg Simmel, *Die Großstädte und das Geistesleben*, Frankfurt 2006 (first published 1903).

overtook agriculture around the turn of the century. Relatively speaking, the importance of agriculture was in decline. Recent calculations show that in 1913 probably no more than a third of persons employed in Germany worked in the agrarian sector.<sup>24</sup> The big winner in the structural change of the period was the so-called secondary sector, which in August 1914 is variously estimated as having comprised up to 40% of the workforce. In 1871, at the time of the empire's creation, the figure had been little more than 28%. A similar rise occurred in the sphere of public and private services, where numbers employed increased from just below 22% to nearly 28%.<sup>25</sup> This structural change was associated with substantial productivity gains. Most of these occurred in agriculture initially, which was where (even beyond the middle of the century) the bulk of investment flowed. All through the century agriculture showed big productivity increases—with sometimes paradoxical consequences to itself. Partly because of those huge increases its importance to the economy diminished at the same time as economic pressure on it mounted, notably once advances in technology had brought transport costs down to a point where agricultural imports became competitive. As a result, numbers employed in the sector went down as yields went up, and prices fell to the point where they reached only below-average levels. Even so, the years after the 1890s (when prices stabilized) are justly remembered as the 'golden age' of German agriculture.<sup>26</sup> So we must be careful to put the correct interpretation on a trend (an agrarian-interest movement rooted in conservative politics) that became established at the time. It was about defending the status quo, not about righting a difficult situation—even though this was constantly alleged. As farmers saw it, on the one hand the rise of industry threatened 'property relations'; on the other hand it constituted an attractive investment.

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<sup>24</sup> Carsten Burhop, *Wirtschaftsgeschichte des Kaiserreichs 1871–1918*, Göttingen 2011, 42. Slightly different figures are given in Dietmar Petzina/Werner Abelshäuser/Anselm Faust, *Sozialgeschichtliches Arbeitsbuch III. Materialien zur Statistik des Deutschen Reiches 1914–1945*, Munich 1978, 55.

<sup>25</sup> Burhop, *Wirtschaftsgeschichte des Kaiserreichs* (see above, note 24), 42.

<sup>26</sup> Walter Achilles, *Deutsche Agrargeschichte im Zeitalter der Reformen und der Industrialisierung*, Stuttgart 1993. See also Wilhelm Heinrichmeyer/Hans-Peter Witzke, *Agrarpolitik*, Vol. 1: *Agrarökonomische Grundlagen*, Stuttgart 1991.



Business also changed its appearance fundamentally during this period. Although not in so pronounced a way as in the UK, in the German territories it had always been dominated by the textiles sector—where of course investment was plummeting. The 1840s saw the beginning (closely bound up with the expanding railway network) of the rise of heavy industry in Silesia, on the Rhine and Ruhr rivers, and in Saarland. The complex of railway engineering, heavy industry, and machine- and equipment-building became the true core of Germany's industrial revolution, which did not at that time revolve around a consumer-goods industry. The same combination ruled the field of commercial investment until the 1870s.<sup>27</sup> In the years following 1880 the emphasis of development changed yet again. Heavy industry remained the largest sector, but in terms of dynamism it fell behind the so-called new industries. From this point, metal-processing, machine-building, electrical engineering, precision mechanics, optics, and the positively Phoenix-like rise of chemical engineering dominated the scene. In all these spheres the industry of the pre-1914 *Kaiserreich* was also the almost undisputed world leader, for the expansion of German industry was not confined to the domestic market.<sup>28</sup> In 1913 the German dye and pharmaceuticals industry served 70–90% of world markets, while Germany's light-bulb manufacturers enjoyed a comparable monopoly. Similarly dominant positions were occupied in precision engineering and parts of the electrical industry.<sup>29</sup>

Population growth and structural change in the economy undoubtedly favored the development and rise of capitalism generally.<sup>30</sup> Yet in a way they were also products of its emergence. They flowed from strategies pursued by firms and from a national economic and social policy that increased in importance as time went on. As for the emergence of the specific structures of German capitalism, the 'Great Depression' phase

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<sup>27</sup> Rainer Fremdling, *Eisenbahnen und deutsches Wirtschaftswachstum*, Dortmund 1985.

<sup>28</sup> On the growth industries of the final phase of the *Kaiserreich*, see also the Akademie der Wissenschaften der DDR (ed.), *Produktivkräfte in Deutschland 1870 bis 1917/18*, Berlin 1985.

<sup>29</sup> On chemical engineering, one source is Gottfried Plumpe, *Die I.G. Farbenindustrie AG. Wirtschaft, Technik, Politik 1904–1945*, Berlin 1990, 50–62.

<sup>30</sup> For an introduction to the highly complex connection between population development and economic growth in the period, see Toni Pierenkemper/Richard Tilly, *The German economy during the nineteenth century*, New York 2004, 87–112.

of 1873–95 takes on particular significance. It was adjustments made during these years (notably by the larger firms) that crucially determined their development in the upswing years from the mid-1890s onward. So a quick focus on the particular problems of the late Bismarckian era will be extremely enlightening. The *Gründerzeit* saw a huge expansion of the German economy. It was when Germany experienced its real industrial revolution, which after 1866 or (as some say) the French defeat in 1871 slipped into an overheating phase.<sup>31</sup> Between 1871 and 1873 alone nearly 1000 public limited firms were established. Not all of these were new foundations; often it was a case of existing firms being converted into public limited firms in order to realize the sometimes very fat subscription profits that the stock-exchange boom of those years seemed to promise. Investment banks (so-called broker banks or *Maklerbanken*), which also mushroomed in the period under consideration, did enormous amounts of business.<sup>32</sup> However, upswing and boom were not merely speculative. Many firms expanded their production capacities substantially in expectation of great things, usually financing that expansion through borrowing.<sup>33</sup> The development of Krupp during this period, though hardly typical, can still serve as an example. Driven by high hopes as well as by technological innovations, the firm of Alfred Krupp expanded its Essen premises hugely, for the most part using loans from banks in the local industrial area, in the Rhineland, and in Berlin. At the start of the century, Krupp had been a small firm. By mid-century, it employed 1000 people. Now it had a workforce of nearly 50,000 blue-collar and white-collar workers and was by far the largest iron and steel producer in Germany. The subsequent crash hit Krupp particularly hard.<sup>34</sup> Beginning with the collapse of the Quistorp Bank in Berlin in the autumn of 1873, the crash paralyzed the economic life of Germany for

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<sup>31</sup> On the overall economic history of these years, see also Helmut Böhme (ed.), *Probleme der Reichsgründungszeit 1848 bis 1879*, Cologne 1968.

<sup>32</sup> A succinct description of the boom will be found in Felix Pinner, *Die großen Weltkrisen im Lichte des Strukturwandels der kapitalistischen Wirtschaft*, Zurich 1937, esp. 195–207.

<sup>33</sup> On the financing structures of German firms, see Richard Tilly, *Vom Zollverein zum Industriestaat. Die wirtschaftlich-soziale Entwicklung Deutschlands 1834–1914*, Munich 1990, 84–103.

<sup>34</sup> On this subject, see Lothar Gall, *Krupp. Der Aufstieg eines Industrieimperiums*, Berlin 2000, 164–201.

the next five years. Of the 800 newly established public limited firms, around 600 declared insolvency within a short time. The broker banks, most of which stood on the shoulders of big banks, disappeared almost completely.<sup>35</sup> The big industrial firms were burdened by excess capacity, sinking margins, and financing costs that persisted at the same level. The banking sector struggled with the problem of ‘lazy’ or ailing loans, while the public labored under falling share prices, rising unemployment, and an unprecedented escalation of the welfare question. Liberalism, which in the early 1870s was still the prevailing thought pattern in economics and politics, entered a deep crisis from which it was only marginally able to recover. Bismarck’s abandonment of the liberals, a social policy implemented in cooperation with the German Center Party, the emergence of a supposedly ‘organized capitalism’, and a benevolently interventionist state (apparently typical features of German capitalism as compared with its liberal counterparts in the English-speaking world)—all these things owe their existence to the ‘founder crash’ and its aftermath.<sup>36</sup> Certainly, some of the key structures of German capitalism were responsible for the way firms and economic and social policy in general coped with the consequence of the *Gründerkrach*, although certain now persistent myths regarding that period need to be cleared away.

## Corporate Strategies Between ‘Founder Crash’ and Wilhelminian Economic Miracle

First, let me deal briefly with those myths. The dual process of sectoral and industrial structural change and severe economic fluctuations was at the same time marked by further important changes. In the literature of the 1970s and 1980s, these were chiefly referred to as ‘organized capitalism’ and ‘financial capitalism’—terms that were simultaneously used to distinguish a supposedly corporate German capitalism from the more liberal sort of capitalism practiced in the Anglophone world. In

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<sup>35</sup> On this subject, see Pinner, *Die großen Weltkrisen* (see above, note 32), 232–9.

<sup>36</sup> Highly representative of the long-prevailing view of those years is Hans Rosenberg, *Große Depression und Bismarckzeit. Wirtschaftsablauf, Gesellschaft und Politik in Mitteleuropa*, Berlin 1967.

this view, German firms mainly reacted to the challenges of the ‘Great Depression’ of the 1870s through an ‘empowerment of markets’, through price arrangements, cooperation, concentration, and extensive efforts to use national government to promote an industry-friendly economic policy. Accordingly, at the center of this development were not only certain industrial firms but above all the emerging and expanding big banks that had steadily (so it was alleged) become something like the spider in the web of German capitalism.<sup>37</sup>

Before we examine these theories, the findings need some explanation. Particularly the period after the 1880s was certainly characterized by the establishment of large firms and the emergence of what were called industrial ‘dukedom’—that is to say, the horizontal and vertical integration of certain chains of value-creation into individual combines, notably in heavy industry but later also in electrical engineering and chemicals. Contemporaries were fascinated by these groups and the people who ran them.<sup>38</sup> Such captains of industry as Friedrich Alfred Krupp,<sup>39</sup> August Thyssen,<sup>40</sup> Hugo Stinnes,<sup>41</sup> or Albert Ballin<sup>42</sup> were the men of the hour. The names of such innovative entrepreneurs as Carl Duisberg,<sup>43</sup> Heinrich Brunck, and later Carl Bosch or members of the great Siemens and Rathenau electrical dynasties were on everyone’s lips. However, we must be cautious about rushing into any reinterpretation of the creation of large firms and groups as a period of concentrated (not to say: monopoly) capitalism. Corporate structure remained largely unchanged; more than three-quarters of German firms were small or medium-sized businesses, and it was in them that almost as many work-

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<sup>37</sup>Typical of this reading (though with notable corrections) is Wehler, *Deutsche Gesellschaftsgeschichte*, Vol. 3 (see above, note 10).

<sup>38</sup>Some of that fascination can still be found in Felix Pinner’s collection of ‘psychological’ portraits: *Deutsche Wirtschaftsführer*, Berlin 1924.

<sup>39</sup>Michael Epkenhans/Ralf Stremmel (eds), *Friedrich Alfred Krupp. Ein Unternehmer im Kaiserreich*, Munich 2010.

<sup>40</sup>Jörg Leszczynski, *August Thyssen 1842–1926. Lebenswelt eines Wirtschaftsbürgers*, Essen 2008.

<sup>41</sup>Gerald D. Feldman, *Hugo Stinnes. Biographie eines Industriellen*, Munich 1998.

<sup>42</sup>Eberhard Straub, *Albert Ballin. Der Reeder des Kaisers*, Berlin 2001.

<sup>43</sup>On Duisberg, see Hans-Joachim Flechtner, *Carl Duisberg. Vom Chemiker zum Wirtschaftsführer*, Düsseldorf 1959, in which Heinrich Brunck, who did much to shape the development of BASF, is also briefly portrayed. Regarding Carl Bosch, there has so far been only a very thin biography: Karl Holdermann, *Im Banne der Chemie: Carl Bosch, Leben und Werk*, Düsseldorf 1953.

ers found employment. The dominant form of enterprise was the family firm. The formation of large firms and groups was still closely bound up with specific technological and economic circumstances, and to that extent its scope was limited—although it is the big companies that stick in our minds as having been all-powerful. With that in mind, any talk of ‘organized capitalism’ seems premature to say the least.<sup>44</sup>

On the other hand, there is apparently clear evidence of cartel formation. Pre-1914 Germany had several thousand cartels and marketing agreements that (where they were fixed by contract) also had legal recognition. In a notorious judgment handed down in the 1890s, the High Court or *Reichsgericht* had pronounced cartel agreements binding under civil law and declared the contractual fines laid down in them to be admissible. Most of these cartels came into being at times of falling prices such as Germany experienced in the 1870s and 1880s (cartels as ‘children in need’). Their purpose was to prevent further price falls. Hence their reputation as the ‘bad boy’ of German economic history, blamed for holding German business back in comparison with the economy of the USA, for instance. Few reliable studies of the economic significance of cartels have been made at the time of writing, but the literature of the years after 1950 with its loyalty to the tradition of ordo-liberalism was uncompromising in its condemnation of cartels. The literature of price theory once blamed cartels and large groups (oligopolies, monopolies) for pushing up prices, but this was an accusation that Joseph Schumpeter already rejected as empirically unsound. However, the few available studies show that (with one or two exceptions such as the potassium syndicate or the Rheinisch-Westfälisches Kohlen-Syndikat (RWKS)) the vast majority of cartels were short-lived and inefficient and basically put a premium on opportunism and ‘moral hazard’. And as Holtfrerich showed so well, not even the RWKS led to higher prices but curbed their strong volatility—with the result, of course, that even during critical periods prices no longer really fell.<sup>45</sup> That upset many coal users, not least the

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<sup>44</sup>On corporate structures before 1914, see Werner Plumpe, *Unternehmen* article in Dietmar Petzina/Gerold Ambrosius/Werner Plumpe (eds), *Moderne Wirtschaftsgeschichte. Eine Einführung für Ökonomen und Historiker*, 2nd, revised and enlarged edition, Munich 2006.

<sup>45</sup>Carl-Ludwig Holtfrerich, *Quantitative Geschichte des Ruhrkohlenbergbaus im 19. Jahrhundert: eine Führungssektoranalyse*, Dortmund 1973.

national railways,<sup>46</sup> and hence became a prominent subject of debate as early as the turn of the century. One locus of discussion was a parliamentary inquiry, but the scientists foregathered there declined to speak out in support of recommendations favoring government regulation.<sup>47</sup> The fact was, there were many cartels but most of them made little difference. And even where this was not the case, the difference they made was not always wholly negative. Certainly neither Schumpeter nor the contemporary economy thought so.<sup>48</sup>

It was chiefly Marxist economists and politicians who under the late empire warned against an emergent monopoly capitalism—simultaneously, of course, diagnosing it as inevitable.<sup>49</sup> And in the 1970s it was their political texts that were being either re-read or first discovered as source material.<sup>50</sup> This is especially true of Rudolf Hilferding's book *Finanzkapital* in which, against the background of how certain large industrial enterprises came to be established and the close relationships that existed between many large firms and specific Berlin banks, the theory of the domination of industry by banking capital (ergo finance capital) was developed. The theory (which influenced Social Democratic Party (SPD) policy before 1914 and after 1918) has of course never, on any point, withstood empirical examination. On the contrary, the Bielefeld economic historian Volker Wellhöner was able to show how the larger industrial enterprises successfully kept bankers off their supervisory boards and took care to limit their dependence upon banking institutions.<sup>51</sup> Once again the background was the experience of the *Gründerkrach* and the 'Great Depression', when excessive borrowing

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<sup>46</sup>Coal prices were also behind the so-called 'Hibernia affair' of 1914 in which the government of the state of Prussia was prevented by the resistance of the mineowners from becoming a mining entrepreneur itself. See Dietmar Bleidick, *Die Hibernia-Affäre. Der Streit um den preußischen Staatsbergbau im Ruhrgebiet zu Beginn des 20. Jahrhunderts*, Bochum 1999.

<sup>47</sup>Fritz Blaich, *Kartell- und Monopolpolitik im kaiserlichen Deutschland*, Düsseldorf 1973.

<sup>48</sup>On the cartel debate generally, see also Erich Maschke, *Grundzüge der deutschen Kartellgeschichte bis 1914*, Dortmund 1964.

<sup>49</sup>In the case of Germany, the texts of Rudolf Hilferding, Rosa Luxemburg, and Karl Kautzky set the bar. See also, more recently, Jan Greitens, *Finanzkapital und Finanzsysteme. Das 'Finanzkapital' von Rudolf Hilferding*, Marburg 2012.

<sup>50</sup>Typical are some of the essays in Heinrich-August Winkler (ed.), *Organisierter Kapitalismus. Voraussetzungen und Anfänge*, Göttingen 1974.

<sup>51</sup>Volker Wellhöner, *Großbanken und Großindustrie im Kaiserreich*, Göttingen 1989.

had virtually delivered many firms into the hands of banks. Since then almost all major enterprises had tried hard to keep their levels of borrowed capital low in order to loosen the lender's grip or even do away with it altogether—with almost universal success. Granted, borrowing levels rose again when the boom returned, but this time it was because the banks virtually came begging for business contacts.<sup>52</sup> The rise of the chemical industry was financed by sustained profits and by loans placed through specific banks, with the banks tending to seek out commercial customers rather than the other way around. The fact is, not a single bank representative made it onto the supervisory boards of Leverkusen or BASF before the outbreak of the First World War. In other cases, this was not so. At AEG, for instance, a close cooperative relationship with the Berliner Handelsgesellschaft bank arose partly as a result of AEG's pursuing an exceptionally rapid expansion course. Yet an unambiguous pattern of a bank-dominated, bank-brokered world, of corporate structures did not emerge as a result. In short, the lightning-fast structural change that transformed German industry before 1914 radically altered the latter's appearance and character. America aside, pre-1914 Germany hosted the most modern, most competitive big businesses in the world. Yet there was nothing diabolical or dangerous about this. Critics of capitalism might claim that there was, but they were missing the point. And even if Rosa Luxemburg, Karl Kautsky, and Rudolf Hilferding had been correct, they would first have had to explain what underlay so amazing a success story. Why was it particularly German firms that enjoyed such a rise, and why did German development differ so markedly from that seen in other European countries? So now I should like to turn to the real 'success factors' behind German capitalism prior to 1914, which in the space available to me can be done only very simplistically, point by point.

Regarding the causes of German industry's rise since the 1850s, many questions have been asked. Almost inevitably, this has led to an overwhelming body of literature.<sup>53</sup> Most of this was less about analyzing

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<sup>52</sup> Examples can be found in Markus Dahlem, *Die Professionalisierung des Bankbetriebs. Studien zur institutionellen Struktur deutscher Banken im Kaiserreich 1871–1914*, Essen 2009.

<sup>53</sup> Recently much of this has been summarized yet again in Burhop, *Wirtschaftsgeschichte des Kaiserreiches* (see above, note 24). Burhop refers expressly to the problems of capturing statistically how the period developed without seriously questioning either his own reappraisals or others' revised image of the time. See also Pierenkemper/Tilly, *The German economy* (cf. note 30).

economic developments themselves than seeking to interpret them in the right order, with the principal keynotes up to now being ‘backwardness’, ‘belated modernization’, and ‘special pathway’.<sup>54</sup> Incidentally, the idea of ‘backwardness’, as well as being the oldest form of Germany’s economic self-description, is still the prevalent form today. The implied self-motivation has in turn been seen as a key ‘success factor’ in the country’s economic development—by those who have a liking for ironic shifts of perspective. At least since Friedrich List and his influential work (but probably very much longer!) the rhetorical figure of backwardness has been a key driver behind whatever developmental efforts are being made at the time, regardless of whether ‘backwardness’ truly existed in any precisely measurable sense.<sup>55</sup> It would be interesting to conduct a study of the various European ‘cultures’ of national self-description from the standpoint of their use of the idea of backwardness and to test such cultures in terms of their economic importance. At least in the case of Germany, ‘self-contentment’ would seem to have been an exceptionally rare occurrence. But I digress...

In the work of Hans-Ulrich Wehler and others, the *topos* of backwardness was assumed as the underlying reality, and the subsequent, purely economic catching-up process is described as particularly aggressive. Older interpretations (in the work of Alexander Gerschenkron, for instance) had been more cautious. Gerschenkron, always taking the UK as his criterion, maintained that the role of banks or political authorities in promoting industrialization grew in proportion to its then backwardness.<sup>56</sup> So Germany’s rapid development had been a kind of catching-up in comparison with the more advanced development of Great Britain, pushed forward by the banking sector and government aid. In practice, however, all these ‘backwardness’ and ‘special-pathway’ theories explain

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<sup>54</sup>Typical examples are the writings of Hans-Ulrich Wehler, which long remained extremely influential. See his *Das deutsche Kaiserreich* (see above, note 10). On the points of criticism, see Thomas Nipperdey, *Wehlers ‘Kaiserreich’. Eine kritische Auseinandersetzung*, in: *Geschichte und Gesellschaft* 1 (1975), 539–60.

<sup>55</sup>On Friedrich List, see Keith Tribe, *Die Vernunft des List. National economy and the critique of cosmopolitan economy*, in: Keith Tribe, *Strategies of economic order. German economic discourse 1750–1950*, Cambridge 1995, 32–65.

<sup>56</sup>Alexander Gerschenkron, *Wirtschaftliche Rückständigkeit in historischer Perspektive*, in: Hans-Ulrich Wehler (ed.), *Ökonomie und Geschichte*, Cologne 1973, 121–42.



little. The fact is, disregarding all other problems for the moment,<sup>57</sup> only to a very limited extent did the explosion in the German economy that began in the 1850s possess a ‘catching-up’ quality. The new industries that first emerged here and in the USA were without precedent. They cannot have been imported from anywhere or copied and improved from another source. There was some of that, naturally—in the early coal and steel industry, for instance, or in mechanical engineering, where German firms unscrupulously swiped ideas from Great Britain’s success. Yet as regards the dynamic areas of imperial Germany that simply did not apply. Instead, those areas were distinguished by three characteristics. Independently at first but then in a self-sustaining process of parallel development, in post-1850 Germany these provided a thoroughly favorable economic environment.

Science and industry formed an ideal mutual relationship in imperial Germany. This was embodied in the power of innovation shown in particular by the chemical industry, by electrical technology, and by precision mechanics—the pioneering industries of the day, in fact.<sup>58</sup> When war broke out in 1914, the three firms of Bayer, BASF, and Hoechst held more chemical and pharmaceutical patents than the rest of the world put together. The young chemical industry took advantage of (indeed, owed its whole phenomenal rise to) an expansion of research and theoretical knowledge at the universities. In the early days, this was entirely ‘purpose-free’, at least as concerned industrial applications. There is no room here to detail the ‘revolutions’ in the science of chemistry associated with the names Liebig and Wöhler. However, in contrast to the UK (among other countries), from the 1880s onward the German chemical scene attracted steadily swelling numbers of highly qualified practitioners, whom it put to good use.<sup>59</sup> Carl Duisberg (himself a chemist who

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<sup>57</sup>This line of argument makes ‘backwardness’ (*Rückständigkeit*) look like a particular kind of impulse, which in most cases it was not. It was more about being held back, left behind—even resigned, possibly. So it must have been a special kind of ‘backwardness’ that could be overcome by a quick spurt!

<sup>58</sup>There is a summary account of the chemical industry in Johann Peter Murmann, *Knowledge and competitive advantage. The coevolution of firms, technology, and national institutions*, Cambridge 2003.

<sup>59</sup>See Ernst Homburg, *Two factions, one profession: The chemical profession in German society 1780–1870*, in: David Knight/Helge Kragh (eds), *The making of the chemist. The social history of*

rose from modest circumstances to become head of Bayer) was never tired of stressing this interplay<sup>60</sup> as the secret of German chemistry's success. In 1913, the firm of Bayer alone employed three times as many chemists as the entire chemical industry of Great Britain. People were aware of this at the time, but recent research has provided impressive confirmation of it. I simply cite these few instances from the chemical industry, but any number might be added for metal-processing, electrical engineering, and precision mechanics.

Firms took advantage of these opportunities to develop their own research infrastructures, almost institutionalizing a bent for innovation. This in turn was something that arose out of their specific situation in the 1880s and 1890s. For many German firms, the domestic market was too small. The only way existing firm sizes could be maintained (let alone expanded) was if portions of the relevant world markets could be conquered. For a time in the 1870s, the rapid expansion of the *Gründerboom* seemed to be wreaking revenge in that the additional capacities developed during those years could now (it seemed) scarcely be exploited in a cost-effective manner. Most larger firms confronted the question either by writing off past investments or by pursuing a policy of winning new market shares, notably abroad. Their response (not least in partnership with their creditor banks) was to look to the international market and develop appropriate expansionist policies—one particular strategy being a constantly evolving product portfolio. Innovation was not the only way forward, certainly, but was itself a reaction to the problems of expanding

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chemistry in Europe 1789–1914, Cambridge 1998, 39–76. In the same volume, see also Walter Wetzel, *Origins of and education and career opportunities for the profession of 'chemist' in the second half of the nineteenth century in Germany*, 77–94. Improvements could have been made, of course, but by the mid-nineteenth century the state of German chemical education was much better than that of other Western countries; see also Murmann, *Knowledge and competitive advantage* (cf. note 58), 52–5.

<sup>60</sup> See Hartmut Scholz, *Zu einigen Wechselbeziehungen zwischen chemischer Wissenschaft, chemischer Industrie und staatlicher Administration sowie deren Auswirkungen auf die Entwicklung der wissenschaftlichen Chemie in Deutschland in der Zeit des Übergangs zum Monopolkapitalismus*, dissertation B, Humboldt University, Berlin 1989. See also the works of Lothar Burchardt, including *Professionalisierung oder Berufskonstruktion? Das Beispiel des Chemikers im wilhelminischen Deutschland*, in: *Geschichte und Gesellschaft* 6 (1980), 327–48.

globally. The iron and steel sector relied at least in part on dumping.<sup>61</sup> Other industries sought to assert themselves internationally without artificial price advantages. However, at world fairs particularly they met with a critical reception, not least from their own national authorities. As early as the 1880s, the German government accused numerous firms of offering junk. The initial reason for Britain's insistence on labeling the appropriate goods 'Made in Germany' was precisely this dislike of cheap German tat.<sup>62</sup> Many German firms saw such accusations not only as unfair but also as a challenge to future business success—one they sought to meet by offering high-quality products. Furthermore, the domestic market was rather limited while export markets were highly varied. So German industry gradually adopted the practice (still in use today) of developing different products for different markets. In Germany, the R and D departments of firms tended to grow in importance. At the same time, in order to tackle the work involved, forms of management and corporate development came into being that were more clearly diversified at an early stage but also correspondingly bureaucratized.<sup>63</sup> An orientation toward international markets and high-quality production were therefore situational responses that proved their worth in the long run. Imperial Germany was able to react in this way precisely because levels of university research and theoretical knowledge supplied the necessary resources. However, it would be quite wrong simply to assume that such expansionist strategies were pursued throughout the German economy. They mostly occurred in specific areas of large-scale industry. As was the case in almost all European countries, much of German business remained

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<sup>61</sup> See also the detailed account of the reaction of Germany's heavy industry in Ulrich Wengenroth, *Unternehmensstrategien und technischer Fortschritt. Die deutsche und die britische Stahlindustrie 1865–1895*, Göttingen 1986.

<sup>62</sup> On the international reputation of German industry at this time, see Hans Joachim Braun, 'Billig und schlecht: Franz Reuleaux' Kritik an der deutschen Industrie und seine wirtschaftspolitischen Vorschläge 1876/77', in: *Kultur und Technik* 9 (1985), 106–14.

<sup>63</sup> Bernd Dornseifer, *Die Bürokratisierung deutscher Unternehmen im späten 19. und frühen 20. Jahrhundert*, in: *Jahrbuch für Wirtschaftsgeschichte* 1993/1, 69–91; see also Bernd Dornseifer, *Strategy, technological capability and innovation: German enterprises in comparative perspective*, in: François Caron (ed.), *Innovation in the European economy between the wars*, Berlin 1995, 197–226.

tied to local and regional markets and developed accordingly. The same development was typical of large-scale industry as a whole.

In the USA, where the fast-growing domestic market presented quite different challenges, corporate strategies were correspondingly different. Here it was not so much about diversifying and adapting to varying markets—more a matter of seizing the opportunities created by mass demand in a homogeneous domestic market. American firms were less bureaucratic, more regionally organized (in accordance with America's regional markets). Above all they were interested in exploiting economies of scale. It was a course that remained largely closed to German firms.<sup>64</sup> The industrialists of pre-1914 Germany highlighted differences of mindset—one of which was that British and American entrepreneurs focused on quick success while their German counterparts aimed primarily at sustained growth. The observation itself was not entirely wrong. However, it had little to do with mindset. It was a consequence of differing economic demands and market conditions. The development of synthetic indigo is a good example. Natural indigo was the main dye in use before the turn of the century. Large areas of indigo were farmed in British India, and it was traded by two British firms that controlled the market completely. A German chemist named Adolf Baeyer had worked out the structural formula for indigo as early as the 1870s and in the early 1880s developed an initial method of synthesizing it, but the patent used by BASF and Hoechst could scarcely be described as offering value for money. It took another 20 years and what for imperial Germany was the vast sum of 100 million marks in research investment before finally, in 1904, a viable way of manufacturing indigo was found. The British natural-indigo firms, aware of German efforts from the outset but hoping they would fail, did little to defend their position from potential German assault. By 1960, natural indigo had shrunk to the level of a niche product, little of it was grown, and the once-dominant British firms were now insignificant.<sup>65</sup> Understandably, German successes of this kind were hardly welcome to British business. So the ears of Britain's rubber producers

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<sup>64</sup> Chandler, *Scale and scope* (see above, note 2), 393–502.

<sup>65</sup> On this subject, see Alexander Engel, *Farben der Globalisierung. Die Entstehung moderner Märkte für Farbstoffe 1500–1900*, Frankfurt a.M. 2009.

must have tingled in 1911 when the Leverkusen dye factories announced their intention of marketing a viable form of synthetic rubber. Similar things occurred in many other fields. In fact, recent research has shown that it was not the relatively modest size of the German ocean-going fleet that the UK saw as a threat so much as the rapid increase in Germany's economic might.<sup>66</sup>

In addition to the ties between science and industry and an orientation toward international markets, much of that economic might stemmed from a further success factor: the structure of the working population, its high level of qualification, and (closely associated with these two things) the nature of government social policy. Since the early 1880s, the government of the *Kaiserreich* had been weaving a relatively dense web of social-insurance measures.<sup>67</sup> Mention has already been made of a swelling influx of young workers, most of whom had already received a sound schooling. Even their numbers were scarcely sufficient to cover industry's huge demand for labor. So in the two decades preceding the First World War, industry itself launched its own extensive social-policy program to reinforce the loyalty and improve the qualifications of its employees.<sup>68</sup> This took different forms in different branches. Carl Zeiss in Jena was very much more sensitive in these matters than the big iron and steel works in Upper Silesia or Saarland, which were notorious for their bossy approach.<sup>69</sup> Krupp, on the other hand (like Bayer, Hoechst, and BASF), devised a clever social-policy system whose chief purpose was to ensure that the firm had a well-qualified workforce. By providing a variety of insurance schemes, government social policy further bolstered this kind of qualification assurance. Altogether it was possible, in the good years preceding 1914, for a skilled worker to live an almost petty-bourgeois existence—certainly one that was fully insured and commanded respect.

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<sup>66</sup> On British foreign policy before 1914, see Andreas Rose, *Zwischen Empire und Kontinent. Britische Außenpolitik vor dem Ersten Weltkrieg*, Munich 2011.

<sup>67</sup> Volker Hentschel, *Geschichte der deutschen Sozialpolitik, 1880–1980. Soziale Sicherung und kollektives Arbeitsrecht*, Frankfurt a.M. 1983.

<sup>68</sup> On this subject, see the fine account by Anne Nieberding, *Unternehmenskultur im Kaiserreich: J. M. Voith und die Farbenfabriken vorm. Friedr. Bayer & Co.*, Munich 2003.

<sup>69</sup> Werner Plumpe, *Menschenfreundlichkeit und Geschäftsinteresse. Die betriebliche Sozialpolitik Ernst Abbes im Licht der modernen Theorie*, in: Frank Markowski (ed.), *Der letzte Schliff – 150 Jahre Arbeit und Alltag bei Carl Zeiss*, Berlin 1997, 10–33.

No wonder the trade unions gradually lost their desire for revolution. Advocates of revolution even became a minority within the SPD.<sup>70</sup>

There is a further point, the effect of which has received little consideration. Apprentice training had traditionally been the responsibility of the craft-trades, now assembled into guilds or *Innungen*. The craft-trades were of course becoming less important economically. Nevertheless, the *alter Mittelstand* remained influential at the political and social level. It was able, up until 1914, to insist that both practicing a craft-trade and training apprentices were controlled by 'certificates of competence'. The 'mastership principle' was anchored in law. As a result, parts of the artisan sector at least became a 'closed shop'. The whole sector was expected to die out, so this was accepted. Of greater importance was the assurance of high-quality training that such certification provided. Even industry was obliged to acknowledge this, particularly since skilled industrial workers tended to demonstrate pride in their particular profession. All these strands merged formally in the 1920s, forming the dual system of vocational training or rather what preceded it. This was a hybrid blend of corporate social policy and government structural and educational policy, and it exhibited prominent welfare and protectionist traits. The present role of the respective governing bodies of trade, industry, and crafts and the only recently relaxed mastership compulsion in apprentice training are survivals of this development, which in the pre-1914 period guaranteed the high quality of the German workforce. Few other countries had anything similar. Such structures, in conjunction with the close association between science and industry and the challenge posed by a varied market, constituted an additional distinguishing feature of the economy of the *Kaiserreich*.<sup>71</sup>

Prior to 1914, as I hinted earlier, it was not unusual for industrialists to trace their success back to the serious, particularly disciplined nature of German people. The German cast of mind may have played a part, but

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<sup>70</sup> On how the worker situation developed in Germany, see Gerhard A. Ritter/Klaus Tenfelde (eds), *Bibliographie zur Geschichte der deutschen Arbeiterschaft und Arbeiterbewegung 1863 bis 1914. Berichtszeitraum 1945–1975*, Bonn 1981.

<sup>71</sup> On the history of vocational training, see Wolf-Dietrich Greinert, *Das 'deutsche System' der Berufsausbildung: Tradition, Organisation, Funktion*, Baden-Baden 1998. See also Ulrich Eisenbach, *Duale Berufsausbildung in Hessen. Entstehung und Entwicklung seit dem 19. Jahrhundert*, Darmstadt 2010.

too much weight should not be placed on this. The combination of characteristics I have described, coupled with a specific contemporary domestic and international economic situation, was what fueled Germany's rise. Of course, path dependencies were created at the time that were to continue in effect for years. Germany took over the role of 'workshop of the world' from the UK, which even before the Great War began to specialize in financial services and their role in the international economy.

## The Rise of Capitalism and the Role of National Governments

How, finally, are we to assess the role of national governments in this process? If the nation's share of GDP before 1914 is taken as criterion, at 14% or thereabouts its importance was fairly small. Prior to 1914, there is little evidence of an interventionist state behaving as agent of 'organized capitalism'. National governments tended to shun day-to-day economic affairs. Certainly, German social policy cannot be extrapolated from as regards government attitudes to economic processes generally. Social policy was important, there is no doubt of that, but the economic everyday remained largely free of intervention by Berlin. The liberal paradigm continued to dictate everyday reactions even after the *Gründerboom*. True, the German government did pursue a regional and/or structural policy. However, in initiatives in the areas of canal-building or railway construction (to take two examples) multiple viewpoints played a role. Certainly, in these areas it is hard to assume that purely economic motives were involved. But above all the national state did not have an economic policy as such. Three things were lacking here: the knowledge, the concepts, and finally (in all likelihood) the will. The pre-1914 statistical data did not provide sufficient information, nor if such had been available would anyone have been able to turn it into logical concepts, nor would the desire have been there. But at this point, of course, war broke out and everything changed fundamentally.

Economically speaking, the pre-1914 *Kaiserreich* government was properly active only in two spheres. And even here Berlin had no real scope or far-reaching autonomy of action. On the contrary, before 1914

the *Reich* was already so involved in the world economy that pursuing an independent course was out of the question. I refer to monetary policy and trade policy, which together with fiscal policy (where the writ of national government simply did not run)<sup>72</sup> form the nucleus of government action so far as the economy is concerned. In monetary policy, by adopting the gold standard back in 1875 Germany had in practice abandoned its sovereignty and must react to each global change by making national adjustments (amount of currency, rate of interest). This was all right so long as, before 1914, criticism of the system was not voiced aloud, and fixed exchange rates came gradually to be seen as almost a constituent element of a functioning world economy. However, in the inter-war period this belief was to have disastrous consequences when the gold standard (restored at vast political and financial expense) operated as an economic-policy straitjacket.<sup>73</sup> In trade and customs policy, too, things were nothing like the long-prevalent idea of an aggressively protectionist *Kaiserreich* would have us assume. Cornelius Torp's lucid studies of German export policy before 1914 have swept such myths away. Given a dense global foreign-trade network, there was absolutely no room for autonomous action on the part of the German government. Germany had to keep a constant eye on the reciprocal nature of trade relations. Moreover, the German economy was by no means united in this regard. Supporters of protective tariffs from agriculture and specific industries faced equally determined champions of free trade or at any rate a more restrained tariff policy. Far from being in control of this field of forces, Berlin acted as a kind of broker. Taking into account the inter-relatedness of the global economy and the interests of Germany's exporters, it had to try in each case to reconcile both with the national interest. The upshot was that Germany's protective tariff was not only thoroughly moderate but also, despite all the noisy debates throughout the *Kaiserreich*, never really rose. Global inter-relatedness simply would not allow it.<sup>74</sup>

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<sup>72</sup>On this subject, see Hans-Peter Ullmann, *Der deutsche Steuerstaat. Geschichte der öffentlichen Finanzen vom 18. Jahrhundert bis heute*, Munich 2005.

<sup>73</sup>Barry J. Eichengreen, *Vom Goldstandard zum Euro. Die Geschichte des internationalen Währungssystems*, Berlin 2000.

<sup>74</sup>Cornelius Torp, *Die Herausforderung der Globalisierung. Wirtschaft und Politik in Deutschland 1860–1914*, Göttingen 2005.



An efficient education and social policy, a thoroughly successful monetary and customs policy, and an exceptionally restrained approach to everyday economic affairs together made up the not unimportant role of politics as regarded economic development in the run-up to the First World War in the period. And with a 14% share of GDP, national government was well pared-down (that was a further success factor!). Nevertheless, to the annoyance of many taxpayers bureaucracy grew faster than the economy, even in the years before 1914. Of course, the growth rates we know today can scarcely be dreamed of at a time when the top rate of income tax in the state of Prussia was already (at 6%!) considered ‘socialist’.

## The Disaster of the First World War

In conclusion, the developments set out above came to an abrupt end in the summer of 1914. The *Belle Époque* gave way to a repeat of the Thirty Years’ War—with repercussions that still echoed in the 1990s. Now, in many respects at least, the devastations of the twentieth century seem to have been overcome. It is almost as if the liberal nineteenth century was returning. That was of course also the period that made the First World War possible. However, despite what was likewise asserted for a long time, it was not a particular type of German aggressiveness that triggered the war. On the contrary, major economic changes gave rise to tensions that in turn called old political structures and certainties into question. A particularly dynamic factor in this connection was German capitalism. The success of this alarmed some observers, made others green with envy, and in yet others prompted thoughts of reining it in. Obviously, the pre-1914 *Kaiserreich* had not known how to represent its own economic strength as an opportunity for its neighbors. In the end Germany found itself so isolated as to feel menaced—*eingekreist* [‘encircled’] was the term used. Structurally, this is the situation that seems to be returning today, for German capitalism has clearly lost none of what should now be seen as its historic dynamism. Cultivating this without at the same time appearing to constitute a threat is, for Germany, the great challenge of our time. It represents no easy task in the light of growing economic imbalances and the paradoxical fact that economic might is nowadays both needed and feared.

# Part III

## Economic History

# 8

## The National Association of German Industry (RDI) and the Crisis of the Weimar Economy

For some time now, the history of the Weimar Republic has no longer occupied the foreground of contemporary historical research. The reasons are quickly recounted. In the 1950s, 1960s, and 1970s, there was much interest in why Germany's first democracy failed. Subsequently, the spotlight shifted to the National-Socialist years; Weimar had been 'done', so to speak. From the 1980s onward interest focused on the Hitler dictatorship. It did so in a way that examined chiefly the political aspects of that era, against which the importance of other aspects paled into insignificance. Only lately have historians turned to the formative periods of federal-German history—though in no way belittling the outstanding significance of the years between 1933 and 1945. Quite the contrary, in fact. At least until very recently most of the research concerning the years following 1950 has been an exploration of the post-

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*First Publication:* Werner Plumpe, *Der Reichsverband der Deutschen Industrie und die Krise der Weimarer Wirtschaft*, in: Andreas Wirsching (ed.), *Herausforderungen der parlamentarischen Demokratie. Die Weimarer Republik im internationalen Vergleich* (Schriftenreihe der Stiftung Reichspräsident-Friedrich-Ebert-Gedenkstätte; Vol. 13), De Gruyter Oldenbourg Verlag, Munich 2007, 129–57.

NS period—with the question of the continuities and ruptures between dictatorship and democracy taking center stage.<sup>1</sup>

However, it was not only the outstanding interest in investigating National Socialism that diverted attention from Weimar. Historical research of the Weimar Republic itself seemed in some way complete. The early studies of the subject were written in the 1950s, still under the influence of the ‘Reds under the bed’ phobias of the Cold War period. They give the impression of a polity under siege from both Left and Right and eventually succumbing to its totalitarian enemies. The message was plain: beware totalitarianism of any kind! But then there is a change. From the 1960s onward the Weimar crisis and the end of the Republic are no longer seen chiefly as resulting from the totalitarian challenge and its mass appeal in a climate dominated by the world economic crash. Investigation now focused on the structural problems experienced by Weimar, a republic that had only halfheartedly turned its back on the constitutional authoritarian state, a republic in which a social democracy that stood in fear of revolution formed an alliance with the old imperial army to combat revolution, a republic that sacrificed its social demand for fundamental change in economic power relations on the altar of compromise in the shape of reformist trade unions and astutely tactical entrepreneurs (vgl. deutscher Text). In brief, a basically failed revolution led to a republic without republicans. Here was a polity in which the elites that set the tone were the old ones, simply waiting for the moment to sweep democracy aside and bring back the authoritarian state. It was only logical that those elites should take advantage and did actually appear to be taking advantage of the economic and political problems of the post-war years to put their anti-democratic program into practice. From this

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<sup>1</sup> We are now seeing more and more overall surveys of post-war history. See Edgar Wolfrum, *Die Bundesrepublik Deutschland 1949–1990* (Handbuch der deutschen Geschichte 23), Stuttgart 2005; Manfred Görtemaker, *Kleine Geschichte der Bundesrepublik Deutschland*, Frankfurt 2005; Andreas Wirsching, *Deutsche Geschichte im 20. Jahrhundert*, Munich 2005. The latest general account of twentieth-century German history, putting the Weimar Republic in its ‘proper’ place, is Heinrich August Winkler’s programmatic *Der lange Weg nach Westen: Deutsche Geschichte 1806–1990*, 2 vols., Bonn 2003, which gives expression to the leftist–liberal view of recent German history taken by most historians born in the 1930s.

viewpoint, the Weimar Republic looked like a state ripe for plucking. Fundamentally, the project had been doomed from birth.<sup>2</sup>

As regards individual social groups, this pattern of interpretation was worked through in the years that followed. In the process, businessmen and their associations eventually ‘turned out’ to be the real ‘villains’ behind the downfall of the Weimar Republic and the ‘handover of power’ to Hitler. A further reason was that East German historians deliberately concentrated their research efforts in this field, almost ‘celebrating’ the contribution made by firms and employer associations to the destruction of the Republic.<sup>3</sup> Not the least of their motives was to de-legitimize the social order of the Federal German Republic (or ‘West Germany’ as it was called in the years 1949–90), where of course those who had apparently destroyed Weimar remained powerful.<sup>4</sup> Granted, this tendency to demonize business existed in the old Federal Republic too,<sup>5</sup> although to a lesser degree. Above all, it went not unchallenged. As shown not least by the works of Henry A. Turner, entrepreneurs made no direct contribution to the rise of Hitler that was of any noteworthy extent (vgl. deutscher Text)<sup>6</sup>; an actual conspiracy in Hitler’s favor (such as certain East German

<sup>2</sup> On the overall tendency, see Hans Mommsen, *Die verspielte Freiheit. Der Weg der Republik von Weimar in den Untergang 1918–1933*, Frankfurt 1990. This was not the general view, though. Detlef Peukert, *Weimarer Republik, Krisenjahre der klassischen Moderne*, Frankfurt 1987, emphasizes not least the partly avant-garde nature of Weimar’s cultural life. However, any suggestion of the economy and specifically business playing a new or even a revised role under the Weimar Republic cannot be found even in Peukert’s book. On the current state of research and discussion, see Andreas Wirsching, *Die Weimarer Republik. Politik und Gesellschaft*, Munich 2000.

<sup>3</sup> Manfred Nussbaum, *Wirtschaft und Staat in Deutschland während der Weimarer Republik*, (*Wirtschaft und Staat in Deutschland: eine Wirtschaftsgeschichte des staatsmonopolistischen Kapitalismus in Deutschland vom Ende des 19. Jahrhunderts bis 1945*, 2), Berlin 1978.

<sup>4</sup> A typical example is Eberhard Czichon, *Wer verhalf Hitler zur Macht? Zum Anteil der deutschen Industrie an der Zerstörung der Weimarer Republik*, Cologne 1989.

<sup>5</sup> See the works of the Marburg political scientist Reinhard Kühnl, for instance, including *Formen bürgerlicher Herrschaft. Liberalismus—Faschismus*, Reinbek 1971. More relevant historically is Dirk Stegmann, *Die Silberbergkontroverse. Unternehmerpolitik zwischen Reform und Restauration*, in: Hans-Ulrich Wehler (ed.), *Sozialgeschichte heute. Festschrift für Hans Rosenberg*, Göttingen 1974, 594–610; Dirk Stegmann, *Kapitalismus und Faschismus in Deutschland*, in: *Gesellschaft. Beiträge zur Marxschen Theorie*, Frankfurt a.M. 1976. The example of Stegmann is instructive in that he belonged to the Fischer School and was one of the chief representatives of a negative German *Sonderweg* or ‘special path’—commentators who saw their theories clearly confirmed by the National Socialists’ seizure of power.

<sup>6</sup> Henry A. Turner, *Die Großunternehmer und der Aufstieg Hitlers*, Berlin 1985 [German translation of *German big business and the rise of Hitler*, published (also in 1985) in the English language].

publications suggested) is quite out of the question. Criticisms of Hitler were certainly voiced by members of the business community, but they were not helping Hitler's rise so much as emphasizing their commitment to the destruction of the Weimar Republic.<sup>7</sup> The works of Bernd Weisbrod especially but also those of Hans Mommsen, Dirk Stegmann, and others<sup>8</sup> sought by the laudable route of reconstructing historical events to convey such a overall interpretation: heavy industry (they said) had basically adopted an anti-republican stance and systematically aimed its disastrous interventions against democracy. Other branches of industry had shown greater restraint. However, when the world economic crisis came along, they had yielded to the undertow of heavy industry and its policy of exploiting the crisis for a general assault on the Weimar welfare state and collective labor law. Initially in the person of Brüning but then chiefly in von Papen and Hitler they had found enthusiastic destroyers of the Republic's achievements. Their view of economic policy during the world economic crisis seemed rather different; ultimately (they alleged) Brüning's deflationary policy had been characterized by an anti-republican reflex hostile to the welfare state. Not only had the man implemented his reparations policy without compromise; his austerity policy had actually accommodated the demands of industry. The potential for a policy actively to combat the crisis did in fact exist, but this would have meant the Social Democratic Party of Germany (SPD) taking a stronger role in government and would have implied positive acceptance of the welfare state.<sup>9</sup> That was exactly what industry and conservative elites did not want, so by negligence or deliberation the economic and political crisis threatening Weimar was aggravated, which

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<sup>7</sup> Most recently, we have seen Gerald D. Feldman, *Politische Kultur und Wirtschaft in der Weimarer Zeit. Unternehmer auf dem Weg in die Katastrophe*, in: *Zeitschrift für Unternehmensgeschichte* 43 (1998), 3–18.

<sup>8</sup> Bernd Weisbrod, *Schwerindustrie in der Weimarer Republik. Interessenpolitik zwischen Stabilisierung und Krise*, Wuppertal 1978; Mommsen, *Die verspielte Freiheit* (see above, note 2); Stegmann, *Kapitalismus und Faschismus* (see above, note 5); Rudolf Tschirbs, *Tarifpolitik im Ruhrbergbau 1918–1933*, Berlin 1986. Finally the various works of Gerald D. Feldman, including the collection of essays *Vom Weltkrieg zur Weltwirtschaftskrise. Studien zur deutschen Wirtschafts- und Sozialgeschichte 1914–1932*, Göttingen 1984, and Gerald D. Feldman, *Hugo Stinnes. Biographie eines Industriellen 1870–1924*, Munich 1998.

<sup>9</sup> Eberhard Heupel, *Reformismus und Krise. Zur Theorie und Praxis von SPD, ADGB und Afa-Bund in der Weltwirtschaftskrise 1929–1932/33*, Frankfurt a.M. 1981.

ultimately played into Hitler's hands.<sup>10</sup> Granted, this image of a deliberate destruction of the Weimar Republic by an unholy coalition of industrial interests and anti-democratic politics was subsequently nuanced in certain aspects and indeed slightly qualified by Reinhard Neebe<sup>11</sup> and Michael Grübler.<sup>12</sup> Nevertheless, the basic message of the disastrous part played by business in the final phase of the Weimar Republic has never really been questioned.<sup>13</sup>

Only in certain articles by Knut Borchardt in the late 1970s and the following decade was the prevailing opinion properly rethought in relative terms, although Borchardt was not concerned to assess how businessmen behaved during the inter-war years.<sup>14</sup> Borchardt looks instead at the reasoning behind economic policy in the world economic crisis and asks whether there was a real possibility of doing anything different. His two theories have now become prominent. They are: (a) there was no viable alternative to Brüning's policy of deflation in the world economic crisis. It was no ill-fated pursuit of industrial interests but an inevitable consequence of the structural problems of the Weimar economy and a demonstration of how Brüning's hands were tied politically by the need to pay reparations coupled with the repercussions of Germany's 'great inflation'.<sup>15</sup> This theory met with persistent criticism, notably from eco-

<sup>10</sup>Bernd Weisbrod, *Die Befreiung von den 'Tariffesseln'. Deflationspolitik und Krisenstrategie der Unternehmer in der Ära Brüning*, in: *Geschichte und Gesellschaft* 11 (1985), 295–325.

<sup>11</sup>Reinhard Neebe, *Großindustrie, Staat und NSDAP 1930–1933. Paul Silverberg und der Reichsverband der Deutschen Industrie in der Krise der Weimarer Republik*. Göttingen 1981.

<sup>12</sup>Michael Grübler, *Die Spitzenverbände der Wirtschaft und das erste Kabinett Brüning: Vom Ende der großen Koalition 1929/30 bis zum Vorabend der Bankenkrise 1931*, Düsseldorf 1982.

<sup>13</sup>A more recent treatment is Volker Ackermann, *Treffpunkt der Eliten. Die Geschichte des Industrie-Clubs Düsseldorf*, Düsseldorf 2006. See also Gustav Luntowski, *Hitler und die Herren an der Ruhr. Wirtschaftsmacht und Staatsmacht im Dritten Reich*, Frankfurt 2000; Henry A. Turner, *The Ruhrlade, Secret Cabinet of Heavy Industry in the Weimar Republic*, in: *Central European History* 3 (1970), 195–228.

<sup>14</sup>The debate is summed up in Albrecht Ritschl, *Knut Borchardts Interpretation der Weimarer Wirtschaft. Zur Geschichte und Wirkung einer wirtschaftsgeschichtlichen Kontroverse*, in: Jürgen Elvert/Susanne Krauss (eds), *Historische Debatten und Kontroversen im 19. und 20. Jahrhundert*, Stuttgart 2001, 234–44. See also Jürgen Baron von Krüdener (ed.), *Economic Crisis and Political Collapse. The Weimar Republic 1924–1933*, New York 1990.

<sup>15</sup>Knut Borchardt/Hans Otto Schötz (eds), *Wirtschaftspolitik in der Krise. Die (Geheim-) Konferenz der Friedrich-List-Gesellschaft im September 1931 über Möglichkeiten und Folgen einer Kreditausweitung*, Baden-Baden 1991.

conomic historians. For instance, Carl-Ludwig Holtfrerich<sup>16</sup> saw the world economic crisis very much as the opportunity for an anti-cyclical policy that might at least have alleviated the crisis economically and socially. So here again was the proposition that Brüning's policy had been wrong and remained committed to superficial industrial interests. On the other hand, (b) in Borchardt's second theory (developed in reaction to such criticism) he maintained that the Weimar economy had already been structurally 'sick' before the world economic crisis kicked in—notably because, measured against the productivity of the German economy, wages were too high. They were so high (he said) that firms saw their margins much diminished and yields correspondingly reduced. The result was low domestic capital formation, leading to abysmal investment during the Weimar years and eventually to an exploding national debt. Against this background, there had been nothing Brüning could do but impose an austerity policy in an attempt to stabilize Germany's position internationally and at the same time reduce the impact of its internal structural problems.<sup>17</sup>

In the ensuing years, a dispute arose regarding wage levels in the Weimar Republic and what scope they left Brüning in regard to export structures and the reparations obligation. Here Borchardt was in many respects corroborated. In particular, it became apparent that Brüning's room for maneuver on the export front was small and that the relatively generous wages paid in the Weimar Republic constituted a problem. The fact was, by the end of the inflationary period wages had clearly been stabilized as a result of what was then an extremely low level of productivity. Weimar did indeed have a structural problem—and it was one that decisively heightened its susceptibility to crises. However (and this circumstance seems to be particularly important), at the end of Brüning's time in government it had been to some extent solved. By 1932, the economic

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<sup>16</sup> Carl-Ludwig Holtfrerich, *Zu hohe Löhne in der Weimarer Republik. Bemerkungen zur Borchardt-These*, in: *Geschichte und Gesellschaft* 10 (1984), 122–41. See also Gottfried Plümpe, *Wirtschaftspolitik in der Weltwirtschaftskrise. Realität und Alternative*, in: *Geschichte und Gesellschaft* 11 (1985), 326–57.

<sup>17</sup> On this subject see chiefly Albrecht Ritschl, *Zu hohe Löhne in der Weimarer Republik? Eine Auseinandersetzung mit Holtfrerichs Berechnungen zur Lohnposition der Arbeiterschaft 1925–1932*, in: *Geschichte und Gesellschaft* 16 (1990), 375–402.



indicators were pointing upwards, not least for the additional reason that corporate cost structures had slackened greatly during the crisis, which makes it appear all the more tragic that Hitler was the clear beneficiary of Brüning's economic policy.<sup>18</sup> Granted, Borchardt's opinion met with justified criticism in places, while in others it left matters open. Above all, it is questionable whether in the specific circumstances of the 1920s an improved profit situation would have brought higher capital formation and increased investment. Many firms suffered from capacity surpluses, which certainly raises doubts as to whether more growth-oriented corporate policies would have been at all possible. Further discussion is needed here. What is clear, however, is that the economic policy pursued in the crisis was not the outcome of an industrial conspiracy but to some extent could not have been otherwise, given the economic restrictions of the time. As late as 2001, it was being stressed by Albrecht Ritschl (one of the clearest backers of the Borchardt position) that ultimately Brüning did what today's economic policymakers would have deemed necessary in the circumstances.<sup>19</sup>

Nowadays the economic policy of the interwar years appears in a very different light, but so far little has been done by way of exploiting this new viewpoint to re-examine the roles of business and business associations in the Weimar period.<sup>20</sup> On the contrary, only a few years back Gerald Feldman felt able to say that, for all the logical consistency of the government's economic policy, business bears a special responsibility for the decline and fall of the Weimar Republic in that it did not lift a finger to defend the Weimar system.<sup>21</sup> So it is worth taking a fresh look at how politics, business, and business associations related to one another in the Weimar Republic and revising the verdict that still prevails as to the roles

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<sup>18</sup> Christoph Buchheim et al. (eds), *Zerrissene Zwischenkriegszeit. Wirtschaftshistorische Beiträge. Knut Borchardt zum 65. Geburtstag*, Baden-Baden 1994; Christoph Buchheim, *Zur Natur des Wirtschaftsaufschwunges der NS-Zeit*, in: Christoph Buchheim et al. (eds), *Zerrissene Zwischenkriegszeit*, 97–119.

<sup>19</sup> Ritschl, *Knut Borchardts Interpretation* (see above, note 14), 234–44.

<sup>20</sup> Initial corrections (chiefly in relation to how industrial relations worked) have been made by Karl Christian Führer (ed.), *Tarifbeziehungen und Tarifpolitik in Deutschland im historischen Wandel*, Bonn 2004. See also Karsten Steiger, *Kooperation, Konfrontation, Untergang. Das Weimarer Tarif- und Schlichtungswesen während der Weltwirtschaftskrise und seine Vorbedingungen*, Stuttgart 1998.

<sup>21</sup> Feldman, *Politische Kultur* (see above, note 7).

they played. Taking as my example the National Association of German Industry (*Reichsverband der Deutschen Industrie* or RDI), which in the 1920s represented something like 75% of German industry and was the largest single-interest association of the period, this is what I intend to do in the following pages. But before embarking on a discussion of various points of detail, let us take a quick look at the framework data of the Weimar Republic.

If the Weimar period is viewed through the long lens of economic development, its special position becomes immediately apparent.<sup>22</sup> The years between 1914 and 1950 were four lost decades so far as the German economy is concerned. However, although the period was for the most part characterized by stagnation, it also saw some of the sharpest swings in recent German economic history—swings that nowadays, when growth rates of between 1 and 2% are already deemed critical—we no longer take seriously. In 1918, industrial production stood at little more than half its 1914 level. It rose again in the early inflationary years but then collapsed when hyperinflation hit and Germany entered the stabilization crisis of 1923–24. From mid-1924 until the autumn of 1925 there was a brief upswing, culminating in the fresh crisis of the winter of 1925–26. The years 1927 and 1928 were relatively good years, by the end of which time economic output was back up to and even slightly exceeded its pre-war level. There followed a collapse unprecedented in peacetime, shaking society to its core. According to figures cited by Walther Hoffmann,<sup>23</sup> domestic product dropped by 5% in 1929, 4.2% in 1930, 12.1% in 1931, and a further 5% in 1932. Altogether, between 1928 and 1932 it fell by 25%. Individual branches and regions were affected differently, with heavy industry suffering more than chemical or electrical engineering, the textile industry more than precision engineering or optics, and

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<sup>22</sup> On this subject and on the figures used, see Rainer Metz, *Säkulare Trends*, in: Michael North (ed.), *Deutsche Wirtschaftsgeschichte. Ein Jahrtausend im Überblick*, Munich 2005, 427–500. See also Albrecht Ritschl, *Deutschlands Krise und Konjunktur 1924–1934. Binnenkonjunktur, Auslandsverschuldung und Reparationsproblem zwischen Dawes-Plan und Transfersperre*, Berlin 2002. And Dietmar Petzina, *Die deutsche Wirtschaft in der Zwischenkriegszeit*, Wiesbaden 1977, continues to be useful.

<sup>23</sup> Walther G. Hoffmann et al., *Das Wachstum der deutschen Wirtschaft seit der Mitte des 19. Jahrhunderts*, Berlin 1965. Hoffmann's figures are not uncontroversial, see also Ritschl, *Deutschlands Krise und Konjunktur* (cf. note 22). But they are still useful for discussing trends.

production-goods and investment-goods industries more than consumer goods. However, it was an awful time for everyone, as Hans Rosenberg said, looking back on his own situation in 1932. What he called a ‘crisis neurosis’ spread like an epidemic, not even sparing the young historian.<sup>24</sup> The jobless figures corroborate this finding. Whereas after the war a level of full employment was achieved with surprising speed, by the middle years of the Weimar Republic the new polity was already bearing the odium of 10% long-term unemployment on the part of the potential working population. Eventually, when the world economic crisis struck, more than 30% of people of working age were without a job. Add to that short-time working and concealed unemployment, and probably every second German more or less drastically faced the problem of joblessness. Talk of a ‘crisis neurosis’ was entirely justified.

After 1933, the country overcame the crisis (including—indeed, particularly—by international comparison) with astonishing speed. There is currently some dispute among economic historians in this connection, not least revolving round the question of whether there was a ‘National Socialist economic miracle’ and who can take the credit for it. The prevailing view is that on the one hand the upswing was distorted by concentration on the arms build-up and on the other hand that Hitler benefited decisively from the fact that key structural problems of the Weimar economy had already been solved during the world economic crisis. Hitler (some said), for all his quick successes, had inflicted a heavy burden on the German economy. Let the question remain open for the time being.<sup>25</sup> More important is the reference to Weimar’s structural problems. Not only do global figures conceal substantial fluctuations in the economic cycle; there is a further respect in which the Weimar economy does not fit within the medium- and long-term trends of economic development in Germany. First, this has less to do with the steep rise in the public-sector portion of GNP—from around 14% before 1914 to almost 30%

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<sup>24</sup>Hans Rosenberg, *Die Weltwirtschaftskrise 1857–1859*, Göttingen 1974 (preface to new edition).

<sup>25</sup>Werner Abelshauser, *Kriegswirtschaft und Wirtschaftswunder. Deutschlands wirtschaftliche Mobilisierung für den Zweiten Weltkrieg und die Folgen für die Nachkriegszeit*, in: Vierteljahrshefte für Zeitgeschichte 47 (1999), 503–38; Christoph Buchheim, *Die Wirtschaftsentwicklung im Dritten Reich—mehr Desaster als Wunder. Eine Erwiderung auf Werner Abelshauser*, in: Vierteljahrshefte für Zeitgeschichte 49 (2001), 653–64.

in the Weimar Republic. This was a dramatic turn of events, dictated by the burdens placed on Germany after the war and the new welfare-state policy, but it was not typical of twentieth-century trends. More striking are two other factors: (a) weak corporate yields coupled with a generally low level of investment, and (b) high wages.<sup>26</sup> The development of return on capital may provide an initial clue. During the Weimar Republic, only in one year did this come close to its pre-war level. For the rest of the time it stayed well below. Investment was correspondingly low. In the world economic crisis Germany's capital stock shrank—a clear exception in recent economic history. On the other hand, in 1920s Germany net wage rates (i.e. the share of national income accounted for by wages and salaries) reached a level not equaled either before or since.

The fact is no simple conclusions can be drawn from the parallel nature of these structural problems as to their cause. Investment was low because yields were low and costs high, although it also reflected the pessimistic expectations of business generally. However, low yields and what in comparison with pre-war years was a heavy cost burden made it hard for firms to build capital.<sup>27</sup> Given the weakness of the domestic capital market, this increased international indebtedness, which was to have disastrous consequences when the crisis struck. Even without a clear chain of causality there is no denying that the problems were beginning to pile up—and were further aggravated by a grim economic situation. After 1929, there was no shortage of economic problems, as can well be imagined.<sup>28</sup>

In seeking to make a proper assessment of the invariably tense relationship between firms and their associations on the one hand and the political authorities on the other (specifically, in this case, with the government of the Weimar Republic), it is important to keep such data in mind. Yet before approaching this subject, I need to make one other observation.

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<sup>26</sup> See the corresponding data in Metz, *Säkulare Trends* (cf. note 22).

<sup>27</sup> This is another area where blanket statements nowadays need to be taken with a pinch of salt. There are signs that in 1923–24 and the years that followed firms asked their accountants to make their figures look worse than they were, thereby substantially increasing hidden reserves. But those are only initial assumptions. In corporate history especially, more research needs to be done. See the article by Kim Holger Opel, *Die Goldmarkteröffnungsbilanz 1924 im Lichte zeitgenössischer Bilanztheorien*, in: *Jahrbuch für Wirtschaftsgeschichte* 2007/1, 131–159.

<sup>28</sup> Harold James, *Deutschland in der Weltwirtschaftskrise 1924–1936*, Darmstadt 1988 [first published in English as *German Slump: Politics and Economics, 1924–1936*, Oxford 1986].

Central government and employer associations as organizations form the nucleus, if you like, of what can be termed the structural coupling of economics and politics in the context of modern society.<sup>29</sup> This part of structural coupling is of course played out in the field of politics in that (and to the extent to which) economic processes are subject to political regulation, whether as a result of government's claim to economic resources (taxation, duty, fees), legal restrictions on scope for economic action (prescriptions, prohibitions), or direct political control of individual market functions (e.g. national wage-agreement or arbitration systems) that affect payment processes and the ability of economic actors to pay. This relationship between business and politics as part of the political decision-making process is a typical phenomenon of modern, functionally differentiated societies. In such societies, politics and business perform basically distinct functions yet pre-determine each other's ability to operate. Structural coupling thus exists on a permanent basis—in the form of a certain tension between politics and the economy, more concrete between the government and business associations. The tension between them compels the latter to make its voice heard in political decision-making processes as the voice of business. Only politics (according to its own rules) can make decisions that are universally binding. Employer associations have a role in those decision-making processes. They can point out what consequences individual decisions may have in the economic sphere. But they cannot on their own make political decisions from economic standpoints. In other words, relations between government and associations turn basically on the concrete form given to the political decision-making process in any particular case. The associations are interested in the ability of the economy (and specifically, individual firms) to operate; government is interested in the ability of politics to take action. That concrete form depends mainly on how far politics employs economic resources as formative means and determines economic processes. To some extent, however, it also depends on how far economic and social groupings spontaneously insist on political decisions and are successful in obtaining them. In this respect, the liberal nineteenth century

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<sup>29</sup>The following considerations owe much to Niklas Luhmann, *Die Politik der Gesellschaft*, Frankfurt a.M. 2002.

fostered a comparatively tension-free relationship insofar as (a) government laid claim to relatively few resources (some 14 % of GNP before 1914) and (b) direct legislative interventions in economic affairs (advertising code, consumer protection, civil rights) were limited in scale. But as international economic circumstances became increasingly dynamic, as the working population grew rapidly, and finally as the risks of a modern way of life burgeoned, beginning in the final third of that century expectations on the political front also increased. Accordingly, the organizational infrastructure of politics changed as a result of bureaucratization on the one hand and the emergence of large interest groups on the other. However, the real upheaval came only with the First World War.<sup>30</sup>

After 1918 not only did the German government lay claim to a substantially larger share of GNP,<sup>31</sup> it also intervened directly in economic processes and structures. In particular, pricing/payment processes on the labor market became the object of political or rather politically backed collective regulation. Beyond the war years, government activity directly influenced pay volumes and payment processes. Moreover, from the standpoint of firms and their associations it did so to their immediate disadvantage, sending their costs sky-high and severely reducing their margins. But indirectly, too, government was blamed for a great many problems: interest rates, distorting the structures of public budgets, but also the volume of foreign debt. Remember, after 1918 the German government operated in an entrepreneurial capacity to a very much greater extent than had been the case before 1914. The phrase ‘cold socialization’ [*kalte Sozialisierung*] was often heard. So as far as economic and structural problems affecting firms was concerned, the business sector and business associations saw a need for political regulation of the economy to be changed and the extent of government activity reduced if business was to be able to function once more. However, for a governmental system

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<sup>30</sup> Regarding developments before the First World War there is an extensive body of literature (some of it rather dated) by authors who felt able to encapsulate the situation before 1914 under the heading ‘organized capitalism’. See Heinrich August Winkler, *Organisierter Kapitalismus. Voraussetzungen und Anfänge*, Göttingen 1974. The interpretation did not stand the test of time. On the critical side, see Volker Hentschel, *Wirtschaft und Wirtschaftspolitik im wilhelminischen Deutschland. Organisierter Kapitalismus und Interventionsstaat?* Stuttgart 1978.

<sup>31</sup> On this subject see Werner Abelshäuser (ed.), *Die Weimarer Republik als Wohlfahrtsstaat. Zum Verhältnis von Wirtschafts- und Sozialpolitik in der Industriegesellschaft*, Stuttgart 1987.

that was in future organized on a parliamentary basis, such a change was out of the question. On the contrary, the very measures that came in for criticism were essential if civil strife was to be avoided, the nation's reparation obligations fulfilled, the aftermath of the recent war dealt with, and social equilibrium generally assured. The economic prosperity of the pre-1914 years had taken some of the tension out of relations between government and associations and limited the need for extensive political intervention. But in the complex circumstances buffeting the world economy during the inter-war period, and particularly during the years following 1923–24, the structural crisis affecting the economy and the need for increased governmental activity reciprocally reinforced each other. What had been tension exploded into open conflict. For business firms their profits, indeed their very survival was at stake, while the parliamentary system stood to lose its legitimacy and its capacity to act. Tussles over these questions determined relations between employer associations and government throughout the Weimar period. In the process, the concrete form of that tense relationship, evolving as a struggle over political decisions within a given political system, fluctuated according to the economic and political conditions under which it was fought. Its outcome was defeat for the associations and their destruction by a political force that of course no longer operated in a parliamentary manner.

A striking feature of the history of the Weimar Republic (which also, ironically, may well have helped to bring it down) was that it was both the child of (a) a deep political upheaval and the subsequent crisis and (b) the product of a relatively prosperous transitional economy. Not until 1922 did inflation unfold its catastrophic effects in Germany. Prior to that date, it facilitated an economic upswing unknown in other countries that had taken part in the war.<sup>32</sup> In that situation the ultimately disastrous practice became established of pacifying social and political conflicts as it were by monetary means. The trouble was, in the inflationary period this could be done in a comparatively consequence-free way; however, after the stabilization of the mark in 1924, it became problematic in every respect.<sup>33</sup>

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<sup>32</sup> Carl-Ludwig Holtfrerich, *Die deutsche Inflation 1914 bis 1923. Ursachen und Folgen in internationaler Perspektive*, Berlin 1980.

<sup>33</sup> Gerald D. Feldman (ed.), *Konsequenzen der Inflation*, Berlin, 1989.

A climate of political uncertainty in a setting of economic prosperity also determined how business associations behaved in the early years of the Weimar Republic. Initially, the chief task from their point of view was to prevent a radical transformation of the economy. For this reason there was a readiness both to work together with the SPD and the unions at the same time as making certain far-reaching material concessions. The Stinnes–Legien Agreement between industry and unions, signed in November 1918, was the fundamental (as well as symbolic, since it was so visible) marker of this development.<sup>34</sup> In essence it remained in force until 1922 and was thoroughly successful in warding off the efforts of the labor movement in the direction of socialization. However, there was a cost. For a time the larger associations, notably the RDI, put up with productivity and cost structures moving in opposite directions. This was largely obscured by inflation, of course. Only gradually did most firms become aware that productivity was declining steadily while the wages of industrial workers remained very much at pre-war levels. Civil service officers and white-collar staff on fixed salaries were among the losers of inflation, whereas for a long time shop-floor workers (partly because they were prepared to engage in open social conflict) were able at least to maintain what was admittedly not a very exalted standard of living. This disproportion between costs and output became more and more apparent from 1922 onward. Many employer associations and individual firms tried to claw back their concessions on working hours, particularly since the policy of concessions-making was largely dictated by Hugo Stinnes and certain other industrial giants who dominated the early years of the RDI. So 1922 saw the start of a growing process of dissolution of the compromise structure of the immediate post-war period. The actual collapse of the Central Working Committee (the *Zentralarbeitsgemeinschaft* set up under the Stinnes–Legien Agreement) and the termination of certain important compromises (working hours) by the employers led to a renewed radicalization of unions and workforces. This found expression in some major industrial clashes, notably in the first half of 1924. Yet it would be a travesty of the situation to blame it on any kind of deliber-

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<sup>34</sup>Gerald D. Feldman/Irmgard Steinisch, *Industrie und Gewerkschaften 1918–1924. Die überforderte Zentralarbeitsgemeinschaft*, Stuttgart 1985.



ate rollback strategy by businessmen and their associations. In fact, it was a matter of economic problems becoming more and more pressing. Stabilization of the currency revealed a disastrous state of affairs. Surplus capacity and overmanning plus low labor productivity added up to catastrophe on the business front. Poor sales opportunities ushered in a period of savage cost-cutting. Results varied from branch to branch, depending on the economic situation at the time. But the overall effect was to sabotage what was in any case only a superficial unity among employer associations.<sup>35</sup>

The very establishment of the RDI was marked by fierce controversy regarding what course the association should pursue.<sup>36</sup> Heavy industry managed to dominate for a while, but at no time did its superiority go unchallenged. Nor, initially, would the RDI in any way allow itself to be used as an anti-republic tool. The Kapp Putsch, for example, was sharply rejected by a large majority of associations and entrepreneurs, although heavy industry was only lukewarm in its opposition. The stabilization crisis inflicted further damage on employer-association unity. Here heavy industry took a hard line because of its precarious economic situation and drastic revolutionary experiences. It not only reorganized its plants economically but at the same time actively opposed the radical labor movement, not shying away from open conflict with regard to the newly created structures of collective labor law. The processing industries (chemicals, for instance, or electrical engineering) adopted a more conciliatory tone, which reflected not only the economically more favorable situation of the branches concerned but also their greater organizational and political flexibility. Carl Duisberg, managing director of Bayer as well as (from 1925) chairman of the supervisory council of IG Farben, had talked immediately after the outbreak of the post-war Revolution in terms of 'opportunistic adaptation', even becoming a member of the

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<sup>35</sup>On the early RDI, see Stephanie Wolff-Rohé, *Der Reichsverband der Deutschen Industrie 1919–1924/25*, Frankfurt a.M. 2001. On Stinnes, see Feldman, *Hugo Stinnes* (cf. note 8). On the struggles after 1921–22, see Werner Plumpe, *Betriebliche Mitbestimmung in der Weimarer Republik. Fallstudien zum Ruhrbergbau und zur Chemischen Industrie*, Munich 1999. See also Heinrich August Winkler, *Von der Revolution zur Stabilisierung. Arbeiter und Arbeiterbewegung 1918 bis 1924*, Berlin 1984.

<sup>36</sup>On this and what follows, see Wolff-Rohé, *Der Reichsverband* (see above, note 35).

Leverkusen Workers' and Soldiers' Soviet. Not that such greater flexibility meant anything like unconditional softness. Both Bayer (in 1921) and BASF (in 1924) fought heavy strike battles over the eight-hour working day. They survived—although in both cases the workforces were victorious.<sup>37</sup>

So it was more than just a sign that after the stabilization crisis ended in 1925 Carl Duisberg, a 'commonsense republican' who chaired the supervisory council of IG Farben, was elected president of the RDI in succession to Krupp director Kurt Sorge. By this time, it was clear that the RDI's core leadership was likewise prepared to take a moderate line. While confidently representing the interests of industry insofar as these could be formulated unanimously, it did so in harmony with government wishes and with the constitution of the Weimar Republic. The appointment of Ludwig Kastl as executive director of RDI was a further sign of the new spirit of cooperation. Associations representing heavy industry, together with some regional SMB associations (small- and medium-sized-business associations), continued to entertain massive anti-republican (and in particular anti-trade union) reservations. However, in the second half of the 1920s they could no longer muster a majority in the RDI.<sup>38</sup>

The economic situation was by no means straightforward. After some improvement in the latter half of 1924, as early as the end of 1925 it started to worsen again. Despite a reawakening mood of crisis, it was believed in 1925 (certainly at the head of the RDI) that the structural problems of the economic situation could be overcome only by government and unions pulling together. I cite two utterances to serve as examples here: the Dresden speech by deputy RDI chair Paul Silverberg, to which Reinhard Neebe paid extensive tribute a quarter of a century ago, and the RDI memorandum of December 1925, *Deutsche Wirtschafts- und Finanzpolitik*.

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<sup>37</sup> On Carl Duisberg, see the not uninformative but ultimately uncritical account provided by Hans Joachim Flechtner, *Carl Duisberg. Vom Chemiker zum Wirtschaftsführer*, Düsseldorf 1959. On the struggles in the chemical industry, see Plumpe, *Betriebliche Mitbestimmung* (cf. note 35). See also Dieter Schiffmann, *Von der Revolution zum Neunstundentag. Arbeit und Konflikt bei der BASF 1918–1924*, Frankfurt a.M. 1983.

<sup>38</sup> Ludwig Kastl, *Der Reichsverband der Deutschen Industrie*, in: BDI (ed.), *Der Weg zum Industriellen Spitzenverband*, Darmstadt 1956; Neebe, *Großindustrie, Staat und NSDAP* (see above, note 11).

Silverberg's Dresden speech of 1926 argued on the one hand for a firm policy of reorganization. It was a stance from which Silverberg (who in a way had taken on the Hugo Stinnes role after the latter's death) never wavered. On the contrary, he had gained something of a reputation as a full-scale 'agitator' in the industrial camp. But Silverberg also had a feeling for what was politically feasible, so in 1926 he championed a resumption of the kind of close cooperation with the unions that had briefly obtained in the days when Stinnes and Carl Legien had agreed their 'Central Working Committee'. Formally, that had been rejected by the unions, but during the stabilization crisis the hard line taken by heavy industry in particular had left the union side with little choice. Now that economic conditions had settled down somewhat, Silverberg was proposing what amounted to a revival of the Central Working Committee and closer collaboration with social democracy. It was indicative of a more cooperative approach among leading RDI figures—at least as regarded the more moderate wing of the labor movement, without whose assistance an active economic policy was scarcely imaginable. The speech was massively criticized by parts of the SMB sector and by individual representatives of heavy industry, but they failed to get their way within the RDI. Carl Duisberg demonstratively backed his deputy instead.<sup>39</sup>

The RDI memorandum of December 1925 had already struck the same tone: clear demands coupled with a moderate way of going about things.<sup>40</sup> A foreword explains the nature of the publication in language that cannot simply be dismissed as interest led. It is tendentious, certainly, and no secret is made of the interests it promotes. But the structural problems besetting the Weimar Republic were not an invention of the industrial sector, designed to push through specific special interests. They really existed. So in essence the RDI appeal was entirely justified. 'This memorandum is addressed to all sections of the population: manufacturers and consumers, workers and employers, governments, parliaments, and civic authorities. Our appeal is to all segments of society: please examine our proposals and give them their due. A critique of this kind can only help.

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<sup>39</sup> For greater detail on this subject, consult Neebe, *Großindustrie, Staat und NSDAP* (see above, note 11).

<sup>40</sup> Reichsverband der Deutschen Industrie, *Wirtschafts- und Finanzpolitik*, Berlin 1925.

That inevitably makes it desirable. Our memorandum will have done its job if what we propose forms the basis of an economic program to which all circles can give their backing. The times call for solidarity, not struggle!<sup>41</sup> There followed a relatively restrained depiction of the economic situation as the RDI saw it. The crisis-hit Republic was fighting on two fronts. There were problems left over from war and inflation: surplus capacity, a shortage of operating capital, and a comparatively low level of labor productivity. On the other hand, the German economy had lost its foreign assets and was finding it hard to re-access once-extensive foreign markets. And there were further difficulties. Saddled already with a balance of payments problem, the country must shoulder a substantial burden of reparations. It needed both a heftier export trade and improved economic exploitation of domestic production potential. Germany had too much capacity, so this must shrink. Structural problems were overlaid by other factors. Specifically, because of the government's high level of welfare spending its share of GNP had gone up from 14% to 30%. The burden on already weakened firms had more than doubled in comparison with pre-war years. Further burdens resulted from high interest on loans as well as from revaluation and rising transport costs. All these extras had driven production costs up to a level where the competitiveness of German industry was greatly diminished and lower-cost foreign goods were invading German markets. The incidence of bankruptcies (the memorandum noted) was going up sharply, agriculture was already deeply in debt, and unemployment was clearly on the rise. The RDI demanded massive savings by government authorities for a while and a reduction of all public spending by 20%. It also suggested a simpler tax system, efficiency-driven reform of the financial settlement between *Reich* and *Länder*, a serious slimming down of public administration, and the abolition of all remaining government regulation of the economy—'notably as regards housing'. The next step was to propose a major lowering of railway travel and postal charges. Regarding social expenditure, the RDI argued for checks on how well this was working, given that the aim was to prevent any decline in human self-reliance. Administration of all social spending must be tightened up. However, 'subject to these funda-

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<sup>41</sup> Reichsverband der Deutschen Industrie, *Wirtschafts- und Finanzpolitik* (cf. note 40), 5.

mental preconditions, we advocate an effective system of social welfare'.<sup>42</sup> In the matter of wages and working hours, the RDI favored getting away from mechanistic solutions. Wage growth should accord with growth in labor productivity, and the eight-hour-day principle should be applied flexibly in line with circumstances in the plant concerned. Moreover, the RDI supported targeted measures to restore the capital market and lower interest rates with the aim of giving firms greater scope. In essence, the RDI approved of the *Reichsbank's* credit policy, which restricted lending in the interests of stabilizing the currency and making reparations payments. However, within those limits it felt there was room for interest cuts. A key point following the country's recovery of export sovereignty was how to reshape German customs policy. The RDI expressly advocated lower tariff barriers, particularly in the European economic region, but at the same time it demanded that trade policy also be used to combat discrimination against German suppliers on foreign markets. Lastly, the memorandum examined in some detail questions of rationalization and the reform of German corporate structures. Here the RDI argued in favor of far-reaching rationalization measures, sensible formation of combines, and extending cartel structures to the international sphere, where unbridled competition had certain ruinous features.

However, the RDI's hopes of being able, with this program, to bring decisive influence to bear on the government's economic and financial policy did not come to fruition. The interim crisis of 1925–26 was quickly overcome, and the British miners' strike actually prompted a brief flowering of the Ruhr coal industry. The years 1927 and 1928 were good ones economically, giving government finances time to recover (and depriving the demands of industry of much of their urgency). Wages rose quite steeply, sometimes with the aid of government arbitration (public-sector incomes were boosted to above-average levels).<sup>43</sup> A broadening of the Weimar welfare state at national level (*Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversorgung*) was accompanied by a general expansion of so-called municipal socialism [*Kommunalsozialismus*], with the occasional

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<sup>42</sup> Reichsverband der Deutschen Industrie, *Wirtschafts- und Finanzpolitik* (cf. note 40), 18.

<sup>43</sup> On this subject, see Johannes Bähr, *Staatliche Schlichtung in der Weimarer Republik: Tarifpolitik, Korporatismus und industrieller Konflikt zwischen Inflation und Deflation 1919–1932*, Berlin 1989.

headline-grabbing project funded through foreign loans. With national economic activity ('cold socialization') continuing to increase, there was little sign of the Weimar government drawing in its horns.<sup>44</sup>

The RDI or rather its member associations and the firms they represented were more successful with regard to rationalization and concentration.<sup>45</sup> Here it was usually firms that spontaneously took the initiative—whether with the aim of improving production processes in order to bring down costs or using mergers and closures to eliminate capacity surpluses. In neither respect were they spectacularly successful. Heavy industry did achieve some excellent results by reorganizing its production processes. But while rationalization measures enabled almost the whole private sector to boost its productivity, most such successes had positive effects on capacity. It was not unusual for any rationalization gains to be swallowed up by the cost progression imposed by plants lying idle. On the other hand, the idea of amalgamating German steel manufacturers into one large combine and shutting down many of the less profitable steel-producing plants came to nothing as a result of the determination of Krupp, Mannesmann, Hoesch, Klöckner, and GHH [*Gutehoffnungshütte*] to remain independent. Despite much reorganization, there was still enormous overcapacity. By the end of the 1920s, the German steel industry was on its last legs.<sup>46</sup> In mining, the situation was much the same. Here too rationalization led to some big advances, but the nationally revived Rhenish-Westphalian Coal Syndicate [*Rheinisch-Westfälisches Kohlen-Syndikat* or RWKS] prevented the closure of the unproductive so-called marginal pits [*Grenzzechen*] that for labor-market and structural-policy reasons the government wished to retain. In the eyes

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<sup>44</sup>Carl Böhret, *Aktionen gegen die kalte Sozialisierung: Ein Beitrag zum Wirken ökonomischer Einflussverbände in der Weimarer Republik*, Berlin 1966.

<sup>45</sup>There is no general account of rationalization, but many studies of particular branches and individual firms exist. See Christian Kleinschmidt, *Rationalisierung als Unternehmensstrategie. Die Eisen- und Stahlindustrie des Ruhrgebiets zwischen Jahrhundertwende und Weltwirtschaftskrise*, Essen 1993; Thomas von Freyberg, *Industrielle Rationalisierung in der Weimarer Republik, untersucht an Beispielen aus dem Maschinenbau und der Elektroindustrie*, Frankfurt a.M. 1989; Jürgen Bönig, *Die Einführung von Fließbandarbeit in Deutschland bis 1933*, 2 vols., Münster 1993.

<sup>46</sup>Weisbrod, *Schwerindustrie in der Weimarer Republik* (see above, note 8); Alfred Reckendrees, *Das „Stahltrust“-Projekt. Die Gründung der Vereinigte Stahlwerke AG und ihre Unternehmensentwicklung 1926–1933/34*, Munich 2000; Kleinschmidt, *Rationalisierung als Unternehmensstrategie* (cf. note 45).

of the mining department of Vereinigte Stahlwerke, the fairly extensive productivity increases were absorbed by the cost share associated with the RWKS. The rest went to the workers and the government, or so thought the pit directors who thus saw themselves deprived of the success of their actions, notably since pressure of competition on sales markets prevented them from widening margins by selling larger quantities or putting prices up.<sup>47</sup>

In other areas, firms were in a better position—not least because of the consequences of rationalization and favorable market conditions. The German chemical combines and IG Farbenindustrie AG (est. 1925) rationalized successfully and targeted their expansion into producing synthetics—with, of course, disastrous consequences at a later date.<sup>48</sup> Electrical engineering enjoyed similarly favorable conditions in the mid-1920s, although the requisite expansion had to be financed by sizeable loans that in the world economic crisis brought AEG to the verge of bankruptcy.<sup>49</sup> In the chemical industry the joint wage-agreement system worked perfectly, whereas in electricity massive clashes occurred on a more frequent basis. Here most firms in the SMB sector in particular wished to go back to the system of individual wage settlements. They rejected compulsory government arbitration and the declaration of obligation.

The RDI was largely unsuccessful with its ideas overall, but for the time being its policies remained moderate.<sup>50</sup> Not even the 1928 ‘grand coalition’ government including the Social Democrats met with direct rejection among the RDI leadership. The same did not apply in the case of heavy industry and among small and medium-sized industrial firms. Heavy industry in particular wished to see its cost problems solved by an abolition of compulsory arbitration and declarations of obligation. The Ruhr iron and steel industry dispute (when a lock-out of workers in the autumn of 1928 sought to get an arbitration verdict annulled) deliber-

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<sup>47</sup>Werner Plumpe, *Betriebliche Mitbestimmung* (see above, note 35); Uwe Burghardt, *Die Mechanisierung des Ruhrbergbaus 1890–1930*, Munich 1995.

<sup>48</sup>Gottfried Plumpe, *Die I.G. Farbenindustrie AG 1904 bis 1945. Wirtschaft, Technik, Politik*, Berlin 1990.

<sup>49</sup>Heidrun Homburg, *Rationalisierung und Industriearbeit: Arbeitsmarkt, Management, Arbeiterschaft im Siemens-Konzern 1900–1933*, Berlin 1991.

<sup>50</sup>Neebe, *Großindustrie, Staat und NSDAP* (see above, note 11).

ately infringed a wage agreement. This may have earned a rebuke from the National Labour Court, but not one that amounted to a defeat for the employers. In fact, heavy industry saw the episode as confirming its harsh stance. During 1929 it recovered its influence in the associations. And the outbreak of the world economic crisis as well as the announcement of the reformist plans of Rudolf Hilferding, the Social Democrat Minister of Finance in the national government resulted in the RDI being pressured by that influence to sharpen its tone and openly oppose inclusion of the SPD in the grand coalition government.

That sharpening of tone found expression in the RDI's notorious *Rise or Fall?* memorandum of December 1929.<sup>51</sup> The foreword referred to the demands that had been voiced repeatedly since 1925 and which, had they been met, would without doubt (the RDI was sure of this) greatly have alleviated the country's economic problems. Yet the opposite had happened. 'The last few years have seen no shortage of well-founded proposals from other quarters as well. However, these warnings went unheeded. Instead, a policy was pursued that took no account of Germany's economic situation. Its effects can be seen in the huge disparity between productivity and profitability in the German economy on the one hand and the sums disbursed from public funds on the other.'<sup>52</sup> The markedly more aggressive tone of the comments that followed took on a distinctly anti-parliamentary note. A policy that was basically without principle shackled the progress of economic forces. 'Too much attention to party power has crippled the strength required to bring labor, interest rates, and government levies into a proper relationship. It was easier to allow excessive amounts of national income to be used for public purposes, to over-inflate the apparatus of administration, and to widen the reach of social welfare than to seek to lift living standards by harnessing the natural processes of economic development. As a result, internal political conflict, poor understanding, and inadequate courage have blocked the path to a strengthening of our economic circumstances. A regrettable lack of responsibility has left the people of this land uninformed as to

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<sup>51</sup> Reichsverband der Deutschen Industrie, *Aufstieg oder Niedergang? Deutsche Wirtschafts- und Finanzreform 1929. Eine Denkschrift des Reichsverbandes der Deutschen Industrie*, Berlin 1929.

<sup>52</sup> Reichsverband der Deutschen Industrie, *Aufstieg oder Niedergang?* (cf. note 51), 7.



what is truly necessary.<sup>53</sup> So it would be wrong to attribute this sharpening of tone purely to an increase (in certain respects) of the influence of heavy industry, particularly since within the RDI that increase was short-lived.<sup>54</sup> Instead, it was a dramatic worsening of the economic situation in the winter of 1929–30 that prompted the RDI to aver: ‘With wages, the national debt, and interest-rates all rising and profits in decline, boosting productivity is beginning to lose its point. The consequences of this development are unemployment, the collapse of many firms, a lack of sales, and a general sense of dissatisfaction bordering on apathy.’<sup>55</sup> With a crisis imminent, the association was not entirely wrong to assert: ‘The German economy is at a crossroads. If the government does not eventually manage to wrench the steering-wheel round and set our economic, financial, and social policy on a decisively new track, German business is doomed to decline.’<sup>56</sup> It was crucially important to restore firms to profitability, and that meant first and foremost changing the way wages were determined. Rationalization had reached an advanced stage. It was wrong (the new memorandum stated) to regard wages as simply a matter of demand, forgetting the cost side. ‘Excessive wage rises are paid for by other workers being thrown out of a job. An improved standard of living for the mass of the population is not achieved by artificially boosting income without an increase in productivity. It will flow only from increased capital formation and a restoration of profitability.’<sup>57</sup> That was the core of the RDI’s complaint against the politicians. The lack of a proper policy governing economic, financial, and social affairs was destroying corporate profitability and undermining the equilibrium of society. For that the RDI put forward five demands: (1) improved equity formation by firms and with it the clearing away of all obstacles to business activity; (2) government withdrawal from economic affairs, reducing state entrepreneurship to essentials (this must be coupled with the removal of what was left of government intervention on the economic front, notably in housing), as

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<sup>53</sup> Reichsverband der Deutschen Industrie, *Aufstieg oder Niedergang?* (cf. note 51), 6.

<sup>54</sup> On this debate, see Neebe, *Großindustrie, Staat und NSDAP* (see above, note 11).

<sup>55</sup> Reichsverband der Deutschen Industrie, *Aufstieg oder Niedergang?* (cf. note 51), 7.

<sup>56</sup> Reichsverband der Deutschen Industrie, *Aufstieg oder Niedergang?* (cf. note 51), 7.

<sup>57</sup> Reichsverband der Deutschen Industrie, *Aufstieg oder Niedergang?* (cf. note 51), 8.

well as from cartels; (3) a cap on social expenditure (this covered three aspects: first reforming unemployment insurance, notably by freezing the associated burdens it placed upon business, second ending compulsory government intervention in wage settlement, and thirdly restricting the declaration of obligation to wage agreements in essential areas); (4) shrinking government spending (which involved carrying out extensive administrative reforms, lowering corporate taxation, shifting the tax burden to indirect levies, and revising the financial settlement between central government [*Reich*], individual states [*Länder*], and municipalities [*Kommunen*] to take some of the weight off the latter); (5) last but not least, promoting exports, cultivating the capital market, and reducing public borrowing.

These demands were largely identical with those listed in the December 1925 memorandum—though with regard to social policy and labor-market policy the tone had become more strident. But what was most striking was that virtually the same demands were now being advanced with far greater urgency. There was an evident refusal to be palmed off with further parliamentary debates that led nowhere. The change of tone was undoubtedly dictated by heavy industry, which found itself in dire economic straits. However, now that the economic crisis had broken out not even the moderate leadership of the RDI shrank from using stronger language. Over the next few weeks, it collectively joined the chorus of voices casting doubt on the grand coalition. This was not, within the RDI, associated with heavy industry playing a dominant role. On the contrary, the organizational reforms carried out at the beginning of 1930 led to heavy industry being completely excluded from the new, smaller presidential council and banished to the new (and likewise smaller) senate. Moreover, against the declared wish of heavy industry the RDI and the Association of German Employers' Organizations (*Verein deutscher Arbeitgeberverbände* or VdA) proceeded in the spring of 1930 to conduct extensive exchanges with the unions. The unions brought no tangible results, but men like Duisberg, Kastl, and Silverberg defended them fiercely against criticism from heavy industry's representatives.<sup>58</sup>

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<sup>58</sup> Neebe, *Großindustrie, Staat und NSDAP* (see above, note 11).

The following years until Hitler became chancellor saw an industrial sector that was deeply divided and whose associations rarely spoke with one voice.<sup>59</sup> Heavy industry and parts of the SMB sector, driven by economic necessity on the one hand and their own anti-parliamentary feelings on the other, initially called for 'dictatorial democracy' [*Präsidentialdiktatur*]<sup>60</sup> on the part of their associations and subsequently (dissatisfied with Brüning's policy of toleration) opted for cooperation with the National Socialist German Workers' Party (*Nationalsozialistische Deutsche Arbeiterpartei* or NSDAP) before seeing possible salvation in Franz von Papen's *Präsidentialdiktatur*. But at the same time the RDI leadership pursued a course that basically relied on retaining a parliamentary republic. The RDI had certainly contributed to the fall of the Müller government, but it did not agree with Brüning's plans for a *Präsidentialdiktatur*. In June 1930, its preference (in line with ideas dating from the mid-1920s, according to which liberal capitalism required a social foundation) lay with another grand coalition. It did not want fresh elections, and even after the September elections in 1930 the RDI leadership continued to favor a grand coalition. In other words, this solution did not fail because of the RDI but because of Brüning's anti-parliamentary course. However, the latter was something the association could put up with, and for a time it gave Brüning its backing.<sup>61</sup> It was only Brüning's clumsy maneuvering in the summer of 1931 in connection with the 'second decree to secure the economy and financial affairs', the banking crisis that soon followed, the successive collapses of major German firms, and finally a dramatic worsening of Germany's foreign-trade position following the devaluation of the British pound on 29 September 1931 that turned the leaderships of certain employer associations against the chancellor. Brüning subsequently came in for extensive criticism even from branches of industry less seriously affected by the crisis. In a joint declaration dated 29 September 1931 seven leading German business associations repeated

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<sup>59</sup>Hak-le Kim, *Industrie, Staat und Wirtschaftspolitik. Die konjunkturpolitische Diskussion in der Endphase der Weimarer Republik 1930–1932/33*, Berlin 1997.

<sup>60</sup>*Präsidentialdiktatur*. Article § 48 of the Weimar Constitution allowed the president, under certain circumstances, to govern through presidential 'emergency decrees' without prior parliamentary consent.

<sup>61</sup>Grübler, *Die Spitzenverbände der Wirtschaft* (see above, note 12).

the RDI's core demands, this time with even greater emphasis: reduced government spending coupled with less bureaucracy, individual wage settlements (doing away with compulsory arbitration), and an end to government control of the economy, notably in housing. Yet this was no open declaration of hostilities against Brüning. True, shortly afterwards not only did certain high-profile champions of heavy industry refuse to join a new Brüning cabinet. Even Paul Silverberg, who as deputy chairman of the RDI had with Duisberg and Kastl crucially shaped RDI policy up until then, declined to accept a post when Brüning's inner circle felt that having the Rheinbraun chief on board would give them a better line to the so-called men from the West, the representatives of the Ruhr Heavy Industry.<sup>62</sup>

Quite unlike the Langnam Association and other organizations representing heavy industry, the RDI had no part in Brüning's downfall. Nevertheless, it did not actually criticize the von Papen chancellorship. The man did look like delivering what industry had long been calling for.<sup>63</sup> Von Papen was above all the ideal candidate of the vast majority of heavy industry, which was disinclined to support Hitler. The chemical industry, too, of which Brüning had been openly critical at the last, backed von Papen's restrictive course when it came to dismantling the Weimar welfare state. But there was no mistaking the fact that von Papen's course was a shaky one. Certainly, his positively exceptional parliamentary failure confirmed the view of Silverberg and Kastl (no less!) that without a proper basis in parliament and society even a pro-capitalist policy would prove impossible in the long run. Silverberg accordingly gave his backing to the attempt by Schleicher to make a stronger case on the floor of the *Reichstag* and gain a broad foundation (drawing in the NSDAP) for the kinds of 'reform' that industry wanted. The fall of Brüning occurred against the RDI's wishes. It was only after Hitler became chancellor (and then under coercion) that the RDI could be persuaded to bow to the anti-parliamentarian, anti-republican approach of large parts of heavy industry.<sup>64</sup>

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<sup>62</sup> Neebe, *Großindustrie, Staat und NSDAP* (see above, note 11).

<sup>63</sup> On the stance of the large-scale chemical industry, see also Plumpe, *Die IG Farbenindustrie AG* (see above, note 48).

<sup>64</sup> Neebe, *Großindustrie, Staat und NSDAP* (see above, note 11).

Summarizing how we should interpret relations between national government and the employer associations during the Weimar Republic is no easy task. The history of the employers' organizations over that period has been comparatively well researched. Government economic policy at the time has also been thoroughly discussed. But precisely this huge interest on the part of researchers has led to a surplus of interpretation that needs, in a manner of speaking, to be cleared away first. In this area, individual events are often less in dispute than the narrative linking those events. Moreover, the earlier literature (particularly of the 1970s and 1980s) is inclined to make too much of those organizations, tending to overstate their unity and what they were capable of achieving. At the same time it puts too high a value on their influence as regards political decision-making, notably during the world economic crisis. Above all, the associations are often seen as political agents whose actions were prompted by ideological motives on the part of their leaders, whereas the economic situations out of which such actions sprang were seldom straightforward in nature. My own interpretation, basically, is that relations among government, employers, and associations in the years following 1918 were determined by two essential factors:

1. After 1918, the role played by the German government in the economic sphere expanded rapidly. In the first place central government commanded nearly one-third of total economic resources, as against 14% before the war. It therefore intervened directly in the economy (albeit in a different way than prior to 1914), starting with its socialization laws to extend social security and unemployment insurance—to the point of what came to be known as 'municipal socialism' and the actual abolition of the private housing market. That expansion not only narrowed the potential scope of many businesses; it also (through national and municipal enterprises) placed the government in direct competition with them. Moreover, the government fundamentally changed the way the labor market operated. Before the war, the labor market had been characterized by free price formation, but under revolutionary pressure this system was replaced by collective, legally binding wage agreements guaranteed at national level. The government was now a direct player in the labor market.

2. In 1914 German industry, strongly oriented toward the export trade, lost its international markets. The resultant structural overcapacity was obscured by the wartime economy and inflation, but after 1924 it asserted itself as a key element in the structural problems besetting the Weimar Republic. The domestic market offered no compensation, and re-accessing world markets proved difficult. Capacity surpluses, sales problems, and correspondingly low returns came to dominate the situation in many firms. And while returns were low, costs were relatively high. The fact was, during the war and the inflation of the early 1920s employment stood at a high level while from 1919 wages remained comparatively stable. Over-employment, low productivity, relatively high wage bills, and a much-increased contributions burden remained tolerable during the inflationary period, but after 1923–24 the great mass of firms faced an enormous cost problem. Capacity surpluses, declining margins, and a consequent collapse in investment activity crippled the development of many firms during the Weimar years.

This underlying situation bore on relations between central government and business associations—but of course under conditions that differed in each case. Those varying conditions were closely connected with the current state of the economy. However, they also reflected the political climate at the time as well as the degree and intensity of political debate. During the world economic crisis the situation was correspondingly grave. Modernization of economic and financial policy through parliamentary channels looked like being difficult to achieve, so from early on some industrialists favored the presidential system, although this was a course the RDI at least had not vigorously pursued. Yet from 1930 (once it was in place), relatively high hopes were placed in the Brüning government. And slowly, as it became obvious that a reorganization of the economy in line with the thinking of certain circles (notably in heavy industry and smaller metal-processing firms) was not going to be implemented by parliamentary means, an anti-parliamentary downward spiral began. However, any such ‘thinking’, seen as a specific body of ideas, should not be exaggerated. At no time during the world economic crisis did employer associations and chambers of commerce agree on a positive program to combat the crisis. There was simply a kind of negative con-

sensus regarding central government budgets and the wage-agreement system.

German business and business associations cannot be said to bear direct responsibility for the collapse of the Weimar Republic. The crisis was too severe for that. Indeed, the dimensions of that crisis can scarcely be imagined in retrospect. Not without reason did Hans Rosenberg speak of a full-scale 'crisis neurosis' spreading throughout Germany. The significance of the political confrontation that had been worsening since 1930 stood out like a house on fire, as highlighted by Dirk Blasius.<sup>65</sup> Nevertheless, the anti-parliamentary fervor contained in some of the statements of business associations and individual industrialists ought not to be explained overhastily as reflecting a specific political culture. Wolfgang Schivelbusch points out that the technocratic, anti-liberal feasibility craze that sought to 'emancipate' itself from the imponderables of parliamentarism was a widespread reaction to the selfsame crisis as liberal thinking had undergone during the second half of the 1920s in such different countries as Italy, Germany, and the USA.<sup>66</sup>

The works of Henry A. Turner had already qualified the part played by industrialists in the rise of the NSDAP. Their general conduct in the crisis also needs to be viewed more objectively. The associations always took account, in their efforts to promote the interests of industry, of the economic situation and political balance of power at the time. Just as they had supported the Weimar Republic initially and helped it to find its feet, so in the world economic crisis they adopted an oppositional stance when the parliamentary system did not lend itself immediately to providing what industry (and the real or supposed requirements of the economy) expected of it. In the end, the crisis proved too much for them. They failed to devise and implement a consistent program to deal with it, regardless of whether a parliamentary majority could be assembled to back that program. The business community and specifically the leaders of its associations were not 'democrats' in the sense in which we understand the term today, but neither were Heinrich Brüning and most

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<sup>65</sup>The wholly political dynamic of Germany's road to catastrophe is described in vivid terms in Dirk Blasius, *Weimars Ende. Bürgerkrieg und Politik 1930–1933*, Göttingen 2005.

<sup>66</sup>Wolfgang Schivelbusch, *Entfernte Verwandtschaft. Faschismus, Nationalsozialismus, New Deal 1933–1939*, Munich 2005.

politicians active after 1930—they even less so. Ultimately, it was not the politics of self-interest that brought the Weimar Republic down. It was the economic catastrophe of the years following 1929 and the fact that it fostered a political radicalization that led to the orgy of self-destruction that was the ‘civil war’ and ended in Armageddon.



# 9

## The Economic and Corporate History of Nazism: Reflections from the Perspective of Systems Theory

Essentially, the economic and corporate history of the years 1933–45 can be described as an attempt to solve a coordination problem created by National Socialism's desire to control society, meaning all its subsystems (and society as a whole) are in line with political decision-making. As such, the political elite not only laid claim to a primacy of control but also supposed itself capable of effectively living out this primacy. It was practically part of how the Third Reich saw itself that it ascribed to itself

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*First Publication:* Werner Plumpe, 'Steuerungsprobleme', in *der Wirtschafts- und Unternehmensgeschichte des Nationalsozialismus*, in: Gerd Bender/Rainer Maria Kiesow/Dieter Simon (eds), *Die andere Seite des Wirtschaftsrechts. Steuerung in Diktaturen des 20. Jahrhunderts*. Frankfurt a.M. 2006, 19–30. Principally on this topic: Niklas Luhmann, *Theory of Society*, 2 vols., Stanford 1997. Also Niklas Luhmann, *Die Wirtschaft der Gesellschaft*, Frankfurt a.M. 1988; and Niklas Luhmann, *Die Politik der Gesellschaft*, Frankfurt a.M. 2000. Important in parts Niklas Luhmann, *Organisation und Entscheidung*, Opladen 2000. Relevant in terms of the title, factually unusable Michael von Prollius, *Das Wirtschaftssystem der Nationalsozialisten, 1933–1939. Steuerung durch emergente Organisation und politische Prozesse*, Paderborn 2003. In other respects, the following reflections have been penned by an economic historian who draws on ideas from Luhmann's systems theory but is solely responsible for the resulting product. He does not seek to render a contribution to systems theory but is simply interested in using relevant considerations in *investigating the historiographic plausibility* of the years between 1933 and 1945. Helpful Gerd Bender/Rainer Maria Kiesow/Dieter Simon (eds), *Das Europa der Diktatur. Steuerung—Wirtschaft—Recht*, Baden-Baden 2002.

the ability and power to control society in a precise way, whereas the Nazis accused the ‘talking-shop parliamentarianism of the System Time’ precisely of lacking such skills. Consequently, people did not consider the limits of controllability to have been reached in the problems of control that suddenly emerged after the Nazis seized power, but had to see the inefficiencies in control as correctable errors of politics (lack of information, bad planning, the wrong tools, personal failures, coincidence) and portray them such that they could be remedied by new people at the helm and reorganization. In this light, Nazi polycracy was not the result of the paladins competing for their respective position of power,<sup>1</sup> but an inevitable consequence of the contradiction between the claim to control and the ability to control, which was kept under wraps by constant reorganization and reappointment of key decision-makers, indeed, otherwise they clearly would have had to square up to the actual limits of the dictatorship.

Thus, in this analysis, the coordination problem rightly emphasized by Hansjörg Siegenthaler is considered the self-generated fundamental dilemma of the dictatorship, namely having to maintain the illusion that the social subsystems could be controlled and that society could be by one of these subsystems, namely politics, given the simultaneous de facto uncontrollability of society. In the context of economic history, this dilemma took the following form: in case of doubt, Germany’s economic resources had to be expanded and bundled for re-armament and war even against the will of the companies that owned them, in line with national requirements. Essentially, the dictatorial state had to ensure that the companies did something they had not been voluntarily willing to do before 1933, namely orient investment and production-related decisions to the needs of armament and war. The question is now how the dictatorial state managed to get the companies to do what it wanted.

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<sup>1</sup> Something like this may undoubtedly always play a role in some aspects, but is by no means causative for the problem under discussion here. In general, organizations treat their management problems as HR or organizational problems or are forced to relinquish their claim to management. To go by the control legend, in cases of doubt it is the bad character of the employees selected for the task that is responsible for nothing working. In this context, we can also perceive that a contradiction between intentionalists and structuralists not only does not exist, but also that both positions are mutually dependent: precisely the desire for intentional control led to a polycratic organization!

First, the basic problem arose that the secret to efficiency in modern societies lies precisely in the politics and the economy mutually respecting the other's autonomous functional logic. Efficient economic management is consequently impossible. After all the dictatorship accepted this dilemma in a certain way, given that as early as 1933 and 1934 all Nazi experiments in the business world were discontinued and private ownership and decentralized decision-making structures fundamentally accepted. Instead, as of 1934, a process of experimentation set in, one that essentially lasted until the end of the War, in which ever new institutional arrangements were intended to deal with the control dilemma, without a satisfactory institutional solution to the control problem ever being found. Here, we must note, however, that a fundamental solution was not even possible. It was not errors in planning and organization, as is still far too often assumed in literature (which likes to proffer evidence of the stupidity and wickedness of Nazi Party members), but basic dilemmas that made an efficient institutional solution to the control problem impossible; indeed, central control and an efficiency that could only be achieved decentrally were mutually exclusive. From 1934 at the latest decision-makers started improvising more and more, without actually being able to admit to it however. The history of the attempts to find an institutional solution, from Schacht's New Plan to the numerous proxies, the Four Year Plan, and finally the various pillars of the wartime economy and Speer's Ministry of Armaments and War Production, which championed the integration of decentralized decision-makers, reflects the problem addressed here.

Although in a modern society, which Germany indeed was before 1933, politics and economy are fundamentally distinct and can at best irritate each other with their individual functional logic, the issue of control manifested itself not just as the problem of creating the correct institutions of state control. The dictatorial state not only had to create suitable control institutions (a task in which it obviously failed) but also had to arrange programs for these institutions (the New Plan, foreign exchange controls, Four Year Plan, armaments programs, individual wartime programs, and so on) and finally keep the means available with which these programs could be effectively brought to bear with respect to the private economy, which was indeed still based on decentralized

decision-making. Research by economic historians in this area has been able to clearly show by way of case studies that the state did not really succeed in this either.<sup>2</sup> From Petzina's study of the functionality of the Four Year Plan to Budraß's comprehensive work on the functionality of German air armaments, all the relevant articles highlight the problem of inconsistent programs, frequent changes of program, strongly fluctuating staff and recurrent failures.<sup>3</sup>

The question that now arises however is why, despite such (and I would say unavoidable) shortcomings, the German armaments and wartime economy was still functional to a degree, enabled a highly impressive armament process and ultimately during the War was able to significantly boost output even further. There is no simple answer. According to my theory, Nazism achieved these results by combining widely varying programs and widely varying 'means of control', with which it succeeded in influencing companies' decision-making programs.

Thanks to research in economic history, we are nowadays well informed about the control problems of politics, as outlined above. Yet for all the inefficiencies, the institutions and programs were sufficient to have a lasting influence on companies' investment and production behavior. In order to make these relative successes transparent, we first need to briefly outline corporate decision-making processes and then ask to what extent political influences can take effect within this framework. Only then is it worth taking a closer look at politics' use of 'means of control'.

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<sup>2</sup>And, it should be added, was not able to succeed at all. A clear indication of this inability is the problem, recently demonstrated by Adam Tooze, of being able to statistically document complex production processes at all; see J. Adam Tooze, *Statistics and the German State, 1900–1945. The Making of Modern Economic Knowledge*, Cambridge 2001.

<sup>3</sup>Georg Thomas, *Geschichte der deutschen Wehr- und Rüstungswirtschaft (1918–1943/1945)*, Boppard 1966. Dietmar Petzina, *Autarkiepolitik im Dritten Reich. Der nationalsozialistische Vierjahresplan*, Stuttgart 1968. Fritz Blaich, *Wirtschaft und Rüstung im 'Dritten Reich'*, Düsseldorf 1987. Willi A. Boelcke, *Die deutsche Wirtschaft 1930–1945. Interna des Reichswirtschaftsministeriums*, Düsseldorf 1983. Ludolf Herbst, *Der Totale Krieg und die Ordnung der Wirtschaft. Die Kriegswirtschaft im Spannungsfeld von Politik, Ideologie und Propaganda*, Stuttgart 1982. Lutz Budraß, *Flugzeugindustrie und Luftrüstung in Deutschland 1918–1945*, Düsseldorf 1998. Like the Nazis, who overestimated their own reach, Marxist historians also tend to overestimate the dictatorship's control efficiency, perhaps because indeed in East Germany the state leadership likewise claimed to have 'society' under control. On the Marxist economic historiography of Nazism, see Dietrich Eichholtz, *Geschichte der deutschen Kriegswirtschaft*, 3 vols., Berlin 1969–1996.

Companies make decisions (as part of self-survival) on the basis of internal monitoring of their own operations and external monitoring of the market, with the latter naturally also taking place within the company. Key decision-making parameters are internally generated price signals and price-coded future expectation programs. After all, companies can only monitor both themselves and their market environment by means of price perceptions they have updated themselves; all relevant information must be available as price information at one and the same time.<sup>4</sup> Consequently, companies' decision-making programs are based on the exploitation of expected price differences. However, as these are not always clear-cut, additional aspects are considered in line with the company's internal communications processes in order to be able to use them to internally model future price differences (that is market opportunities). These are in particular the legal structure of markets, the political structuring of markets, and finally the assumed expectation of the markets toward the company's own products. After all, in a very general sense, companies always also perceive themselves as part of the society around them, and although they cannot influence its appearance, they still have to take its expectations into account. Nevertheless, as a result of all these factors, what is key is that a company can base its decisions on future positive price expectations. To influence (or in the language of systems theory, irritate) a company whose decision-making autonomy one fundamentally respects from the outside, it is obviously necessary to influence those decision-making parameters used internally to make decisions (and then to hope that the impulses are internally perceived in the way they were externally intended<sup>5</sup>). It is clear that positive decisions in the sense of political guidelines are always linked to positive price expectations—or physical force must be applied. Legal and other media

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<sup>4</sup>The radical nature of this statement may seem strange, but is plausible upon brief reflection: Engineers may see technical achievements in automobiles; companies must sell them. In this respect, it is also only those cars that are made which we can assume will find a market at a suitable price. Incidentally, the fact that one does not know the relative prices of the future when making decisions in the present and has to simulate them is one of the main problems of corporate decision-making, namely having to feign confidence in decision-making where it de facto doesn't exist.

<sup>5</sup>Another important point that can only be implied here. Companies operate exclusively with self-generated 'information'; thus, in the self-production of communications, they can be irritated from the outside but not determined!

may be employed to seek to prevent undesired developments. Positive irritation presupposes positive incentives in the sense that they are perceived as positive incentives also internally such that corresponding decisions are made.<sup>6</sup>

The question is now, which ‘means of control’ the political system had at its disposal between 1933 and 1945 to influence the behavior of companies qua the decentral decision-makers of the economic system. Essentially, and this has been noted several times, control is not possible in modern societies with functionally distinct and autonomously operating subsystems, but what does exist is a thoroughly useful structural linkage of the subsystems<sup>7</sup> and as such mutual irritability. The irritation (influence) occurs primarily via communication media,<sup>8</sup> in other words media whose use, in this case by political players, makes desired linkups, such as by the companies, more probable. The media in question here are:

- (a) Communication of values/public opinion;
- (b) Power/coercion;
- (c) Law;
- (d) Money.

The impact of the media is however subject to peculiar restrictions. We can say that in general media impact decreases reciprocally and proportional to its use. Propaganda wears out, power breaks up and loses credibility, the law gets caught up in performative contradictions, and money depreciates. The political system that seeks to enforce its own decisions

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<sup>6</sup> On the decision-making process, see now Werner Plumpe, *Perspektiven der Unternehmensgeschichte*, in: Günther Schulz et al. (eds), *Sozial- und Wirtschaftsgeschichte. Arbeitsgebiete—Probleme—Perspektiven*. 100 Jahre Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte (VSWG-Beihefte 169), Stuttgart 2004, 403–26 and the literature sources it cites.

<sup>7</sup> Structural coupling means that each of the subsystems has to presuppose the other subsystems, but without being able to manage them in the sense of their own functional requirements. Markets presuppose a functional law, thus are structurally coupled with it, without being able to control its method of functioning in line with its own operations (i.e. via price signals and payments). Luhmann aptly alluded to this relationship elsewhere saying that you don’t get well when you pay the doctor’s bills!

<sup>8</sup> On communication media and their significance in-depth Luhmann, *Theory of Society* (see note *First Publication*: Werner Plumpe...), Ch. 2. On power Luhmann, *Die Politik der Gesellschaft* (see note *First Publication*: Werner Plumpe...), 18–68.

on the use of these media must expect this peculiarity of communication media, and it seems as though the Nazis identified the problem of inflation innate in the use of the medium of money at least with its ‘covert financing of armaments and war’—and deferred it to the post-war period! In the area of propaganda and the law on the other hand, an expansion took place that ultimately undermined the law as a means of control, as no one knew any longer which regulation by which special agent had just been confirmed, annulled, or changed by ‘order of the Führer’. A similar process of wear and tear characterized the mobilization of public opinion, which was obviously always successful when real successes could be seen (Olympic Games, early war successes), but which already lost significance in its routine in the prewar period (such as listening to Hitler’s speeches together, the credibility of the *Völkischer Beobachter* newspaper or the reputation of the numerous key publicly staged Nazi figures, more or less all of whom except Hitler ultimately became the subject of mockery). The use of power and coercion must be judged very differently. It was consistently highly effective in persecuting political opponents and pursuing the regime’s racist goals, especially as the Nazis’ use of power was subject to no constitutional controls whatsoever. In the economic sector, the use of force was evidently rather rare, indeed, they could beat up a communist, deport or murder a Jew, but productivity did not increase on command.

The Nazis made intensive use of all four communication media under discussion here in different ways.<sup>9</sup> Their effectiveness however was not something that politics was really able to control, as the media frequently only had an impact in combination, in entirely different situations and in part only gradually, and sometimes also depended on coincidences, among other things. Given this not precisely controllable impact of the media together with the increasing real economic problems<sup>10</sup> (incidentally

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<sup>9</sup>No itemization shall follow, as this would go beyond the scope of this chapter. See on this first Werner Plumpe, *Unternehmen im Nationalsozialismus—Eine Zwischenbilanz*, in: Werner Abelshäuser/Jan-Otmar Hesse/Werner Plumpe (eds), *Wirtschaftsordnung, Staat und Unternehmen. Neue Forschungen zur Wirtschaftsgeschichte des Nationalsozialismus*. Festschrift für Dietmar Petzina zum 65. Geburtstag, Essen 2004, 243–66. For an English version of this article, see the essay 5. *Business and industry under National Socialism—an interim report* in this book.

<sup>10</sup>As of 1934 and the nascent shortages of raw materials and foreign currency, the self-generated economic problems continually increased. See Christoph Buchheim, *Zur Natur des*

mostly self-generated), from 1934 at the latest an approach to media usage emerged that the Nazis themselves termed 'reckless' and which led to the inflationary use of the media. As a result, pressure exerted by the problem increased and the impact of the media continued to fall—a mutually reinforcing downward spiral began that, we must not forget, nonetheless still saw 'successes'. For essentially Nazism ruined the German economy and the majority of its companies in order to parasitically inflate the armaments and war economy on a gigantic scale.

Gradually however: (a) the regime governed public opinion and clear preferences for desirable behavior were stated. These public expectations had knock-on effects in the other subsystems of society, even if the effects themselves fluctuated. There were high points of the regime's public image, there were setbacks, there were signs of wear, and eventually there was also aversion. Whereas the Nazis were thoroughly successful in eliminating the 'disgrace of Versailles', for example, there was always something staged about anti-Semitism (at least in its brutal forms). At any rate, the necessary propaganda effort continually increased in order to achieve the desired effects. (b) Power was, as mentioned above, used brutally and unconditionally in political issues, but seemingly not in a uniform, planned way when it came to the economy. It was sometimes exerted against individuals, who were made responsible for the failure of desired developments, sometimes it was directed against politically or racially undesired people (first communists and social democrats were ousted from politics, then Jews from the economy). In this respect, the companies were aware that the Nazis used unrestrained force. However, power communication has the problem that the coerced services are expensive and presuppose great competence, as someone has to be forced 'to do something'. Research on power has clearly shown this: power is more effective the less it is needed and more effective the simpler the cause-and-effect relationship to be forced. Thus, the direct use of power is actually rather rare in economic management after 1933; there is evidence of it, but in particular it loomed over the economy as a permanent

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*Wirtschaftsaufschwunges in der NS-Zeit*, in: Christoph Buchheim/Harold James/Michael Hutter (eds), *Zerrissene Zwischenkriegszeit*. Knut Borchardt zum 65. Geburtstag, Baden-Baden 1994, 97–119.



threat, especially as everyone was aware of the Nazis' unrestrained use of violence. (c) The medium of the law, naturally also sanctioned with the threat of force, tended rather to be used to decisively change rights of ownership and disposal, namely in a way that on the one hand overrode markets and on the other directly intervened in companies' private decision-making autonomy. Research in economic history has presented extensive findings on the impact of legal interventions, for instance in the area of labor market organization, raw materials supply, distribution channels, investment decisions, and finally the war economy. As early as 1937–38 the labor market was no longer free. Indeed, at this time, procurement and sales markets were already highly regulated; free production was only still possible in niche areas. Owing to the availability of resources, investment decisions were greatly limited and the German Army enjoyed legal privileges, having as it did a monopoly on demand. Company boundaries were in part even questioned owing to the decrees on compulsory cartels; now at least the state had the right to directly intervene in company management. Yet the problem of using the law for the purpose of day-to-day control of the economy was first and foremost its tendency toward performative self-contradiction, which became increasingly obvious from 1936 onward, especially as the medium of the law itself was fraying. From Hitler's personal orders to regular laws to the directives of the numerous officials and representatives, there was a 'colorful bouquet' of no longer rationally predictable legislative authorities. The perversion of the law in the economy was therefore not a consequence of it being disregarded, but of its inflationary use. (d) As such, use of the medium of money was arguably the most effective, the main threat to which, inflation, was made politically invisible. Given that ultimately the state controlled up to 70% of business transactions (measured in the state's share of gross domestic product) and the corresponding payment flows, it was the *de facto* price-setting authority—and people knew that companies have to manage themselves by way of price observation! As procurement market controller (the state determined the availability and price of raw materials and semi-finished goods) and *de facto* monopsonist, the state had all-round powers in price setting, of which it now made immense use in order to reward desirable behavior by companies. Whereas the other means primarily served to prevent undesired behavior

and only to a very limited extent as a positive incentive for action, price privileges for armaments and war production, from investment financing to final production, became the actual trademark of Nazi economic control, the detailed areas of which were always controversial. Yet in principle it was clear from the start that affected companies that went along with armaments and war production would benefit, at least in the short term, whereas those that distanced themselves from armaments and war production would suffer a loss of reputation, possibly forced intervention in company management, legal consequences, and ultimately exclusion from access to raw materials and labor. It was thus the combined effect of these communication media and their expansion as time went on that drove company decision-making processes. These shifts in companies' decision-making environment<sup>11</sup> also explain why they clung onto armaments production for so long. The relevant research has clearly shown that companies that wanted to survive Nazism ultimately had no choice on the horizon of their own decision-making than to be 'vital to the war effort' if they were to avoid being denied access to raw materials and closure.<sup>12</sup>

The combined effect of these media was perhaps the most drastic where companies were ultimately willing to break the rules of all moral standards, in the 'dejudaization' of the German economy, especially in the displacement of Jews from management positions in large companies, in which prior to 1933 they had in part played a significant role owing to autonomous company decision-making. After 30 January 1933, companies had no objective reason to revise their decisions from the period before January 1933, but the majority of them did until 1938, some of them willingly, some hesitantly, because they were threatened with anything from public denunciation to a boycott, because in part Jewish entrepreneurs or managers had reason to fear for their lives and limbs, because the legal status of 'Jewish' companies had increasingly worsened, because 'Jewish' firms were excluded from public contracts, and so on. In

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<sup>11</sup> Please excuse this untidy formulation. It is intended to convey that each individual decision-making process in any company had to take place in a changed climate of self-observation, which for its part in turn had consequences for the respective decision-making agenda.

<sup>12</sup> This 'rational' view is not intended, however, to contest companies' willingness to support Nazism for political reasons, which merits further investigation in each case.

this way, firms were forced to make decisions they would not have made under the free conditions of the Weimar Republic; on the contrary, under the conditions of the Weimar Republic, most (large) German companies naturally appointed Jews to their management and supervisory boards!

Exerting an influence on the composition of company management and the workforce is relatively easy; it becomes more difficult when complex organizational, investment, and production decisions need to be uniformly managed. Here, incentives and disincentives need to be generated that lead to desired behavior as an intentional achievement of the companies themselves. Evidently, Nazism succeeded in this wherever it was able to combine 'extreme' incentives with harsh restrictions, particularly in aircraft construction, indeed the largest German industrial sector, in large parts of the capital goods industry, which was important for armaments production, and partly in the chemicals industry. The consumer goods industry in contrast was above all subject to restrictions, was neglected, and ultimately dried up, giving something of desperation to some efforts to achieve the status of 'vital to the war effort'.

In conclusion, it remains to be noted that with its armaments and war program, the Third Reich created a coordination problem it was unable to solve, given that, for whatever reasons, it essentially did not encroach on companies' autonomy (and as such the economy's own logic). It sought to remedy this self-created dilemma, which grew continually larger in the following years as a result of the Third Reich's control efforts, by resorting to the increasingly 'reckless' use of control media designed to prevent undesired conduct and reward desirable conduct. In this way, Nazism drastically altered the environment for firms' decision-making. Whereas normally this related to price-coded market observation, successively decisions (and expectations) no longer depended on market signals, but on political directives, which took the shape of price differences. Firms' monitoring in and of markets faltered and forcibly led to changes in behavior, although they knew that this form of 'controlled economy' would not last and nothing comparable existed abroad either (the Soviet Union aside). However, given that a company cannot simply suspend its decision-making processes as it wishes and wait for better days, decisions after 1933 had to be made under the changed conditions.

The Third Reich was a disaster for the German economy and its development, as in terms of its approach it aspired to create a situation of parasitic expansion of armaments and war production on a gigantic scale. However, as for the most part the German economy and its enterprises were not voluntarily willing to pursue this goal (otherwise they would have long since done so), they had to be forced to do so. Yet given that state economic management would have produced inefficiencies en gros, Nazism sought to combine state control and commercial efficiency and to control commercial development by means of incentives and disincentives, force, and money. It succeeded in this, not least owing to a degree of ‘recklessness’ that was disastrous for the overall economy, because companies were ultimately unable to evade the changed decision-making environments.

Nazism did not create its own economic order, let alone its own economic system, that no longer functioned according to prices and payments, but political directives. With 8 May 1945 the episode abruptly ended! Yet Nazism was sufficiently ruthless to pervert pricing and payment processes in such a way that companies’ decision-making and expectation-formation processes changed. Numerous company studies have explained in detail how this worked and will continue to do so. Yet the overall connection seems obvious: although the Third Reich was unable to control the German economy and its enterprises as it had imagined, what it did succeed to pervert these in the short term on a gigantic scale, requiring neither expropriation nor a direct state-controlled economy. The willingness to engage in the ‘reckless’ use of political means was sufficient—something Nazism by no means shied away from, as is well known.

# 10

## Germany as an Industrial Country 1945–2008

### A Country Undergoing Structural Change

Measured against every important parameter, the present-day German Federal Republic is no longer an industrialized country in the classic sense.<sup>1</sup> Its industrial sector neither creates the largest amount of

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*First Publication:* Werner Plumpe, *Industrieland Deutschland 1945–2008*, in: Hans-Peter Schwarz (ed.), *Die Bundesrepublik Deutschland. Eine Bilanz nach 60 Jahren*, Böhlau Verlag, Cologne 2008, 379–404.

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<sup>1</sup>The economic history of the German Federal Republic is familiar in its broad outlines, even if developments since the 1970s in particular still call for thorough research by economic historians. Some general surveys are: Werner Abelshauser, *Deutsche Wirtschaftsgeschichte seit 1945*, Munich 2004; Harm G. Schröter, *Von der Teilung zur Wiedervereinigung (1945–2004)*, in: Michael North (ed.), *Deutsche Wirtschaftsgeschichte. Ein Jahrtausend im Überblick*, 2nd revised and enlarged edition, Munich 2005, 356–426; Ludger Lindlar, *Das missverstandene Wirtschaftswunder. Westdeutschland und die westeuropäische Nachkriegsprosperität*, Tübingen 1997; Herbert Giersch/Karlheinz Paquet/Holger Schmieding, *The Fading Miracle. Four decades of Market Economy in Germany*, Cambridge 1992. On the economic history of East Germany, see André Steiner, *Von Plan zu Plan. Eine Wirtschaftsgeschichte der DDR*, Munich 2004. On social change generally, see Andreas Rödder, *Die Bundesrepublik Deutschland 1969–1990*, Munich 2003. The present piece focuses on the economic history of the former West Germany, alluding only briefly to developments in the GDR.

value nor does that sector employ a substantial part of the working population. Only decades earlier the situation had been entirely different. Around 1960 almost half the workforce of the former West Germany worked in industry, and the sector's share of value creation was similarly high. So not only is the economic history of modern Germany (all things considered) an economic success story; it is also to a very large extent characterized by structural change. Such change has altered the appearance of the German economy substantially. The former East Germany (GDR) went through the same change with a certain delay. Basically, it was not until the collapse of Communism in 1989 and the country's subsequent integration in the world economy that the dominance of an already decaying industrial sector came to an end. A process that the former West Germany had had decades to digest was performed almost in time-lapse in the Länder reincorporated after reunification. As a result, structural economic change and the de-industrialization that went with it affected the East far more dramatically than the West—although there too it left wounds. The high level of long-term unemployment suffered since the 1970s is due not least to the loss of simple industrial jobs, for which no proper substitute has yet been found.

However, this 'farewell, industrialized past' is only part of the story we shall be telling here. The fact that Germany currently leads even China as the world's largest exporter is due primarily to its industrial output, which is clearly in great demand the world over. But the country does not solely sell capital goods abroad, together with high-value consumer goods such as motor cars; in textiles, too, as well as in the food and semi-luxury food and tobacco industries Germany is an astonishingly successful exporter. It follows that structural change in the German economy looks rather different.<sup>2</sup> In the UK and the USA, industry is now of only marginal importance, while among the other OECD countries Germany still has one of the largest industrial sec-

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<sup>2</sup>On the subject of structural change, see Gerold Ambrosius, *Wirtschaftsstruktur und Strukturwandel*, in: Gerold Ambrosius/Dietmar Petzina/Werner Plumpe (eds), *Moderne Wirtschaftsgeschichte. Eine Einführung für Historiker und Ökonomen*, Munich 2006, 213–34.

tors. In a sense, Germany remains the workshop of the world, although simple industrial products no longer play a role. However, in the sphere of high-value industrial production today's Federal Republic is still an industrial powerhouse.

So the kind of structural change that affected Germany between 1945 and 2008 has a multi-faceted appearance. Agriculture and industry both lost importance generally, with agriculture in fact becoming marginal. However, over the same period industry also underwent a massive transformation, focusing on exceptionally capital-intensive, high-quality production. The less sophisticated manufacturing spheres as well as the pioneering industrial branches of the nineteenth and early twentieth centuries (coal-mining and iron and steel, primarily) became markedly less significant. This also changed the regional distribution of economic activity. The swansong of 'farewell, industrialized past' does indeed apply to the former industrial heart of Germany, Rhineland-Westphalia, just as (not least because of partition) the Berlin region and Saxony also shed some of their importance. The economically and industrially up-and-coming regions of the post-war period were (and still are) mainly Baden-Württemberg, Hesse, and lastly Bavaria, the regional importance of which has risen accordingly. Those same regions also drew substantial advantage from the 'westward shift' of East German industry after 1945. While Frankfurt am Main replaced Berlin as banking and financial center, Württemberg and Bavaria offered a new home to many refugee and outcast business operations. A regional division of labor that had evolved historically was thus turned on its head, and to that extent Germany was also saying goodbye to ancient regional traditions and structures. It was a process that not even the reunification that followed the events of 1989 fully rectified.<sup>3</sup>

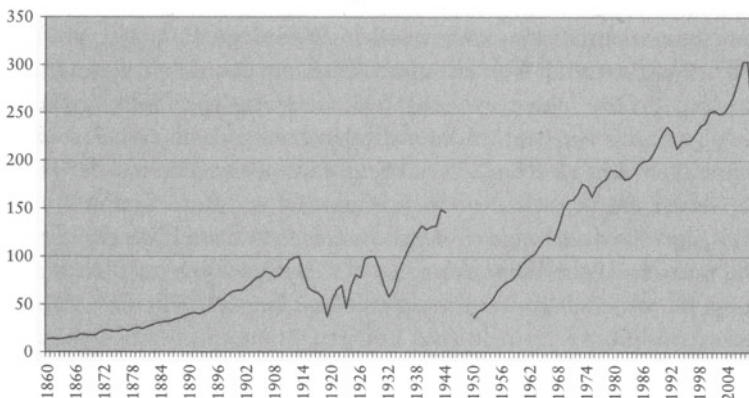
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<sup>3</sup>On regional change, see Dietmar Petzina, *Wirtschaftliche Ungleichgewichte. Ein historischer Rückblick auf die regionale Wirtschaftsentwicklung im 19. und 20. Jahrhundert*, in: Landeszentrale für Politische Bildung Baden-Württemberg (ed.), *Nord-Süd in Deutschland? Vorurteile und Tatsachen*, Stuttgart 1987, 59–81.

## Rudiments of German Economic History, 1945–2008

The economic development of the German Federal Republic after the Second World War was and is, all structural problems notwithstanding, a major success story. From the ruins left behind by National Socialism and armed conflict, the country not only rose to become the world's third largest economic power and the undisputed economic heavyweight of the European Union. At the same time, notably in the 1950s and 1960s, the so-called economic miracle transformed it into the mass-consumption society that marks Germany's final farewell to life-threatening penury. Not even the large-scale unemployment that hit in the 1970s and the extra structural problems of the Länder added in 1990 did anything to alter this state of affairs. In terms of economic achievement and level of affluence, Germany is among the most successful countries on earth (Fig. 10.1).

Abbildung 4: Wachstum der industriellen Nettoproduktion im Deutschen Reich und in der Bundesrepublik 1860–2010



Quelle: D. Petzina et al. Sozialgeschichtliches Arbeitsbuch III, S. 61; Bevölkerung und Wirtschaft 1872–1972, S. 176; OECD Stat.

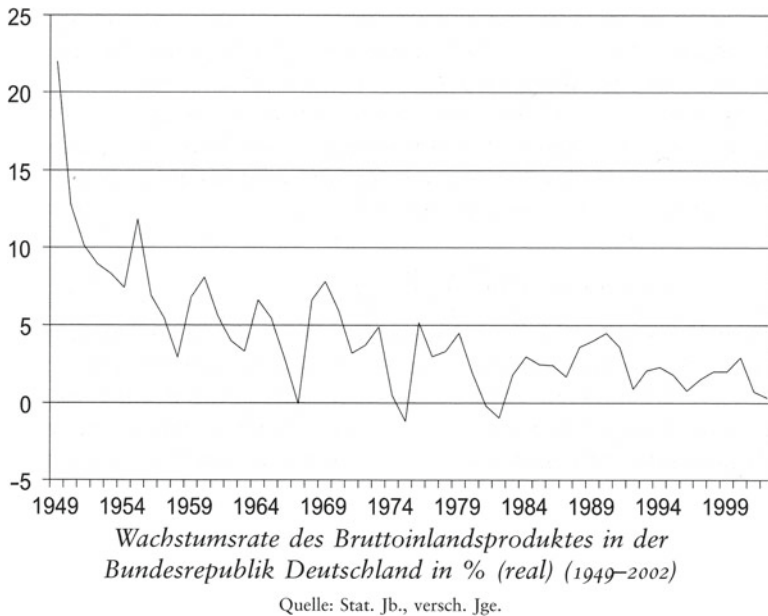
**Fig. 10.1** Development of industrial production (net) in the German Reich and the Federal Republic of Germany, 1860–2010 (Source: Werner Abelshausen, *Deutsche Wirtschaftsgeschichte seit 1945*, 2nd, revised and enlarged edition, Munich 2011, 45)



The foundation for that success was laid by two closely associated factors: the country's initially very rapid and subsequently (albeit at a lower level) consistent economic growth on the one hand and rising labor productivity on the other. If average GNP growth in 1950s Germany varied between 7% and 9%, as late as the mid-1970s it lay around 4% and later, up until the mid-1990s, leveled off around 2.5%. Since that time, growth rates have declined markedly (Fig. 10.2).

International comparison gives the following picture (Table 10.1):

Growth in productivity lay above these figures. But if labor productivity in Germany after the war lagged well behind that of the USA, by the end of the 1960s the ground had been almost completely made up. By and large, the gaps increased again from the late 1990s onward, but the data look different when examined from the standpoint of per-hour productivity. In terms of labor productivity per hour worked, Germany clearly leads the USA (Fig. 10.3).



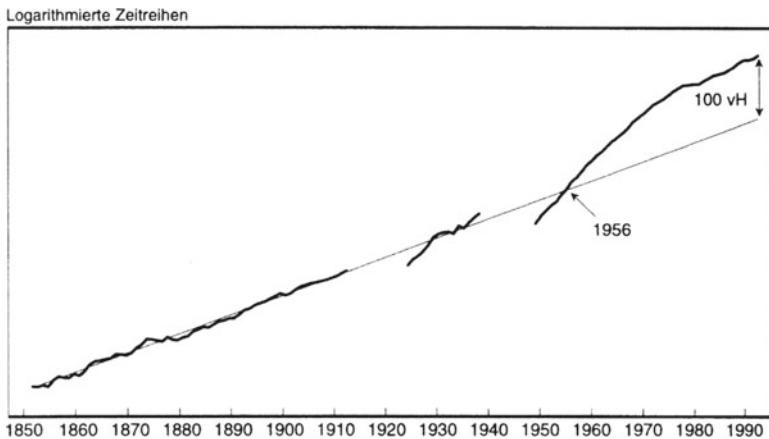
**Fig. 10.2** GDP growth rate in the Federal Republic of Germany, 1949–2002 (in percent, real) (Source: Schröter, *Von der Teilung* [see note 1], 390)

**Table 10.1** Secular growth: growth rates of real national product (per capita), 1870–2008 (average annual growth rates per hundred)

	1870– 1913	1913– 1950	1950– 1965	1965– 1980	1980– 2000	2000– 2008
Germany	1.8	0.4	5.6	3.9	1.8	1.4
USA	2.2	1.7	2.0	2.3	2.8	2.2
Great Britain	1.3	1.3	2.3	2.0	2.3	2.3
France	1.4	0.7	3.7	4.1	2.0	1.7
Sweden	2.3	1.6	2.6	2.2	1.9	2.4

Source: Abelshauser, *Deutsche Wirtschaftsgeschichte* [2011], 301

A steady series of relatively high growth rates for business output and productivity led to a steep increase in total economic output, which has risen more than fivefold since 1950, while over the period 1960 to the turn of the century hours worked annually by an employee in Germany fell from 2162 to 1556.<sup>4</sup> Herein lies the core of the emergence and eventual establishment of the mass-consumption society. And as overall economic output rose, so did incomes (though not as fast as GNP).



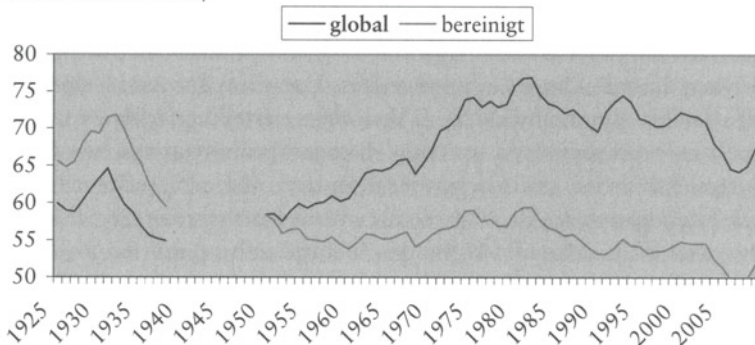
**Fig. 10.3** Levels of productivity of today's leading OECD-countries, 1870–1995 (time series, logarithmized) (Source: Lindlar, *Das missverständene Wirtschaftswunder* [see note 1], 3)

<sup>4</sup>On declining working times, see Gerhard Schildt, *Das Sinken des Arbeitsvolumens im Industriezeitalter*, in: *Geschichte und Gesellschaft* 32 (2006), 119–49.

Simultaneously, there was a marked increase in free time, now becoming more and more available for private pastimes and consumption. Never before had so much leisure and such high levels of consumption, rather than being the privilege of a narrow ‘upper crust’, characterized the daily lives of large sections of the population. The concept of publicity moved promptly into this new ‘consumer world’ as firms in general lost no time in focusing on and successfully pursuing this newly emancipated customer. Certain traditionalists and left-wing cultural critics were moved to bewail the new situation, dubbing it ‘consumer terrorism’. But there was no stopping the process. It became a kind of madness. In fact, only against this background can the so-called social liberalization of the 1960s and 1970s be properly understood.<sup>5</sup>

The relative wage-restraint practiced by workforce and unions in the 1950s and again in the second half of the 1960s, despite being thoroughly debatable from the standpoint of distributive justice, was exceptionally effective in economic terms (Fig. 10.4).

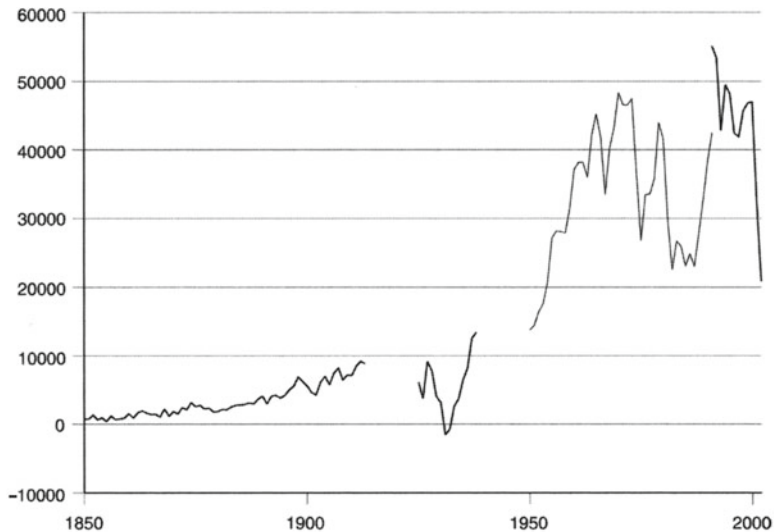
Abbildung 11: Die Entwicklung der Lohnquote 1925–2009 (in vH des Volkseinkommens)



Quelle: D. Petzina et al., Sozialgeschichtliches Arbeitsbuch III. Materialien zur Statistik des Deutschen Reiches 1914–1945, München 1978, S. 102; Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung, verschiedene Jahresgutachten.

Fig. 10.4 Development of wage ratio, 1925–2009 (in per hundred of national income) (Source: Abelshausen, *Deutsche Wirtschaftsgeschichte* [2011], 344)

<sup>5</sup>Michael Wildt, *Vom kleinen Wohlstand. Eine Konsumgeschichte der fünfziger Jahre*, Frankfurt a.M. 1996; Arne Andersen, *Der Traum vom guten Leben. Alltags- und Konsumgeschichte vom Wirtschaftswunder bis heute*, Frankfurt a.M. 1997.



*Nettoinvestitionen in Deutschland (1850–2002), in Preisen von 1913 (bis 1938 Deutschland, jeweilige Gebietsgrenzen, ab 1949 BRD in den Grenzen bis 1990, ab 1991 neues Bundesgebiet) (Angaben in Mio. Mark)*

**Fig. 10.5** Net investment in Germany, 1850–2002, in 1913 prices (until 1938: Germany, with respective territorial borders; from 1949: Federal Republic of Germany with territorial borders of 1990; from 1991: Federal Republic of Germany after reunification) (in million mark) (Source: Rainer Metz, *Säkulare Trends der deutschen Wirtschaft*, in: North [ed.], *Deutsche Wirtschaftsgeschichte* [see note 1], 427–500, 467)

Together with tax laws that tended to favor investment, it facilitated capital formation in firms. Rates of net investment stood at a historical high in the 1950s and 1960s, occasionally reaching more than 20% of GNP. Rapid expansion of industrial capacities became possible as a result, which in turn enhanced the elasticity of supply in West Germany and at least reduced the risk (constantly present in post-war years) of inflationary surplus demand. In any case, these high rates of investment helped to stabilize high growth rates and as such created the conditions for incomes to rise and working hours to fall. The situation did not change until the 1970s, when sales opportunities for firms worsened at the same



*Nettoinvestitionsquote in Deutschland (1850–2003)*  
 (bis 1933 Deutschland, jeweiliger Gebietsstand, ab 1950 BRD in den  
 Grenzen bis 1990, zusätzlich ab 1991 neues Bundesgebiet)  
 (Angaben in %)

**Fig. 10.6** Net investment ratio in Germany, 1850–2003 (until 1933: Germany, with respective territorial borders; from 1950: Federal Republic of Germany with territorial borders of 1990; from 1991 additionally: Federal Republic of Germany after reunification) (in percent) (Source: Metz, *Säkulare Trends* [see note 1], 467)

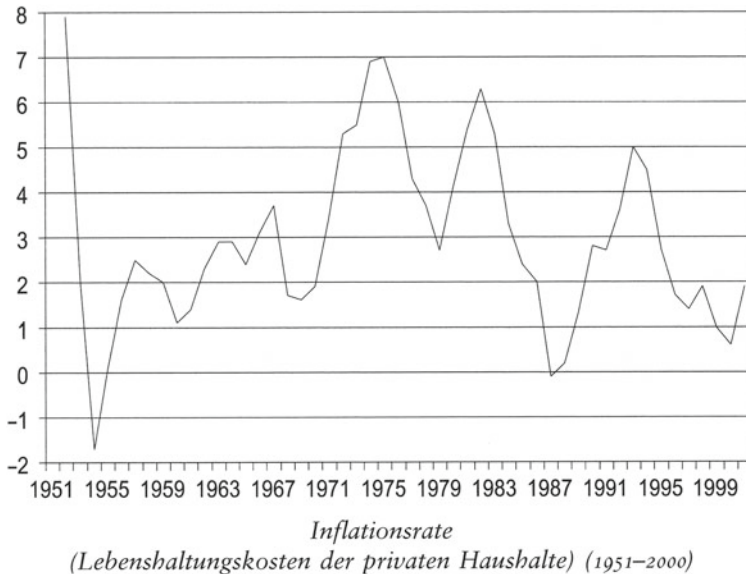
time as wages were going up—in some cases very much faster than GNP was increasing. However, investment rates declined steadily from the mid-1970s onward, reaching a level below 10%. They even dipped below 5% in the mid-1990s, although the rapidly diminishing return on capital that also set in during the mid-1970s may have been a key reason for the decline in investments (Figs. 10.5 and 10.6).

However, the accelerating structural change affecting Germany after the 1970s points to another key stage in the country's economic history.<sup>6</sup> In the post-war period, the young Deutschmark (DM) had in the Bretton

<sup>6</sup>See Deutsche Bundesbank (ed.), *Fünfzig Jahre Deutsche Mark. Notenbank und Währung in Deutschland seit 1948*, Munich 1998.

Woods System of fixed exchange rates eventually been stabilized at 4:1 against the US dollar (USD). In subsequent years, this undervaluation of the DM favored West German exports strongly. It meant that industrial goods from Germany could be obtained comparatively cheaply, using dollars. So long as elasticity of supply remained high in German industry, this greater foreign demand could be taken up by production increases without generating inflationary pressure. In the late 1950s, however, there emerged for the first time a tendency for inflation to be imported. Politicians, faced with a conflict of interests, did nothing at first, but then, in 1961, a measured revaluation of the DM had the effect of making German goods more expensive for buyers abroad (Fig. 10.7).

However, the second half of the 1960s saw the beginning of renewed inflationary pressure from the dollar region. Again, Germany reacted with a further clash between its exporters (anxious to cling to the existing undervaluation of the DM) and the financial and currency politicians



Quelle: Stat. Bundesamt, Datenreport, versch. Jge., Kloten, N., Zur Entwicklung des Geldwerts in Deutschland, Tübingen 1980, S. 14

**Fig. 10.7** Inflation rate (cost-of-living of private households), 1951–2000  
(Source: Schröter, *Von der Teilung* [see note 1], 391)

(responsible for the stability of the DM) over the right way to proceed. In 1969, the DM was revalued yet again, and in 1973 the fixed-exchange Bretton Woods System was finally abandoned.<sup>7</sup> The USD now lost value rapidly while the DM went up. Inflationary pressure from the dollar region lessened, but at the same time the competitive advantages previously enjoyed by a section of West German industry now disappeared. In addition, home-grown inflationary pressures now built up, as a result of which segments of Germany's simple industrial production in particular lost competitiveness. The reaction of German industry to the altered currency situation and a new competitiveness in the world economy brought about by the rise of Japan consisted of an intensification of structural change and rationalization. Areas of industry no longer able to compete were abandoned or relocated abroad. The country's remaining industrial production focused increasingly on the technologically more demanding lines, which were also to be kept more competitive by means of wide-ranging rationalization measures. In this way, even after adapting to the structures of the world economy that emerged during the 1970s, the German economy was able not merely to regain the powerful export position it had occupied 20 years earlier but to work toward improving on that position.<sup>8</sup> Exports remained a key factor in German development even after the fixed exchange-rate mechanism had been abandoned. Today almost one-third of the country's total economic output has directly to do with export business. Even back in the 1950s, values around 20% were quickly achieved. Very soon after 1945, therefore, involvement of the German economy in European and world markets (which even before the First World War had been extremely high) was back at its old levels, and in the wake of European integration and the liberalization of international economic conditions, culminating in the movement known as 'globalization', Germany determinedly extended it further (Table 10.2).

Accordingly (even more so once currency protection under the Bretton Woods System had been abandoned), the world economy and the competitive relations that prevailed there also became drivers of productiv-

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<sup>7</sup> Björn Alecke, *Deutsche Geldpolitik in der Ära Bretton Woods*, Münster 1999.

<sup>8</sup> See also Dietmar Petzina, *Isolation und Öffnung. Zwischen National- und Weltwirtschaft*, in: Reinhard Spree (ed.), *Geschichte der deutschen Wirtschaft im 20. Jahrhundert*, Munich 2001, 90–116.

**Table 10.2** Gross output dependence on export markets (selected economic sectors), 1954–2000 (in percent)

	1954	1960	1970	1977	1984	1995
Agriculture	5.5	7.4	12.5	14.8	25.6	17.1
Mining, energy	28.0	27.3	24.0	22.0	24.0	26.9
Chemical industry	27.2	29.5	31.8	35.5	61.5	69.9
Iron and steel industry	37.2	40.7	36.1	46.9	80.2	77.3
Mechanical engineering and automotive industry	31.4	34.2	36.6	49.1	60.9	58.9
Electrical Engineering	28.7	31.2	30.5	41.5	50.5	56.3

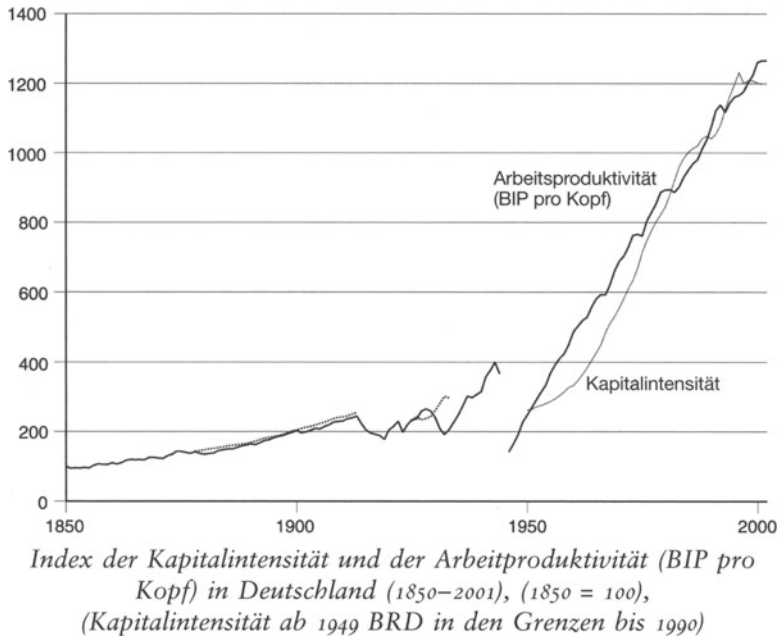
Source: Abelshausen, *Deutsche Wirtschaftsgeschichte* [see note 1], 265

ity development. Compared with the way things had gone previously, labor productivity had rocketed since the 1950s. Over the whole period 1950–2000, while GNP had increased almost fivefold, labor productivity (and the capital intensity behind it!) had shot up to more than six times its previous level (Fig. 10.8).

However, very different developments underlay this continuous increase. The steep productivity rises of the 1950s and 1960s had been due above all to the melting away of agriculture (traditionally less productive in terms of the economy as a whole) in favor of a highly productive remainder (with all the ecological problems that inevitably implied). From the mid-1960s but more especially in the 1970s productivity growth in industry too led to a steady decline in jobs as industry's less productive segments were abandoned in the altered circumstances of the world economy. To that extent, increasing productivity led to a re-arrangement of the industrial landscape, so to speak. As in agriculture, it triggered a major release of labor—for whom, given their usually low level of qualification, there was little demand in a slimmed-down industry. What made this even more relevant was that the wage hikes of the 1970s had made much of that labor relatively expensive.

In East Germany, on the other hand, shielded by a high level of real socialist protection and a slower rate of productivity growth, industry did not go through the same 'cold shower' experience. When the wall came down in 1989, the obsolete structures of German Democratic Republic (GDR) industry almost inevitably suffered a kind of competition shock, followed immediately by a radical leveling of the industrial playing field

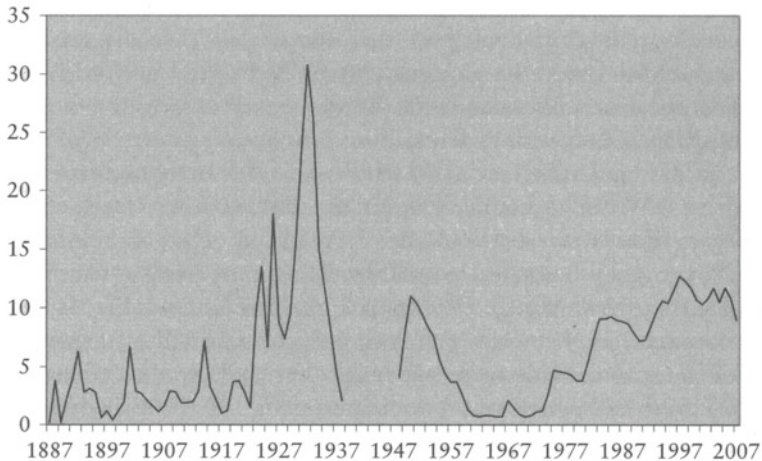




**Fig. 10.8** Capital intensity index and labor productivity (GDP per capita) in Germany, 1850–2001 (1850=100), (Capital intensity from 1949: Federal Republic of Germany with 1990 borders) (Source: Metz, *Säkulare Trends* [see note 1], 470)

that jolted the country out of what its leaders had spared it (in terms of industrial modernization) since the 1960s. Sustaining East Germany's structures or slowing down the transition to a competitive economic situation would have called either for a kind of protectionism or would have amounted to massively subsidizing outdated industrial structures—a policy that West Germany's coal-mining industry had already shown to be of little use.

Such radical modernization sent the unemployment figures in the former GDR soaring. These were high anyway, because in the area between the Oder and Elbe rivers workforce participation rates were (and are) markedly higher than in the former West Germany. In the GDR, women were as much involved in the earning process as men, while in West

Abbildung 7: Arbeitslosigkeit: Arbeitslosenquote<sup>a</sup> 1887–2007<sup>b</sup>

<sup>a</sup>) Bis 1931 in vH der Gewerkschaftsmitglieder, dann in vH der abhängig beschäftigten Erwerbspersonen (ohne Soldaten).

<sup>b</sup>) Ab 1990 Zahlen für Gesamtdeutschland.

Quelle: Statistisches Jahrbuch für das Deutsche Reich und für die Bundesrepublik Deutschland, verschiedene Jahrgänge.

**Fig. 10.9** Unemployment: unemployment rate, 1887–2007 (until 1931: in per hundred of trade union members; thereafter: in per hundred of dependent labor force (without soldiers); from 1990: figures for Federal Republic of Germany after reunification) (Source: Abelshauer, *Deutsche Wirtschaftsgeschichte* [2011], 308)

Germany female rates of gainful employment and workforce participation were far lower. However, even in the latter the accelerating structural change of the 1970s, coupled with declining growth rates and the re-grouping of the world economy, led to high levels of long-term unemployment (Fig. 10.9).

Public opinion was soon united in laying ultimate blame for these figures on political failure, but it is worth casting a glance at the early history of post-war West Germany to put things in their proper light. In the immediate aftermath of currency reform, the unemployment figures rose steeply at first and remained moderately high until 1953. After that

they fell fast. Until the mid-1960s and again at the end of the decade and the start of the 1970s labor shortages spread, with the West German government reacting by concluding various agreements to import foreign labor. Politicians overlooked the fact that the dearth of labor was not structural but demographic in origin. Around 1960 the generations not born during the First World War as well as those who had fallen in the Second World War failed to appear on the labor market at the same time as those born in several very productive years (1890 ff.) reached retirement age. This demographic gap was plugged little by little from the mid-1970s onward by the high birth rates of the post-war years. In fact, it gradually gave way to a fresh structural problem as further high birth years (up until 1966) came onto the labor market at a time when because of the large numbers of Second World War dead only relatively few workers retired. Yet because little regard was paid to these demographic cycles, from the 1950s (until 1973) the German government encouraged the immigration of poorly qualified workers, whose chances of finding employment declined from the mid-1970s on—as did those of poorly qualified Germans. The economic significance of guest-worker immigration requires further research, actually, but one thing is clear: it tended to aggravate the structural problems of a labor market undergoing intensive structural change. In the economic history of the German Federal Republic, full employment was a mere episode lasting from 1954 to 1973, although for a long time it was the norm of state action. However, it was due to a ‘favorable’ combination of demographic circumstances, the high growth rates of the economic miracle years (notably in construction), and what was in effect the protection of simple industrial areas by an undervalued DM. With the end of the economic miracle, demographic changes, and the termination of currency protection, it followed that the conditions for full employment no longer existed. In the years after 1974, unemployment was partially determined by economic factors. In the recessions or periods of stagnation of 1974–75, 1981–82, 1993–94, and after the turn of the century it reached particularly high levels. Yet at least until 2006, the level scarcely fell in periods of economic recovery, meaning that it should be seen as a stable phenomenon—on the one hand springing undoubtedly from the system of unemployment-benefit payments making unemployment less of a risk and the fact of

being employed less meaningful, on the other hand indicating a mismatch between job availability and a strongly fluctuating demand for labor. The reforms of welfare legislation introduced under 'Agenda 2010' consequently increased material pressure on the unemployed; whether on the other hand the attempt to resolve the mismatch on the labor market by enhanced training efforts will be successful is not something historians can decide.<sup>9</sup>

If in conclusion we summarize the relevant trends and structural features, the picture is clear. At the end of the war, the German economy was a world dominated by shortages and characterized by traditional employment structures with two clear points of emphasis: agriculture and industry. Productivity was relatively low, working hours long, and incomes at a level that allowed most people only a simple existence. Extreme poverty was not unknown. More than 50 years later, the situation had changed radically. Today the German economy is exceptionally strong, on international markets its products are almost all competitive, and Germany's share in the world economy is correspondingly large. Standard of living has fundamentally improved since the post-war years, while incomes are relatively high and hours spent working comparatively few. Without question, most Germans enjoy conditions of affluence. This extraordinary achievement springs from radical structural change and sustained productivity increases. One outcome has been that simple activities in agriculture and industry have largely disappeared. However, such structural change has another side. On the one hand, it is a precondition of survival in international markets; on the other it robs numerous branches and business enterprises of the very conditions of existence. Unemployment and particularly the loss of many simple jobs are obviously the price that must be paid for successful self-assertion in today's 'global village'.

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<sup>9</sup>A history of unemployment in Germany has yet to be written. On the development of workforce potential, see Josef Ehmer, *Bevölkerungsgeschichte und historische Demographie 1800–2000*, Munich 2004. For a source throwing further light on unemployment, see also Wolfgang Franz, *Arbeitslosigkeit*, in: Bernhard Schäfers/Wolfgang Zapf (eds), *Handwörterbuch zur Gesellschaft Deutschlands*, Bonn 2001, 11–21.

## German Industry at the End of the Second World War

In the spring of 1945 Germany lay in ruins. Its major cities were almost all destroyed, infrastructure barely worked any more, and little by little the economy had ceased to function. The damage to fixed assets seemed limitless.<sup>10</sup> The advancing occupation forces in no way saw themselves as liberators—certainly not at first. The order that the United Chiefs of Staff of the American army sent to the commanding officer, General Dwight D. Eisenhower (JCS 1067), in April 1945 was unambiguous: ‘It must be made clear to the Germans that Germany’s ruthless conduct of the war and the Nazis’ fanatical resistance [...] have made chaos and suffering inevitable and that they cannot escape responsibility for something they have brought upon themselves.’ Specifically that meant: ‘Germany is not being occupied for the purpose of liberation but as a defeated enemy state. Your objective [i.e. Eisenhower’s; W. P.] is not to suppress Germany but to occupy it in order to realize certain important Allied goals. In carrying out that occupation and administration you must be just but firm and unapproachable. You will strictly forbid fraternization with German officials and with the German people.’<sup>11</sup> The Allied aims specifically comprised the so-called 4 Ds: demilitarization, deconcentration, denazification, democratization. The American government left no doubt that it would be pursuing these aims with great severity and that it would assess the new institutions to be formed in Germany by how far they performed such tasks. In the initial stage of occupation at least that also meant that promoting the reconstruction of the German economy could not constitute a goal in its own right: ‘Whether in carrying out the reparations plan or otherwise, you shall do nothing that might maintain living standards in Germany or in your zone at a higher level than in any adjacent member-state of the United Nations.’<sup>12</sup>

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<sup>10</sup>The situation at the war’s end is well described in Christoph Klessmann, *Die doppelte Staatsgründung. Deutsche Geschichte 1945–1955*, Göttingen <sup>5</sup>1991.

<sup>11</sup>Quoted from Klessmann, *Die doppelte Staatsgründung* (see above, note 10), 352 f.

<sup>12</sup>Quoted from Klessmann, *Die doppelte Staatsgründung* (see above, note 10), 352 f. On American occupation policy, see John H. Backer, *The decision to divide Germany*, Durham/NC 1978; German translation: *Die Entscheidung zur Teilung Deutschlands. Amerikanische Besatzungspolitik 1943–1948*,

The other occupying powers were less consistent in their 'denazification'<sup>13</sup> policies than the American military government. However, both the Russians and the French had little interest at first in preserving Germany's industrial fabric. On the contrary, in dismantling as much of it as they could they had sought to compensate for at least some of the war damage suffered by themselves.<sup>14</sup> The Soviet military administration went farthest in this. According to figures provided by Rainer Karlsch, they dismantled as much as 40% of industrial facilities in the future East Germany as well as making substantial appropriations from current production.<sup>15</sup> In what was to become West Germany, on the other hand, only some 3.5% of industrial plants were dismantled. The figure may have been higher in the French zone, while the British and Americans set no great store by reparations, reducing and terminating their dismantling projects in 1948–49.<sup>16</sup> Dismantlement was by no means the sole action taken against Germany's industrial assets. The overall aim of the occupying powers was to reduce the country's industrial production to its pre-1932 level (first Industrial Level Plan) and subsequently its pre-1936 level (revised Industrial Level Plan for the 'Bizonie' [the combined British and American zones of occupation]) in order to prevent Germany from being able to launch another war. Accordingly, whole branches of industry were either banned altogether (synthetics, aeronautics, armaments) or severely restricted (iron and steel). Facilities over and above these Industrial Level Plans were dismantled or condemned to destruction.<sup>17</sup>

Added to the destruction caused by the war, therefore, after 1945 Germany suffered further destruction and interference at the hands

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Munich 1981. See also Wilfried Mausbach, *Zwischen Morgenthau und Marshall. Das wirtschafts-politische Deutschlandkonzept der USA 1944–1947*, Düsseldorf 1996.

<sup>13</sup> Clemens Vollnhals (ed.), *Entnazifizierung. Politische Säuberung und Rehabilitierung in den vier Besatzungszonen 1945–1949*, Munich 1991.

<sup>14</sup> Wolfgang Zank, *Wirtschaft und Arbeit in Ostdeutschland 1945–1949. Probleme des Wiederaufbaus in der sowjetischen Besatzungszone Deutschlands*, Munich 1987. Matthias Manz, *Stagnation und Aufschwung in der französischen Besatzungszone 1945–1948*, Ostfildern 1985.

<sup>15</sup> Rainer Karlsch, *Allein bezahlt? Die Reparationsleistungen der SBZ/DDR 1945 bis 1953*, Berlin 1993.

<sup>16</sup> Jörg Fisch, *Reparationen nach dem Zweiten Weltkrieg*, Munich 1992, 203–23.

<sup>17</sup> On the Industrial Level Plans and restrictions, see Werner Abelshäuser, *Wirtschaft in Westdeutschland. Rekonstruktion und Wachstumsbedingungen in der amerikanischen und britischen Zone*, Stuttgart 1975, 86–99.

of the occupying powers, which made its economic future look grim indeed. And when in the hard winter of 1946–47 an only meagerly repaired infrastructure network broke down completely, industry ground to a halt, starvation spread, and Germany reached a very low point.<sup>18</sup> It became clear to the Western occupying powers that continuing the same policy would be counter-productive so far as achieving their occupation goals was concerned. As early as 1946, prompted by reports from the military government in situ, the American government had hinted at a change to its rigid stance. Following the merger of the American and British zones of occupation at the beginning of 1947 to form what was called the ‘Bizonie’, it altered its occupation policy radically in such a way as enable it, in the medium term, to transform the western sector of the country at least into a stable, democratically organized market economy.<sup>19</sup> Policymakers accepted that only in this way could West Germany be stabilized. In so doing, they laid one of the principal foundation stones of the economic reconstruction of Western Europe. The change found expression in occupation policy in two ways: on the one hand the western zones of occupation were included in Marshall Plan aid payments<sup>20</sup>; on the other hand, following the collapse of the anti-Hitler coalition there was agreement among the Western Allies to set up West Germany as a partial state in the context of a reconstruction plan for Western Europe. This policy became reality in the 1949 currency reform, which marked the end of the immediate post-war period of West Germany’s history. The old system of economic management was abandoned in favor of a free-market economy. The foundation of the Federal Republic of West Germany in May 1949 heralded a relaxation of the restrictions of occupation policy, holding out a concrete prospect of the country’s regaining rights of sovereignty as part of a restructured Western Europe.<sup>21</sup>

However, these positive decisions by the Western occupying powers in favor of the market economy and the establishment of West Germany

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<sup>18</sup> Christoph Klessmann/Peter Friedemann, *Streiks und Hungermärsche im Ruhrgebiet 1946–1948*, Frankfurt a.M. 1977.

<sup>19</sup> Mausbach, *Zwischen Morgenthau und Marshall* (see above, note 12), 252 ff.

<sup>20</sup> Gerd Hardach, *Der Marshall-Plan. Auslandshilfe und Wiederaufbau in Westdeutschland 1948–1952*, Munich 1994.

<sup>21</sup> Backer, *The decision to divide Germany* (see above, note 12).

also led to first the economic and subsequently the political partition of the country. This development had of course been prefigured by two different approaches to occupation. The Western occupying powers had largely respected the existing economic and social order, seeking to abolish only the structures for which National Socialism had been responsible (militarism, excessive economic concentration, anti-democratic traditions, etc.), while from the outset the Soviet Union, pursuing an explicitly anti-Fascistic aim, had basically imported its own model of society. So long as there remained some prospect, within a jointly run occupation policy, of the eastern part of the country accessing some of the material resources of the western part, blatant operations against the existing economic order were still conducted with caution. However, from 1947 onward the Soviet Union massively altered proprietary relations in the economy of the Soviet zone as well as introducing planned-economy structures to direction of the business sphere. At the same time, the compulsory unification of the Kommunistische Partei Deutschlands (KPD) and the Sozialistische Einheitspartei Deutschlands (SED) and the formation of various unitary organizations heralded a rejection of political pluralism if not an actual determination to ban it.<sup>22</sup> Currency reform and the founding of West Germany simply ratified a partition that had already taken effect. The Cold War was in full swing and was to reach its first climax with the blockade of Berlin that 1949's currency reform provoked.

The economic repercussions of currency reform were enormous.<sup>23</sup> Initial signs of an improvement in the economic situation had been visible since the overcoming of the winter crisis of 1946–47, but the data were grim and commodity supply less than adequate. Currency reform altered the situation at a stroke. For one thing production figures shot up; for another, such warehouses as still existed suddenly emptied and shop windows filled. The fact was, a sluggish monetary situation and the restrictions imposed by rationing had held back production as much as selling

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<sup>22</sup> See Zank, *Wirtschaft und Arbeit in Ostdeutschland* (see above, note 14). See also Hermann Weber, *Die DDR 1945–1990*, Munich 42006. A further source is Dietrich Staritz, *Die Gründung der DDR. Von der sowjetischen Besatzungsherrschaft zum sozialistischen Staat*, Munich 31995.

<sup>23</sup> Werner Plumpe, *Entscheidung für den Strukturbruch: Die westdeutsche Währungsreform und ihre Folgen*, in: Detlef Junker (ed.), *Die USA und Deutschland im Zeitalter des Kalten Krieges*. Ein Handbuch, Vol. 1: 1945–1968, Stuttgart 2001, 457–67.



products for ‘funny money’ and at fixed prices had come to seem an unattractive prospect. The new money and the simultaneous announcement of an end to rationing in broad areas of the economy ended this blockade. At the same time, in effectively dispossessing the mass of the population to a great extent, currency reform forcibly brought about a far-reaching change in employee–employer relations. Before, with commodities in critically short supply and a currency that was relatively worthless, these had been governed more by the day-to-day struggle for survival than by the dictates of industrial discipline. Now, with the currency reformed, survival was once more linked to earnings from gainful employment. And since most people had no reserves to fall back on, willingness to work was high over the next few years.<sup>24</sup>

In the months following reform of the currency there was also evidence that industry’s loss of capital assets was very much less serious than it looked in the immediate post-war crisis. The fact was, most of the bombing had been aimed not at industrial sites so much as at towns and cities as such—residential areas and transport infrastructure. Of course, certain businesses had come under fire too. Fuel production, for instance, had been targeted systematically. But the mass of firms had escaped. The records of damage drawn up by the German Institute of Economic Research as early as the 1950s as well as the figures regarding industrial fixed assets that Werner Abelshauser refined and confirmed in the 1970s are surprisingly eloquent. According to them, in 1948 gross fixed assets in the United Economic Area (the American and British Zone) still stood at a good 11% above their 1936 level. In quality (essentially the age of plant and machinery) it even showed decisive improvement over the pre-war period. Granted, by 1945 some

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<sup>24</sup>In the literature, the economic importance of Germany’s currency reform was for a while disputed on the grounds (chiefly advanced by Werner Abelshauser) that the upswing in the economy owed very much more to a favorable set of circumstances than to any economic policy measures. This was fiercely contested by (among others) Christoph Buchheim and Albrecht Ritschl, who placed great stress on the effect of liberalization. At bottom, though, apart from certain questions of statistical assessment, both views are correct: it was currency reform that created the conditions in which advantage could be taken of a favorable situation. Christoph Buchheim, *Zur Kontroverse über den Stellenwert der Währungsreform für die Wachstumsdynamik in der Bundesrepublik Deutschland*, in: Peter Hampe (ed.), *Währungsreform und soziale Marktwirtschaft. Rückblicke und Ausblicke*, Munich 1989, 86–100.

17% of industrial fixed assets had been destroyed by the effects of war, and between 1945 and 1948 a further 9% had been lost through closure and dismantling (depreciation, restitution, and dismantlement, less gross plant investments). However, since the period 1936–45 had seen massive investment, notably in the militarily vital investment-goods industry, the overall balance sheet in 1948 looked thoroughly promising—one major reason being that the bulk of that investment had gone into what were to become some of the chief pillars of the economic miracle.<sup>25</sup> Even in terms of its human capital West Germany was able, in the early 1950s, to draw up a thoroughly positive balance. The fact was that, despite the high number of war dead, workforce potential in the British and American zone of occupation between 1936 and 1948 had increased by nearly 18%. This was particularly because of the influx of refugees and victims of persecution after 1945, an extraordinarily large number of whom had the qualifications needed for rebuilding a country. Remember, most of the elite groups among technological and industrial sections of the population in the eastern Länder (the later East Germany) ‘emigrated’ to the western part of the country after 1945—with thoroughly positive results so far as reconstruction of the latter was concerned. In the immediate post-war years, however, such connections could not be seen with any clarity, nor did people readily acknowledge them.<sup>26</sup>

So while the young Federal Republic of Germany enjoyed excellent starting conditions, the major political decisions made in 1948 and 1949 helped it to make good use of those conditions. The way mass expropriation restored the work ethic has already been emphasized. However, currency reform also created opportunities for getting ahead, clearly incentivizing economic activity, notably on the part of business. In the years following currency reform, the ‘social market economy’ policy for which Ludwig Erhard stood so prominently also favored supply conditions for companies. Later, it was primarily the policy’s fiscal legislation that fostered capital formation in the business sector, contributing very

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<sup>25</sup> Abelshausen, *Deutsche Wirtschaftsgeschichte* (see above, note 1), 71–3.

<sup>26</sup> Abelshausen, *Deutsche Wirtschaftsgeschichte* (see above, note 1), 73.

largely to ultra-high rates of investment.<sup>27</sup> Following currency reform, the Western Allies also gradually relaxed the foreign trade regime. The young Federal Republic gained improved access to world markets, at first using the facility chiefly to purchase high-value raw materials and later also consumer goods. The result was a rapidly worsening balance-of-payments situation, which brought the country to the verge of a crisis in 1950–1951, particularly since exports never really got going because of various bottlenecks in materials and energy supply. Only when other European countries agreed in the short term to help Germany over the crisis with payments through the Bank for International Settlements was the country able to avoid a threatened revision of Erhard's economic policy.<sup>28</sup> However, huge efforts to improve the relevant supply chains (the so-called Investment Aid Law<sup>29</sup>) and a surge in demand for German industrial products in the wake of the Korean War changed the picture radically. By 1952, the country was earning clear trade surpluses, and with the balance-of-payments problem settled it could even trade abroad at a profit. Finally, Adenauer's policy of pursuing Western integration while regaining national sovereignty proved exceptionally helpful in this connection, leading as it did to a significant broadening of the young republic's political and economic scope. Making the German economy strong again won no plaudits in the once-occupied countries of Western Europe, of course, but from 1951 the establishment of the European Coal and Steel Community provided a viable route by which West German economic strength could be combined with Western European desires for security and stability on a permanent basis. It was the starting point for further European community-building.<sup>30</sup>

In the GDR, however, also founded in 1949, the prospects were less rosy. Granted, thanks to the rigorous contributions policy of the Soviet

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<sup>27</sup>On capital formation in the early years of the Federal Republic, see Heiner Adamsen, *Investitionshilfe für die Ruhr. Wiederaufbau, Verbände und Soziale Marktwirtschaft 1948–1952*, Wuppertal 1981, esp. tables on 256–7.

<sup>28</sup>Christoph Buchheim, *Die Wiedereingliederung Westdeutschlands in die Weltwirtschaft 1945–1958*, Munich 1990.

<sup>29</sup>For details, see Adamsen, *Investitionshilfe für die Ruhr* (see above, note 27).

<sup>30</sup>Matthias Kipping, *Zwischen Kartellen und Konkurrenz. Der Schuman-Plan und die Ursprünge der europäischen Einigung 1944 bis 1952*, Berlin 1995.

Military Administration in the eastern Länder, welfare provision for the population in the immediate post-war years was to some extent even better than in the West.<sup>31</sup> However, following currency reform and the open outbreak of the Cold War the economy of East Germany swiftly fell behind. Widespread dismantlement had hit industrial fixed assets badly. The specialized investment-goods industry suffered particularly in the GDR, having lost its sales markets for ever, apparently.<sup>32</sup> The nascent Eastern Bloc offered no compensation in this regard. Moreover, the costly attempt to offset the consequences of economic partition by building up the country's own heavy industry structures (to take one example) soon proved a failure, leading eventually to the disaster of 17 June 1953, when frenzied attempts to boost labor productivity cost the regime citizen loyalty.<sup>33</sup> From the business point of view, West Germany benefited from partition, but the eastern part of the country was a clear loser. And with the introduction of a Soviet-style political and economic system its situation never ceased to worsen. Throughout the 1950s the stream of refugees making for the West did not let up.<sup>34</sup>

## The Economic Miracle

As the 1950s opened, West Germany was at first surprised by the advent of a period that was to become known as the *Wirtschaftswunder* or 'economic miracle'. By the end of the next decade, the country's face had changed completely. Imposing growth rates in business and productivity meant that GNP as a whole rose at the same time as incomes and consumer demand. As early as the mid-1950s the Federal Republic regained Germany's old position as a cornerstone of the western segment of the world economy. By the end of the decade devastation, unemployment,

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<sup>31</sup> Zank, *Wirtschaft und Arbeit in Ostdeutschland* (see above, note 14).

<sup>32</sup> See also now Peter E. Fässler, *Durch den Eisernen Vorhang. Die deutsch-deutschen Wirtschaftsbeziehungen 1949–1969*, Cologne 2006.

<sup>33</sup> Steiner, *Von Plan zu Plan* (see above, note 1), 51–82.

<sup>34</sup> On the flight from the GDR, see Frank Hoffmann, *Junge Zuwanderer in Westdeutschland. Struktur, Aufnahme und Integration der Flüchtlinge aus der SBZ und der DDR in Westdeutschland 1945–1961*, Frankfurt a.M. 1999.

and poverty seemed finally to be things of the past as even pensioners and recipients of welfare enjoyed the benefits of the *Wirtschaftswunder*. In modern historical research, much importance attaches to the year 1957 as marking the point when Germany turned the corner toward becoming a mass-consumption society. Sharing in affluence became a thing only to be expected—a condition, indeed, that Germans could take for granted. Erhard's slogan (Wohlstand für Alle ['Prosperity for all']) had found fulfillment in an amazingly short time. The boom of the early 1960s continued unchecked.<sup>35</sup>

Behind the shining façade of the economic miracle, however, lay profound structural change. Even the economic miracle had its winners and losers. It soon became clear that the economy was not growing equally across all sectors. Before the 1950s were over certain branches, together with the regions they dominated, began to fall behind one by one. Most striking was undoubtedly the change in agriculture, which at war's end had once again served as collecting tank for many drifters. Even around 1950 something like one in five workers still worked in the sector, but by 1970, employing only 6% of persons, agriculture no longer played a major role. Furthermore, the rural *milieux* on which agriculture had for centuries placed its stamp were gone by the 1960s at the latest. One by one the smaller farms and holdings had vanished, and over the remaining medium-sized and large estates an industrial type of 'agribusiness' spread, replacing the traditional Bauernhof with a specialized production unit. Large-scale clearances, increasing use of machinery, and finally a widespread chemicalization of agriculture became the key features of the new agrarian mass production. This shrinkage of agriculture became a prerequisite for its radical modernization. There was no alternative, with prices declining steadily. By 1970, what remained of the agricultural sector was so modern that it was more than adequate to feed the country—even producing surpluses. The ecological costs were enormous, of course, and the whole process meant accepting the irreversible destruction of the historical

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<sup>35</sup> For a detailed description of developments, see Werner Abelshausen, *Die Langen Fünfziger Jahre. Wirtschaft und Gesellschaft der Bundesrepublik Deutschland 1949–1966*, Düsseldorf 1987. On the everyday history of the times, see Kirsten Petrak/Dietmar Petzina/Werner Plumpe, *Adenauers Welt. Ein Lesebuch zur Alltags- und Sozialgeschichte der frühen Republik*, Essen 2006, esp. 39–82.

landscape.<sup>36</sup> Workers usually turned their backs on the agricultural sector in search of higher wages and better working times. Initially, many switched to the processing industries and construction, but even at this time some entered the tertiary sector. Certainly, up until the early 1960s employment in the secondary sector experienced a further growth spurt, eventually just topping 50%. It then declined slowly—rather faster, in fact, from the 1970s onward. The big winners in this period of industrial expansion were instrument-building and machine-making, that is to say the motor and investment-goods industries; the chemical industry grew too, though not nearly as much. The foodstuffs industry and the semi-luxury foods and tobacco industry also did well, as did construction, although of course the latter already stood at a historical high in 1950 with more than 7% of all persons employed. On the other hand, the losers of the 1950s and 1960s included the old textile and clothing industries as well as (to some extent) metal extraction. The biggest loser, however, was coal-mining.<sup>37</sup> The coal-mining crisis in the Ruhr broke out openly in 1958, coal shortages having marked several previous years and the federal government having consequently widened its agreements covering coal imports from the USA. Now stockpiles of coal built up rapidly as demand fell not only for economic reasons but also structurally as the advance of oil became more and more perceptible. Because of stockpiling, German coal was (and is) no longer worth mining. It soon ceased to be competitive. Cancelled shifts became the norm, and more and more mines closed altogether. The number of miners shrank dramatically as many younger workers quit the Ruhr and moved down to south-west Germany, where industry was booming. Of 500,000 people employed

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<sup>36</sup> See also Werner Plumpe, *Landwirtschaft*, in: Ambrosius/Petzina/Plumpe (eds), *Moderne Wirtschaftsgeschichte* (see above, note 2), Munich 1996, 193–216. Further sources are Daniela Münkler (ed.), *Der lange Abschied vom Agrarland. Agrarpolitik, Landwirtschaft und ländliche Gesellschaft zwischen Weimar und Bonn*, Göttingen 2000; Arnd Bauerkämper, *Landwirtschaft und ländliche Gesellschaft in der Bundesrepublik in den fünfziger Jahren*, in: Axel Schildt/Arnold Sywottek (eds), *Modernisierung im Wiederaufbau. Die westdeutsche Gesellschaft der 50er Jahre*, Bonn 1998, 188–200; Peter Exner, *Ländliche Gesellschaft und Landwirtschaft in Westfalen 1919–1969*, Paderborn 1997.

<sup>37</sup> On structural change in the industrial sector, see Ambrosius, *Wirtschaftsstruktur und Strukturwandel* (see above, note 2), 214–9. See also Abelshausen, *Deutsche Wirtschaftsgeschichte*, 302–9.

in coal-mining in 1958, in 1970 a mere 200,000 remained.<sup>38</sup> The Ruhr District, once Germany's largest industrial region, was starting to lose its industrial inheritance. Even the iron and steel sector had long since passed its employment zenith.<sup>39</sup> A similar situation obtained in West Germany's textile industry<sup>40</sup>; ship-building too was experiencing difficulties as early as the 1960s. Nevertheless, full employment persisted, so for the German government at least structural change hardly seemed to present a threat. Demands voiced repeatedly in the state of North Rhine-Westphalia to the effect that the federal government should take positive action in support of coal met with a laconic reply from Ludwig Erhard: you don't send for the fire brigade if the milk catches fire.<sup>41</sup>

However, the economic policy of the West German nation stayed fairly close to Erhard's liberal ideas, according to which central government should guarantee the framework of a viable market economy while at the same time leaving that economy to its own devices.<sup>42</sup> Erhard was against intervening directly in the economic structure or taking protectionist action in defense of the home economy—quite the opposite, in fact. Ludwig Erhard was an Atlanticist. In part, he rejected the idea of the European Economic Community (EEC) because protecting agriculture in the member-states was costly and inefficient. Moreover, this was a position in which Erhard knew he had the backing of much of

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<sup>38</sup> Christoph Nonn, *Die Ruhrbergbaukrise. Entindustrialisierung und Politik*, Göttingen 2001.

<sup>39</sup> Werner Plumpe, *Krisen in der Stahlindustrie der Bundesrepublik Deutschland*, in: Friedrich-Wilhelm Henning (ed.), *Krisen und Krisenbewältigung vom 19. Jahrhundert bis heute*, Frankfurt a.M. 1998, 70–91.

<sup>40</sup> Stephan H. Lindner, *Den Faden verloren. Die westdeutsche und die französische Textilindustrie auf dem Rückzug, (1930/45–1990)*, Munich 2001.

<sup>41</sup> Werner Plumpe, *Zwischen Boom und Krise: Der Arbeitsmarkt in Nordrhein-Westfalen von 1955 bis 1967*, in: Anselm Faust (ed.), *100 Jahre Arbeitsmarktpolitik in Rheinland-Westfalen vom Ende des 19. Jahrhunderts bis zur Gegenwart*, Essen 1997, 71–88.

<sup>42</sup> Erhard's role in the economic policy of the day is controversial at least to the extent that assessments of his person differ widely. However, the essence of that policy is beyond dispute, even if Erhard himself was ultimately more salesman than original thinker; see also Bernhard Löffler, *Soziale Marktwirtschaft und administrative Praxis. Das Bundeswirtschaftsministerium unter Ludwig Erhard*, Stuttgart 2002. For a highly critical treatment, see especially Volker Hentschel, *Ludwig Erhard. Ein Politikerleben*, Berlin 1998.

German industry.<sup>43</sup> Granted, consideration was already being given during Erhard's chancellorship to having central government play a greater role in steering the economy at a practical level. The institution of the Sachverständigenrat dates from this period, as does the initial planning for the later 'Stabilitätsgesetz' of 1967.<sup>44</sup> However, in the light of the economic problems that developed in the mid-1960s, Erhard quickly found himself out of his depth. Despite a certain cooling in the economic situation becoming apparent in 1965–66, having triumphed in the 1965 federal parliamentary elections with his Maßhalten project, Erhard pursued a policy of budgetary restriction. This had the effect of worsening the shrinkage of the economy that occurred in late 1966 and furnishing his Keynesian critics with enough ammunition to cast doubt on his economic competence. Faced with a difficult economic situation, his party (the Christian Democratic Union) dropped him.<sup>45</sup> In the newly formed Grand Coalition, the office of Federal Minister of Economic Affairs was entrusted to Karl Schiller, a proven Keynesian and a real Professor of Economics as opposed to Erhard, whose professorship was purely titular. In the space of a few weeks Erhard's star had waned and the man himself been replaced. Global control was the buzzword now.

In East Germany, while the western part of the country was enjoying its economic miracle, the economy was developing structurally in a different way.<sup>46</sup> It was not that the East German leadership under Walter Ulbricht lacked desire to build up the GDR economy quickly and successfully. On the contrary, until Ulbricht's fall it remained his intention to use economic achievement to stabilize the GDR, particularly in relation to West Germany. However, the conditions were anything but favor-

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<sup>43</sup> On the subject of EEC criticism by German industry, see Werner Bührer, *Abschied von der Supranationalität. Deutsche Europapolitik und europäische Integration*, in: Axel Schildt/Detlef Siegfried/Karl Christian Lammers (eds), *Dynamische Zeiten. Die sechziger Jahre in den beiden deutschen Gesellschaften*, Hamburg 2003, 248–72.

<sup>44</sup> Alexander Nützenadel, *Wissenschaftliche Politikberatung in der Bundesrepublik. Die Gründung des Sachverständigenrates zur Begutachtung der gesamtwirtschaftlichen Lage 1963*, in: *Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte* [VSWG] 89 (2002), 288–306. For an overview, see Alexander Nützenadel, *Stunde der Ökonomen. Wissenschaft, Politik und Expertenkultur in der Bundesrepublik 1949–1974*, Göttingen 2005.

<sup>45</sup> Edgar Wolfrum, *Die geglückte Demokratie. Geschichte der Bundesrepublik Deutschland von ihren Anfängen bis zur Gegenwart*, Stuttgart 2006, 216–26.

<sup>46</sup> Steiner, *Von Plan zu Plan* (see above, note 1), 83–123.



able. The partition of Germany led to a rupturing of the way in which division of labor had previously been structured in the central part of the country. Willy-nilly, the Cold War shifted the orientation of the East German economy toward the Eastern Bloc. At the same time, from the early 1950s attempts were made to build up a separate heavy-industrial base in the GDR and to strengthen certain strategic areas of business (chemicals) in order to enhance the country's economic independence, notably from the Federal Republic. What emerged was that, for all its growth successes, the Eastern Bloc was no substitute for international markets. The Soviet Union in particular wanted simple, robust investment goods, but even in this area, which East Germany's investment-goods industry set out to serve, it steadily lost ground to businesses from the western Länder. The attempt to free the GDR economy from interference ('Störfreimachung') led eventually to western imports being substituted for inferior home-produced items. Such efforts actually constituted barriers to growth. They also (at least in comparison with the West) lowered productivity. Introduction of a socialist planned economy and widespread abolition of private ownership and market-style business relations added further burdens, with the result that as early as the 1950s the East German economy as a whole fell behind development in the western part of the country. The clearest indication of a steadily widening gap was an increasing flow of better-qualified workers out of East Germany. In time, this itself became an important factor in the relative backwardness of the GDR. The building of the wall in 1961 and the subsequent attempt, through the New Economic System for planning and governance in economic affairs, to tackle these problems directly together constituted an almost logical turning-point in the economic history of the GDR. However, the reform attempts (including greater decentralization of decision-making, more flexible price-formation, harnessing of forces of market coordination) remained half-hearted and were accordingly, because of the deeply unsatisfactory events of 1967, more or less silently swept under the carpet, even though the Ulbricht Politburo stuck to its ambitious objectives. Only under Erich Honecker with his emphasis on the unity of economic and social policy was a new direction

announced—culminating in the eventual complete decline of the East German economy.<sup>47</sup>

## The Socialist-Liberal Coalition

In the light of Erhard's former popularity, his departure was surprisingly unspectacular. The new Grand Coalition government under Chancellor Kurt-Georg Kiesinger (conservative CDU/CSU plus socialist SPD) met with immediate acceptance as an appropriate response to the crisis.<sup>48</sup> Economic politician Karl Schiller took charge at the Bundeswirtschaftsministerium and quickly succeeded in making even Erhard's economic-policy fame pale into insignificance. Schiller, who combined great intellectuality with equally great self-confidence, was a Social Democrat and championed a quite different economic line from Ludwig Erhard.<sup>49</sup> Erhard's ultimately traditional view was that the autonomously acting nation state should guarantee a free economic order within which firms and consumers should be at liberty to act in accordance with their interests and preferences. The laws of supply and demand, of market and price mechanisms, could then be relied on to sort matters out.<sup>50</sup> Schiller did not believe in the autonomous functioning of the market. His view was that the market led to imbalances in development that government economic policy must actively counter. However, he did not see government as a given—an ethical ideal, so to speak, that must act in accordance with its own laws and its own standards. Indeed, government must be defended against a range of social and lobbyist interests. To Schiller's way of thinking, state and politics

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<sup>47</sup> André Steiner, *Die DDR-Wirtschaftsreform der sechziger Jahre. Konflikt zwischen Effizienz- und Machtkalkül*, Berlin 1999. See also André Steiner, *Von 'Hauptaufgabe' zu 'Hauptaufgabe'. Zur Wirtschaftsentwicklung der langen sechziger Jahre in der DDR*, in: Schildt/Siegfried/Lammers (eds), *Dynamische Zeiten* (see above, note 43), 218–47.

<sup>48</sup> Klaus Hildebrand, *Von Erhard zur Großen Koalition 1963–1969*, Stuttgart 1984.

<sup>49</sup> Torben Lütjen, *Karl Schiller (1911–1994). 'Superminister' Willy Brandts*, Bonn 2008.

<sup>50</sup> Tim Schanetzky, *Die große Ernüchterung. Wirtschaftspolitik, Expertise und Gesellschaft in der Bundesrepublik 1966 bis 1982*, Berlin 2007, 21–34. For general background, see Paul Nolte, *Die Ordnung der deutschen Gesellschaft. Selbstentwurf und Selbstbeschreibung im 20. Jahrhundert*, Munich 2000.

formed part of society. The actions of governments and politicians sprang from a legitimate representation of interests; they were the outcome of clash and consensus. Within that process of negotiation, Schiller saw his role as that of a presenter equipped with superior economic knowledge who must ultimately guide those conflicting interests along the proper path of economic responsibility. West Germany's 'Stabilitätsgesetz' (prepared under Erhard but not passed until 1967)<sup>51</sup> committed the state to promoting the so-called magic quadrilateral of price stability, full employment, balance of payments, and a reasonable level of economic growth. Accordingly, it entitled the state to intervene in the management of the economy—something Erhard had consistently refused to do. In Schiller's hands, this became a powerful weapon, much like the 'Concerted Action' organization that he launched. This collective institution involving the ministry, employers, and unions (later including the Länder as well) was intended to provide flanking action, as it were, for measures taken in connection with the Stabilitätsgesetz. In other words, it must ensure that action taken by the government attracted a broad social consensus. To this end the ministry issued guidelines (concerning anticipated growth rates, price developments, etc.) that would then give some idea of how (for instance) wages would develop in future. At first, the model seemed to work well.<sup>52</sup> The economic crisis of 1966–67 was quickly overcome, and in 1968 and 1969 growth rates returned to the levels to which West Germany had become accustomed in the economic miracle years—albeit that strong inflationary pressure returned because of the undervalued DM. The unions, which in the context of 'Concerted Action' had kept to the initially low growth expectations that (as forecast) gave little scope for wage increases, were left out in the rain. High growth on the one hand and high inflation on the other drastically worsened the distributive position of workers. The year 1969 saw a rash of wildcat strikes break out over wide areas of West Germany,<sup>53</sup> with many firms

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<sup>51</sup> Schanetzky, *Die große Ernüchterung* (see above, note 50), 81–90.

<sup>52</sup> Tim Schanetzky, *Sachverständiger Rat und Konzertierte Aktion: Staat, Gesellschaft und wissenschaftliche Expertise in der bundesrepublikanischen Wirtschaftspolitik*, in: VSWG 91 (2004), pp. 310–31.

<sup>53</sup> Peter Birke, *Wilde Streiks im Wirtschaftswunder. Arbeitskämpfe, Gewerkschaften und soziale Bewegungen in der Bundesrepublik und Dänemark*, Hamburg 2007.

eventually making concessions that infringed wage agreements, further enhancing union fears. Certainly, after 1969 unions were no longer prepared to let 'Concerted Action' tie their hands. However, it was not only the failure of 'Concerted Action' that undermined Schiller's position. Mounting inflationary pressure, countered temporarily by revaluation of the DM (highly controversial, of course), eventually led to removal of controls from the DM exchange rate. The move markedly boosted the value of the West German currency, of course, but at the same time it lessened inflationary pressure from abroad. This did little to reduce home-grown threats to stability, which in fact increased. The 1969 general election marked the end of the Grand Coalition, installing a socialist-liberal government (Social Democratic Party, SPD with support of the Free Democratic Party, FDP) in its place. And at least from that point on budgetary and fiscal policy ceased to be driven by purely financial and economic-policy considerations, increasingly reflecting the socio-political objectives of the new federal government instead. Not only did the government plan 'more democracy'; it also aimed to correct social inequality and its consequences. For this, a change to society being out of the question, far-reaching structural reforms (notably a substantial broadening of government social policy) appeared to be required. Schiller's strategy called for higher expenditure in crises but cuts in boom times. In other words, it took an anticyclical approach based on the Keynesian model. So it was rather knocked off its hinges when, having survived the 1969 crisis, the last thing the federal government meant to do was to reduce spending. On the contrary, spending went up dramatically, prompting first Finance Minister Alex Möller to resign with all speed. Schiller was still optimistic enough to assume Möller's office as well, with the result that in 1971 and 1972 he was a 'super-minister', handling not only Economic Affairs but Finance too. Yet even he failed to bring the government to heel economically and tendered his own resignation in 1972.<sup>54</sup> When in 1973 the Brandt government eventually applied the economic-policy brakes as growth rates rose and inflationary pressure increased, it did so

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<sup>54</sup> On what follows, see Harald Scherf, *Enttäuschte Hoffnungen—vergebene Chancen. Die Wirtschaftspolitik der sozialliberalen Koalition*, Göttingen 1986. On the planning and reformist euphoria of the time, see also Gabriele Metzler, *Konzeptionen politischen Handelns von Adenauer bis Brandt. Politische Planung in der pluralistischen Gesellschaft*, Paderborn 2005.

at precisely the wrong moment. The end of that year saw a drastic hike in oil prices following the fighting in the Middle East, which further aggravated an incipient recession. In 1974, the second major economic drama of the post-war period broke out, rapidly culminating in a true crisis. In 1975, the average annual unemployment figure topped one million for the first time—the highest it had ever been. Brandt's resignation in 1974 signaled the end of reformist optimism, and the new chancellor, Helmut Schmidt, was seen as the embodiment of objectivity and realism. West Germany never officially said farewell to Keynesianism, but the mid-1970s marked its demise there. Even ideas of feasibility had had to give way to stark economic reality. Nevertheless, Helmut Schmidt's chancellorship did not mean a radical break with the reform period presided over by Willy Brandt. The national debt increased further, inflation did not come down significantly, and government-funded economic programs (admittedly under the influence of the other OECD states, which forced Germany into the role of engine of economic development) remained in place. Even so, Schmidt managed (with the help of his French counterpart, Valéry Giscard d'Estaing, and above the backing of Germany's own Bundesbank!) to stabilize the European monetary situation (currency snake, monetary system) and make the DM in practice the reserve currency in Europe.<sup>55</sup> This and other successes gained him the flattering title of 'world economist'. Despite an accumulation of problems, in the second half of the 1970s West Germany occupied a good position internationally, particularly since the USA under Jimmy Carter wobbled as much as the UK during the autumn of its weary Labour governments. Schmidt could well brag with his 'German model'.<sup>56</sup> Only with the revival of the UK and USA economies under Margaret Thatcher and Ronald Reagan in the 1980s did Germany's star fade.<sup>57</sup>

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<sup>55</sup> Barry Eichengreen, *Vom Goldstandard zum Euro. Die Geschichte des internationalen Währungssystems*, Berlin 2000. Helmut Schlesinger, *Die Geldpolitik der Deutschen Bundesbank 1967–1977*, in: Werner Ehrlicher/Dieter Duwendag (eds), *Geld- und Währungspolitik im Umbruch*, Baden-Baden 1983, 59–83.

<sup>56</sup> Andreas Rödter, *Das 'Modell Deutschland' zwischen Erfolgsgeschichte und Verfallsdiagnose*, in: *Vierteljahrshefte für Zeitgeschichte* 54 (2006), 345–63.

<sup>57</sup> For a thorough treatment of the mid-1990s crisis and the end of the Keynesian taxation program, see Schanetzky, *Die große Ernüchterung* (see above, note 50), 211–32.

Changing economic circumstances (strong growth until 1973, followed by stagflation, weaker growth, and recessions after 1973–74, and an altered monetary situation coupled with a sharpening of competition in world markets as a result of the rise of the Asian countries) had dramatic repercussions so far as structural change in the German economy was concerned. During the 1970s, industrial employment went into severe decline as whole branches of industry disappeared one by one. The marked growth of the public sector that had begun in the late 1960s and continued for almost an entire decade could only partially compensate. The fact was, public-sector jobs required quite different qualifications from jobs in the more traditional branches of industry. Between 1970 and 1985, the percentage of persons employed in manufacturing declined from nearly 50% to just over 40%. Numbers employed in the tertiary sector rose from 42.5% to 44.7% over the same period—with most of the growth occurring in services while commerce and transport stagnated.<sup>58</sup> Consequently, unemployment rose steeply in 1974, affecting mainly workers with low-level qualifications in specific branches. It also, almost inevitably, affected specific regions (notably the Ruhr), where negative economic and social characteristics increasingly took hold. The policy reactions of the federal government to this accumulation of problems comprised on the one hand stimulation of the economy together with targeted enhancement of the educational system and on the other hand expansion of the labor market to absorb the unemployed and improve their chances of finding work.<sup>59</sup> However, this did not add up. Government spending (hence the national debt) increased year on year, yet the hoped-for economic and structural effects failed to appear. The term that came to describe the dilemma of the latter half of the 1970s (high inflation combined with low growth) was stagflation. Not without reason, given the circumstances, did the Free Democratic Party withdraw its support from the socialists in 1982, calling for a radical change of direction in economic policy. Helmut Schmidt could perhaps justly accuse the FDP and in particular its economic-policy champion,

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<sup>58</sup> On industrial structural change since the 1970s, see Abelshauser, *Deutsche Wirtschaftsgeschichte* (see above, note 1), 307. These figures are taken from the same source.

<sup>59</sup> On the economic policy of the Schmidt government, see Andreas Rödder, *Bundesrepublik 1969–1990* (see above, note 1).

Count Lambsdorff, of disloyalty but certainly not of professional incompetence.<sup>60</sup>

In the 1970s, East Germany likewise found itself in choppy economic waters.<sup>61</sup> Honecker's line about the unity of economic and social policy had quite quickly exhausted the potential of the GDR economy. It proved impossible to increase productivity, foreign trade, and level of domestic consumption by any perceptible measure, all at the same time. Concentrating on consumption made it necessary to increase imports, which could be funded only by increasing the amount the country owed the West. The fact was, accelerating structural change in the world economy dramatically reduced East Germany's international competitiveness. Exports to the western world were the country's only way of earning the foreign currency with which to pay for the imports so essential to its survival. However, it often happened that such exports were possible only at prices that were so low that the GDR had to subsidize them from its own capital. Halfway acceptable deals could be struck only in oil refinement, the Soviet Union continuing to supply crude oil at below market prices into the early 1980s. Selling manufactured goods to the West, where oil prices were high, therefore brought exceptionally good returns. However, that was also one of the GDR economy's few strengths. The only alternative was getting into debt, which when Poland and Romania could no longer service their debts in the early 1980s dragged the GDR also to the verge of insolvency. Without the loans granted by Franz-Josef Strauss in 1982, the East German economy would have faced the abyss long before 1989; ostensible full employment notwithstanding, it was no longer capable of surviving unaided.

## The 'Neo-liberal Swing'

A key characteristic of the economic policy of the socialist-liberal coalition was the rise in the percentage of GNP that went on government spending (including social security). In the early 1980s, this was well over

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<sup>60</sup> Johannes Merck, *Klar zur Wende? Die FDP vor dem Kurswechsel in Bonn 1980 bis 1982*, dissertation, Berlin 1989.

<sup>61</sup> Steiner, *Von Plan zu Plan* (see above, note 1), 165–96.

48 %, whereas 20 years before it had only just topped the 30 % mark.<sup>62</sup> Spending on social security rocketed in the 1970s—not least because the extension of state benefits to cover market risks was driven forward systematically. This expansion of the welfare state became an economic problem during crisis years. By driving up labor costs it undermined its own foundations. As labor costs rose (while demand for labor was weakening, if anything) the inevitably rising costs of unemployment in turn became a burden on benefits. The attempts of the Kohl government to pursue a different economic policy after 1982 sprang not least from the need to escape this downward spiral.<sup>63</sup> Meanwhile the ‘neo-liberalism’ of the Kohl government (which in the eyes of its critics was not so much an economic policy as a deliberate shrinking of the welfare state) amounted in practice to a series of half-hearted measures to limit state spending and deregulate business (telecommunications, the Post Office); actions against social security itself were distinctly limited. State spending did indeed go down, but this was chiefly as a result of the growth cycle of the 1980s and declining energy prices; only to a very limited extent did it have to do with things that the Kohl government did. Even so, shortly before reunification government outgoings had dropped to 44.5 %, while unemployment, from over 2 million in 1982–83, was down to some 1.8 million. In 1989, Finance Minister Stoltenberg was able to announce a reform of income tax.<sup>64</sup>

Industrial structural change had of course continued unchecked. In 1990 only 3.5 % of the employed population was still working in agriculture. Numbers employed in the industrial sector likewise diminished further between 1980 and 1990—from 45.3 % to 39.7 %. The big winner in the 1980s was the service sector, where by the end of the decade jobs were (at 38.1 %) almost as plentiful as in industry, while in com-

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<sup>62</sup>Norbert Leineweber, *Das säkulare Wachstum der Staatsausgaben. Eine kritische Analyse*, Göttingen 1988.

<sup>63</sup>*Geschichte der Sozialpolitik in Deutschland seit 1945*, Vol. 7: Manfred G. Schmidt (ed.), Bundesrepublik Deutschland 1982–1989: Finanzielle Konsolidierung und institutionelle Reform, Baden-Baden 2005.

<sup>64</sup>In this connection, see also Reimut Zohlnhöfer, *Die Wirtschaftspolitik der Ära Kohl. Eine Analyse der Schlüsseleinscheidungen in den Politikfeldern Finanzen, Arbeit und Entstaatlichung 1982–1998*, Opladen 2001.



merce and transport they stagnated around 18%.<sup>65</sup> Industrial production having further increased over the same period, these figures conceal clear productivity increases, which also found expression in a reduction of working hours as the decade went on. The fact was, despite a slight fall in unemployment imbalances in the labor market had by no means been done away with; they had merely been made invisible by various government measures—early retirement, primarily. As a result, while the West German economy had certainly been able to punch its weight in world markets during the 1980s, the skewed situation in public finances and social-security systems had worsened nonetheless.<sup>66</sup>

However, measured against the economic collapse of the GDR (which was happening simultaneously) these problems were entirely solvable, particularly since West Germany cut a very positive figure inside the European Community. Granted, East Germany<sup>67</sup> had reduced its national debt following the great payment crises of the early 1980s. However, that had been possible only by the country's accepting a disastrous degree of capital expenditure coupled with plummeting popular consumption. The business of refining crude oil began to lose money in mid-decade as prices sank in the West while Russia not only raised them but reduced quantities. The switchover to brown coal was dear, inefficient, and ecologically catastrophic. With expensive major investments such as microelectronics requiring to be financed at the same time, the rest of industry ate up more and more capital and fell further and further behind world markets. The exports so crucial to earning foreign currency had to be subsidized, hemorrhaging even more capital, particularly since under Honecker the political leadership clung for political reasons to its expensive policy of subsidizing basic foodstuffs and rents. By the end of the 1980s, East Germany was caught in a trap of its own making, since now the political loyalty of its citizens or at least their acquiescence was

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<sup>65</sup> Abelshausen, *Deutsche Wirtschaftsgeschichte* (see above, note 1), p. 307.

<sup>66</sup> Michael von Prollius, *Deutsche Wirtschaftsgeschichte seit 1945*, Göttingen 2006, 207–23.

<sup>67</sup> On what follows, see particularly Steiner, *Von Plan zu Plan* (see above, note 1), 197–226. See also Johannes Bähr/Rainer Karlsch/Werner Plumpe, *Erträge und Desiderata des deutsch-deutschen Vergleichs. Wirtschaftshistorische Anmerkungen zu einem abgeschlossenen Projekt*, in: Lothar Baar/Dietmar Petzina (eds), *Deutsch-deutsche Wirtschaft seit 1945. Strukturveränderungen, Innovationen und regionaler Wandel. Ein Vergleich*, St. Katharinen 1999, 1–24.

draining away as well. Economic ruin eventually prompted mass flight, lack of support from the Soviet Union brought the wall down, and the GDR met its end. Only now was there general recognition of quite how great an economic disaster 40 years of socialism had wrought on German soil.

## Germany Reunited

The economic history of Germany following reunification has yet to be written, although numerous drafts exist already and the chorus of contemporaries who have felt called on to pass economic judgment since the early 1990s is almost uncountable.<sup>68</sup> In the light of the structural problems and the incidences of stagflation that have haunted the country since the mid-1990s, coupled with its relative falling-back down the international rankings, a fundamentally gloomy view of the economic history of the post-1990 Federal Republic has prevailed. There has been a tendency to feel that existing structural problems, made worse by an economically precipitate and poorly managed reunification process, eventually caused the German economy to slip down the growth tables. Titles such as *Ist Deutschland noch zu retten?* filled and continue to fill the bookshop shelves and provide talking-points for countless television talk shows—some more inspiring than others.<sup>69</sup>

Taking a longer-term view, such pessimism is uncalled-for. Certainly, after 1990 the German economy labored under substantial extra burdens. There is no doubt about. Notable among them is a relative loss of welfare benefits, arising from the fact that the economies of the eastern Länder collapsed very quickly (in terms of their capital reserves) after

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<sup>68</sup> From the standpoint of social history, see Gerhard A. Ritter, *Der Preis der deutschen Einheit. Die Wiedervereinigung und die Krise des Sozialstaats*, Munich 2007. From the economic standpoint, there have been many accounts, most of which treat the consequences of unification and the current structural problems of the economy together. Particular regard is paid to the consequences of union by Hans-Werner Sinn, *Volkswirtschaftliche Probleme der deutschen Vereinigung*, Opladen 1996.

<sup>69</sup> A typical literary instance is Wilhelm Hankel, *Die sieben Todsünden der Bereinigung. Wege aus dem Wirtschaftsdesaster*, Berlin 1993.

1990.<sup>70</sup> In the short term, few immediate substitutes could be found for industrial jobs in the former East Germany being swept away by the unforgiving winds of competition. Moreover, the notion that the industrial wealth of the former GDR could have held its own at wage rates significantly lower than those agreed after currency union is unrealistic, particularly since in the former eastern Länder the infrastructure for an appropriate level of industrial growth first needed to be created. All this was achieved very successfully. It even proved possible to lift the living standards of local populations almost at a stroke up to a level comparable with that of the western part of the reunited country. If we now allow for the fact that the enlarged Federal Republic at the same time remained the largest net contributor to the European Union, we gain some idea of the historically unprecedented burdens placed upon the shoulders of the post-1990 German economy—burdens that were subsequently borne with comparative efficiency. From an international perspective, there were other factors that made the country drop back at times, notably its non-involvement in the real-estate boom that swept north-west Europe, Spain, and the USA, the sometimes unfortunate repercussions of which are currently emerging. The fact is, gauged by the robustness of the German economy after 1990 in relation to the scale of the tasks to be accomplished, assessments will tend to be positive.<sup>71</sup>

One may recollect that taking place at the same time was a substantial transformation of economic and business structures, chiefly in response to the dictates of increasing globalization. In a lengthy and sometimes distinctly conflict-ridden process this country's commercial structures first had to adapt to the requirements of international capital markets, where more traditionally organized, somewhat inward-looking German firms were visibly losing ground. These changes had as much to do with the abolition of the 'Germany AG' as with any internationalization of corporate management and corporate strategy. Here in Germany such internationalization repeatedly met with misunderstanding—even rejec-

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<sup>70</sup> Examples may be found in Karl-Heinrich Oppenländer (ed.), *Wiedervereinigung nach sechs Jahren. Erfolge, Defizite, Zukunftsperspektiven im Transformationsprozess*, Berlin 1997.

<sup>71</sup> See also Dieter Brümmerhoff, *Nutzen und Kosten der Wiedervereinigung*, Berlin 2004.

tion. After all, the measures involved ranged from dissolving traditional firms (e.g. Hoechst, Mannesmann) to a robust employment policy that relocated production abroad (often at short notice), refashioned pay structures and working conditions, or cut manpower despite high profitability. Starting in the 1990s, competitive pressures in the global marketplace were passed on almost without mediation to the working population in Germany. Pay and working hours fell steadily, and over-manning (particularly so far as older or less-qualified employees were concerned) was wherever possible done away completely.<sup>72</sup>

In other words, structural change resulting only in part from reunification and in part from globalization now bore down on a welfare budget that was already being pushed closer and closer to its limits by an ageing population. In Germany's case, reunification brought additional burdens: pensions with no history of contributions, and so on.<sup>73</sup> Nevertheless, the Kohl government (up until 1998) and the first Schröder government (up until 2002) did little to change the structures of the welfare state, and the resultant financial burdens found expression in rising contributions and the extra taxation required to pay for welfare policy. On the other hand, mounting government contributions coupled with high labor on-costs were making Germany a less attractive business location in a competitive global market, which did nothing to enhance its economic dynamism. Not until the agenda politics of the second Schröder government, which at least so far the Merkel government has continued, was there a perceptible disburdenment of the welfare state in conjunction with an additional economic stimulus brought about by reduced unemployment. Currently, German firms too enjoy a strong position worldwide, so that the state of recent economic history, for all the criticism of economic and social policy that there has been since 1990, looks thoroughly positive.

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<sup>72</sup> On structural change as it affected companies, a polemical account (but one containing excellent examples) is Reinhart Blomert, *Die Habgierigen. Firmenpiraten, Börsenmanipulation: Kapitalismus außer Kontrolle*, Munich 2003.

<sup>73</sup> Ritter, *Preis der Einheit* (see above, note 68).

## The German Economy in the New Millennium

Summing up the economic history of the last 60 years, on the whole we must speak of a success story. Today Germany is among the world's most affluent countries, providing its citizens with what in welfare terms are thoroughly acceptable living conditions coupled with effective protection against life's major economic risks. Numerous indicators point to growing social inequality as measured by income, assets, or level of education. However, such information has of course to be considered relatively on an international scale of comparison. Germany also numbers among the more homogeneous of capitalist societies, having been spared a major social split up to now. Moreover, current political debate suggests that 'Rhine capitalism' is unlikely to be abandoned in the next few years or even decades.

This specific type of German social partnership has not been discussed in the foregoing pages, nor has there been room for it. So let this concluding paragraph be devoted to it. The roots of 'Rhine capitalism' go back a long way, but although the expression was coined by French economist Michel Albert its substance is a product of the German Federal Republic. Lothar Gall was quite wrong to describe the banker, Hermann Josef Abs, as epitomizing this kind of social cooperation within capitalism.<sup>74</sup> The defining characteristics of 'Rhine capitalism' have always been the medium- and long-term orientation of its corporate activity, its integration in social partnership (notably achieved through the vehicle of co-determination), and an accompanying governmental social policy that at least cushions the main market risks. That is how the productivity that lies at the heart of 'Rhine capitalism' (high-quality production by loyal, well-qualified workforces) has been guaranteed over long periods. Structural change since the 1970s and intensive globalization since the 1990s, in conjunction with the tax legislation of the Red-Green coalition, which favored the dissolution of inter-company involvement financially, pulled the rug from under the feet of this form of 'Rhine capitalism'—partially, at least, in that the big German capital corporations now operate by the standards of international capital markets,

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<sup>74</sup>Lothar Gall, *Hermann Josef Abs. Eine Biographie*, Munich 2004.

being no longer able exclusively (or even primarily) to take their cue from Germany's traditional economic culture. To that extent the old 'German capitalism' of interwoven big businesses (what we have termed 'Germany AG') is indeed a thing of the past.<sup>75</sup> However, that is not at all true of the small and medium-sized business sector, of social partnership or welfare legislation—indeed, of present-day economic and corporate culture. There seems to be a struggle going on in Germany nowadays (against a background of far-reaching structural change) to find new solutions, new models to follow. The future is open, certainly, but there are path dependencies, and there is no doubt that social partnership will remain one of Germany's strongest traditions.<sup>76</sup>

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<sup>75</sup>Werner Plumpe, *Das Ende des deutschen Kapitalismus*, in: WestEnd. Neue Zeitschrift für Sozialforschung 2 (2005), issue 2, 1–23.

<sup>76</sup>Werner Plumpe, *Kapital und Arbeit. Konzept und Praxis der industriellen Beziehungen im 20. Jahrhundert*, in: Reinhard Spree (ed.), *Geschichte der deutschen Wirtschaft im 20. Jahrhundert*, Munich 2001, 178–99.

# **Part IV**

## **The History of Industrial Relations**

# 11

## Capital and Labor: Concepts and Practice of Industrial Relations in the Twentieth Century

The development of relations between capital and labor is a central issue of twentieth-century German economic and social history. The structure and functioning of these relations were also decisive for the efficiency of the labor market as for the integration of society. Despite many similarities to Western Europe and North America, the path followed by Germany in the last third of the nineteenth century was unique: while ‘social partnership’ [Sozialpartnerschaft] as institutionalized and guaranteed by the German state did not mean that the social and economic crises of the first half of the twentieth century could be avoided, it was nevertheless a success in overall terms. Only now at the end of this ‘century of social partnership’ can its foundations be seen to crumble under the harsh wind of economic structural change and globalization. Even though no exact cut-off date can as such be provided here, the following does explore a German ‘special path’ of the twentieth century: the history of social partnership.

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## Concepts

While the labor market of the nineteenth century was organized under the paradigm of 'freedom of contract' (or of a liberal-individualistic labor law), the twentieth century typically followed the model of what became known in Germany as 'social partnership' (or of collective labor law). The First World War was a turning point in practical terms. While a conceptual shift had already begun in the 1870s, the war led to an initial institutionalization of social partnership in the labor market. The freedom of contract as defined by nineteenth-century trade laws and by civil law was based on the comprehensive liberalization of the labor markets and on the creation of the unlimited recognition of the respective parties joined in contract as legal persons. This form of labor market constitution was clearly distinct from pre-modern arrangements in which the use of human labor was limited by personal relations or common regulations. While specific risks concomitant to the liberal labor market constitution (e.g. child and female labor, night shifts, overlong working hours, a lack of health protection, the strong link of wages to economic trends) slowly reached public awareness, prior to 1914 the state only basically intervened in those areas where either overlying reasons made social measures necessary (child labor, female labor, health risks) or specific labor market regulations had a strong lobby (artisans); all further attempts to regulate at least fundamental aspects of the employment relationship remained half-hearted or without effect (*Gewerbeordnungsnovelle*, 1892; *Novelle zum Preußischen Berggesetz*, 1905). Hence, the essence of industrial employment was not fundamentally changed; to the contrary, faith was put in the self-regulation of labor markets. Indeed, the need to uphold the freedom of contract provided the justification for the state to intervene against strikes. Although strikes were no longer illegal after the late 1860s, their imposition on workers willing to work was regarded as a violation of the freedom of contract.

The concept of 'social partnership' was developed to combat the risks resulting from this labor market organization (albeit that social partnership is a modern term which essentially involves the peaceful reconciliation of contrary but respectively legitimate interests). After the mid-nineteenth

century, the liberal labor market constitution was increasingly seen to be a factor of social disintegration—politically dangerous and economically foolish. One significant factor here was that after the introduction of universal suffrage in 1867, a political reformulation of social problems seemed possible, if not inevitable, and that the ‘victims’ of social injustice gained political weight, at least prior to elections. In this sense, the ‘social question’ became a political warning. The Social Democrats (SPD) demanded the fundamental political reform of society in order to reduce social risks, having identified the cause of the latter to be the social order. Hence, the belief was that political reform would also bring an end to the specific risks of the labor market. In contrast, however, the concept of social partnership, most decisively formulated within circles close to ‘middle-class social reform’, attempted to uphold the legitimacy of contemporary society by structuring risks with an eye to future developments. Its main representatives were to be found in the Catholic and Protestant churches as well as in state bureaucracy and academia, especially in the field of political science. Their aim was to reduce or rather gain control over the risks of the labor market through insurance and collective regulations, in order to serve both social justice and productivity on the basis of an appropriate institutionalization (compulsory social insurance, collective bargaining, works constitution). According to one of the central tenets proposed by Gustav Schmoller, the leading figure of the younger German Historical School and figurehead of ‘socialism of the (professorial) chair’ [‘Kathedersozialismus’], justice and efficiency were mutually dependent: ethical and functional considerations were not contradictory but were two sides of the same coin.

The proponents of social partnership had different ideas about how it was to be achieved. While religious circles drew on arguments of subsidiarity and solidarity in their attempt to modify mainly conflicting (liberal) positions, academic groups favored either solutions involving the state more strongly (social kingship, especially Gustav Schmoller) or collective regulation by labor market parties themselves (Lujo Brentano). Yet essentially the core of the argument involved a state-guaranteed institution based on the willingness to compromise and to achieve peaceful reconciliation in the fight against or the minimization of specific labor market risks. Its protagonists were convinced that this would lead to an

increase in economic productivity and an improvement in social integration. That the economic balance within labor markets could be disturbed in structural terms by regulation through social partnership (labor market cartels), especially that the cost of labor could become too high, played no part in these considerations. To the contrary, unregulated labor markets seemed unproductive, inefficient, and expensive.

Aside from the socialists, only the 'economic' liberals and some conservatives, who still held on to a pre-modern notion of labor relations, deviated from the consensus on social partnership. Nevertheless, attempts to put social partnership into practice prior to the First World War remained modest, not least because of opposition from the major industries and the upward economic trend which dampened the explosive nature of social risks during the Wilhelmine era. The best examples of social partnership were still to be found in the social policy pursued by the state, in particular with regard to health, invalidity, and accident insurance. Their principle of self-administration basically assumed a peaceful, collective cooperation between the 'social partners', while of course the 'authoritarian' motives of Bismarck's social policy concept cannot be ignored (precisely because of which he was not able to block a state solution in the face of opposition from the Centre). In terms of the constitution at works-level (*Gewerbeordnungsnovelle*, 1892; *Novelle zum Preußischen Berggesetz*, 1905), the state also attempted to at least institutionalize elements of 'social partnership' with the introduction of worker committees, albeit under pressure from influential social movements. By establishing business and factory courts, the state also created a whole new area of jurisdiction for conflicts arising out of industrial employment. Yet collective labor law was still out of reach; the failure of all attempts to establish the collective regulation of labor markets through wage agreements within the major industries also reflected the dominance of liberal labor law. Not until the First World War and its aftermath did fundamental change occur.

## Phases of Institutionalization

Decisive steps toward the institutionalization of social partnership were made during the twentieth century, each in the context of social

and political crises or fundamental changes of course which seemed to demand a 'neutralization' of social conflicts. In most cases, political actors defined the direction and the intensity of the implementation of 'social partnership'. It is worth noting that the institutionalization of social partnership in Germany was not in fact carried out by the Social Democrats. Bismarck's social insurance was a feat accomplished by state bureaucrats and the Reichstag; it was introduced despite opposition from the SPD. The Social Constitution of Weimar was also the product of enlightened Prussian bureaucracy and Christian social policy, linked in particular to the name of Heinrich Brauns, Minister of Labor of the German Reich 1920–28. The dominance of Christian social thought also continued in the postwar period after 1945. The only Social Democratic attempt to reform labor law in Germany was in 1969 and short-lived. The dominance of Christian social thought was also true of daily political practice in social affairs: during 12 of the Weimar Republic's 14 years, the labor minister belonged to the Centre Party, in 36 of the Federal Republic's 50-year history, the labor minister was a Christian Democrat.

Four phases of institutionalization can be identified in the twentieth century; a fifth phase of as yet unknown dimensions seems to be currently underway. The first phase of institutionalization took place between 1916 and 1923. Legislation involved the question of workers' representation in companies vital to the war effort (*Vaterländisches Hilfsdienstgesetz*, 1916), the establishment of a central commission of cooperation between leading industrialists and trade unions (*Zentralarbeitsgemeinschaftsabkommen*, November 1918), wage levels, arbitration, and workers committees (*Verordnung über Tarif, Schlichtung und Arbeiterausschüsse*, December 1918). These developments were followed by the *Betriebsrätegesetz* of February 1920, various demobilization orders and finally by the restructuring of unemployment insurance administration and labor law jurisdiction (prepared by preliminary decisions in 1923 which were not actually implemented in legal terms before 1927 and 1928). In sum, these represented the assertion of the basic principle of collective, state-sanctioned labor law, orientated toward the peace reconciliation of conflicting interests. Although the creation of a comprehensive labor statute book, as set down in the Reich's constitution, was not achieved due to substantial opposition and rapidly changing political constellations, legal

reform remained thorough: after 1918 the state guaranteed a collective negotiating system over and above the structure of the labor markets. If the social partners were unable to reach a compromise, the state itself would intervene as the last instance in order to enforce economically and socially acceptable employment regulations.

During the second phase of institutional re-direction between 1932 and 1934, the economic and political constellation changed. Following world economic crisis, collective labor law had already lost any ability to function and now represented one of the main targets of the National Socialists. Its approach to conflict contradicted the latter's own notion of 'community' and also guaranteed the legitimacy of the autonomous representation of worker interests. Nonetheless, the National Socialist critique cannot be understood as a plea for the return to the liberal labor law of the era prior to 1914. After 1933, the *Gesetz über die Treuhänder der Arbeit*, 1933, and the *Gesetz zur Ordnung der nationalen Arbeit*, 1934, represented the perversion of existing labor law but not its complete eradication. National Socialist labor law retained the basic principle of collective labor law, albeit that workers lost any possibility to autonomously represent and formulate their interests within this framework. Although no longer an expression of conflict regulation and risk-structuring, collective structures remained as a point of reference in the context of a racist definition of a 'national community' (*Volksgemeinschaft*) and a 'factory community' (*Betriebsgemeinschaft*), in which the state first regulated wages and employment conditions and ultimately the whole labor market in an authoritarian manner.

The foundations of the present system of industrial relations between capital and labor and thus of today's labor market constitution were laid during a third phase of institutionalization between 1949 and the mid-1950s with the *Tarifvertragsgesetz*, 1949, the *Gesetz über die Montanmitbestimmung*, 1951, the *Betriebsverfassungsgesetz*, 1952, and finally—as a latecomer—the *Personalvertretungsgesetz*, 1955. The young Federal Republic returned to a modified model of Weimar social partnership but one in which the role of the state was more cautious and the workers' rights of codetermination were strengthened at the level of the factory and the company. While the state had been the last instance in the collective bargaining system of Weimar, the Federal Republic departed

from the model of compulsory arbitration in cases of industrial conflict. The essence of social partnership, the collective regulation of wages and employment conditions through industry-wide wage agreements was to a great extent 'autonomized' after 1945. Postwar reconstruction, the economic miracle, and growing margins for distribution made it easy for the state to withdraw from an active role in the arbitration of labor market conflicts.

To the present day, collective bargaining autonomy has remained essentially undisputed in the Federal Republic. So the fourth phase of institutionalization between 1969 and 1976 was, given that social policy was shaped by Social Democrats then in government, primarily concerned with the reorganization of 'in-house democracy' and employment conditions in the modern world of work. With amendments to the Works Constitution Act, to the legislation on wrongful dismissal, various attempts to extend company-level codetermination to parity, and programs for the humanization of the work environment, the social-liberal coalition of the day attempted to pursue its twofold goal of eradicating seemingly unjustified 'industrial rule' and fostering opportunities for employee participation as well as structural improvement to the living and working conditions of industrial workers in particular. It was assumed that in principle both targets could be reached by extending the remit and influence of trade unions.

The impetus to each phase of institutionalization, and not only to the phase after 1969, was carried by the specific semantics of the conflict between capital and labor. Here workers were portrayed as weaker in structural terms and at the mercy of 'industrial rule'. While placing limits on the 'power of capital' was clearly a goal after 1969, earlier targets involved the practical and symbolic possibility and encouragement of cooperation and peaceful reconciliation. The phases of institutionalization between 1918 and 1923 and between 1949 and 1955 thus emerged under the hegemony of a basically Christian social policy which aimed at reconciliation and not at structural reform. National Socialist social policy was driven by symbolic considerations: while workers were deprived of their rights in practical terms, Nazi social policy promoted the symbolic integration of the world of work as the triumph over the antithesis between capital and labor. Class conflict was to be replaced by a sense of

community based on race as embodied by the DAF, KdF-trips, and the communal eating of stew [Eintopfsonntag]. The reality of clashing interests and the semantics of class struggle were supposed to be forgotten in the process. Despite their many differences, these semantic patterns share one fundamental similarity which gained great significance for the role of the state in social partnership in the twentieth century. Aside from the institutionalization of the basic elements necessary to the reconciliation of conflicting interests, the semantics of inequality or of weakness also provided the foundation for the expansion of the welfare state as for the remarkable transition of labor law into an instrument for the protection of workers.

## The Role of the State

The changes in the role of the state in structuring relations between capital and labor during the twentieth century are perceptible; however, the overall tendency was one of perpetual expansion. The most clear reflection of this is perhaps the growth in the public spending to GDP ratio from roughly 15 percent prior to the First World War to about 50 percent at the end of the twentieth century. Of course the increase in state demands on the national product are not solely due to the structuring of industrial relations. Nevertheless, the expansion of social policy and the various forms of social insurance represent the material core of the growth in state activity. So the state increasingly came to define the framework of and relative prices on the labor market. Indeed, from the 1950s this occurred entirely to the benefit of employees; Lepsius goes so far as to argue that following the growth in social insurance systems an actual dependence of employees on the market barely existed, an observation which is hard to refute in the light of an expansion in the proportion of employees covered by the social insurance system from under 30 percent to the present-day proportion of over 90 percent. So despite the obvious social value of such measures, the structuring and limiting of risks by the state had unintended economic effects: the wide range of state transfer payments basically put substantial pressure on wages, insofar as work at a price set below the continually rising level of transfer payments was no

longer in demand. The practice of social partnership was not only shaped by this shift in relative prices on the labor market due to the expansion in state welfare policy; the state also massively intervened in the structuring of day-to-day affairs in the working world, in particular through the implementation of labor law, and again in favor of employees. A comparison of the situation of workers employed in the heavy industry of Rhineland-Westphalia at the beginning of the twentieth century with the current situation reveals the formative influence of social partnership in terms of structure, as a model institutionalized and decisively shaped by the state. Prior to 1914 employers and their agents possessed a practically unlimited authority to issue directives and to hire and fire on the basis of a freely agreed work contract. The worker, only insufficiently protected from the consequences of old age, illness, and accidents, carried the risks of unemployment and poverty to quite an existential degree given that the loss of employment could not be compensated for by state transfer. The resulting relations of subordination at a heteronomous workplace in industry have been dispelled from today's situation. While the risk of unemployment remains, the employee of the co-determined coal and steel industry is nevertheless in a stronger position today. The employee is protected against arbitrary decisions and harassment, being comprehensively insured against the social risks which accompany the employment relationship. In contrast to the beginning of the twentieth century, poverty and the threat of impoverishment are today no longer risks inherent to the employment relationship. They are now mainly the result of a shortage of jobs and, more recently, of incomplete family structures.

In terms of the narrow perspective of labor law and aside from the 'exception' of Nazi dictatorship, the role of the state was the strongest in conceptual terms in the Weimar Republic as it here represented the final instance within the collective bargaining system. Given the world economic and the national situation on the one hand and the little experience of the industrial actors with a regulated conflict process on the other, the state was drawn into conflicts of distribution within heavy industry and in the metal-working industries and as a result found itself subject to comprehensive criticism in the latter half of the 1920s. However, the case of the chemical industry illustrates that this de-legitimization of institutions was not the inevitable result of structure. Here the more favorable economic situation and more



flexible negotiating structures meant the state was kept out of the regulation of industrial relations to a great extent. After the Second World War, the institution of state compulsory arbitration was not restored in cases of elementary social and economic significance. The system of collective bargaining agreements was 'autonomized'; of course the more favorable economic situation of the years between 1950 and 1973 eased the adaptation to a form of conflict regulation without direct state intervention. Still, by the end of the 1950s/beginning of the 1960s, demands for a stronger stance against the trade unions (*Verbändegesetz*) were certainly becoming louder. So the role of the state in shaping the system of collective bargaining has diminished since the Second World War and remains small to the present day. In recent years, however, given the obvious problems in the functioning of the labor markets, there is a renewed tendency to examine the role of the state in terms of labor and social policies, and to develop new forms of restructuring the labor market which are at least arranged and accompanied by the state (*Bündnis für Arbeit*).

In sum, the state was important for the institutionalization of social partnership, for the practical implementation of collective bargaining, for social safeguards in the form of transfer payments in particular, and finally for dealing with conflicts resulting from the industrial employment relationship through the law courts. The examination of the role of the state in these areas over 100 years allows the following conclusion to be drawn. As argued by the industrial law specialist Bernd Rütters (Constance), the state shifted the balance of power in the labor market in favor of employees and their organizations and did so despite the many changes in the way the state intervened in the relations between capital and labor and the resulting changes in the operation of the labor market. Obviously this intervention modified relative prices on the labor market. That said, the economic consequences of social partnership in its institutionalized and politically guaranteed form are anything but transparent.

## The Economic Significance of Social Partnership

The first question—in the conventional terms of long-term economic history—which needs to be examined concerns the interdependence of

the labor market constitution and economic development. Yet it soon becomes clear that unambiguous conclusions are barely possible. Phases of rapid growth between 1890 and 1914 as between 1950 and 1973 were compatible with both liberal and collective forms of labor market constitution. As Mancur Olson has argued, the German labor market constitution functioned well in international comparison until the mid-1980s, at least significantly better than those in the UK and in the USA. This picture has changed since the end of the 1980s; the German labor market is in a state of severe crisis and many economists claim the labor market constitution is responsible: social partnership is said to have led to the creation of labor market cartels, and social policy to the guarantee of transfer income. As a result, the price mechanism in the labor market has ceased to be in force, thus making any market equilibrium impossible, and all the more so once the market was cleared. Although these arguments need qualification when applied to the West German labor market alone with its internationally average unemployment rate, they cannot be dismissed. It remains however that the long-term economic perspective does not provide any unambiguous statements on the economic functionality (growth, factor utilization) of particular labor market constitutions. Indeed, the immediate conclusion seems to be that given stable and favorable conditions, the labor market constitution has little influence on economic development.

This picture changes if the question turns to the short-term significance of institutionalized social partnership. In particular, the accusation has been made that it distorted price formation on the labor market during the 1920s because it prevented a downward adjustment of levels after currency stabilization. In this way, wages were stabilized at a level unjustified by the overall economic situation, in consequence the investment ratio was low and the import of capital high. In short, the politically guaranteed wage level was one of the reasons why the Weimar economy was hampered in structural terms and especially prone to crisis. These observations have coherence. All empirical data suggests that after 1924 the collective bargaining system stabilized the development of wages and prevented or limited wage cuts which would have made economic sense. The background was obviously that the state strove to use the means of compulsory arbitration and of enforced compromise to promote political

and social integration. Nonetheless, in the context of the world economic crisis, this function was lost. Under the conditions of the collective bargaining system, the burden of labor costs on companies fell markedly in the years up to 1932 and the distortion due to developments prior to 1928 was—certainly in the case of the German mining industry and perhaps in the case of the chemical industry and in parts of the metal-working industry—rebalanced under the continuing conditions of the collective bargaining system. At the same time, intervention through politically ordered wage cuts which was contrary to the system was not insignificant. Since the mid-1970s, the focus on the aspect of the short and mid-term has also allowed the labor market crisis to be explained in terms of the specific structure of the labor market constitution which prevented the formation of competitive prices at which the labor market would have been cleared. Although this line of argumentation has also been criticized, the opposing arguments are mainly not of an economic but social nature. Nevertheless, the situation can also be assessed in different ways in economic terms too. The crisis of the labor market and thus of labor market regulation under social partnership is foremost a consequence of structural change and globalization (as of the high demand for employment in the new German federal states due to their specific historical and structural roots). The labor market is unable to react to these consequences in a flexible manner due to rigid forms of regulation. Yet whether the model of social partnership needs to be altered in entirety with its regulation of working conditions and wages remains an open question. Even so, it is clear that industry-wide wage agreements and transfer payments have created a minimum wage in real terms at a level at which unskilled labor can no longer be profitably demanded. The problem of long-term unemployment is concentrated in this sector. An effective reduction of wage levels in this sector alone would ease some of the structural burden carried by the labor market.

So while it is not possible to identify a direct link between growth and labor market constitution on the one hand and long-term economic development on the other, the correlation between short- and mid-term developments is also more complex than reflected by debate between the feuding parties. Clearly, a historically appropriate modification of regulation forms in line with the structural and global demands of the economic

process is necessary. On the basis of such a flexible framework there is no real need to fundamentally question the model of social partnership and its relations between capital and labor in economic terms. To the contrary, the model of social partnership has in fact economic potential in its regulation of the relations between capital and labor. While it leads to an increase in labor costs, the transaction costs on the labor markets (search, bargaining and enforcement costs, the principal–agent problem) fall more than labor costs increase, so that as a result social partnership reduces overall costs and increases social welfare. Whether this potential is used is not a theoretical question but one of practice which demands a continual adaptation of the model to its changing economic framework. The current difficulties faced by the model in Germany are not so much because it is out of date in general terms. The case is far more that the power–political considerations of associations and trade unions have blocked its adaptation to changing structural and global economic conditions. The present-day ‘Alliance for Work’ strives to develop forward-looking solutions to the structural and economic distortion of labor market functions. However, given the dominance of those interest groups profiting from the current situation, any thoroughgoing change does not seem probable.

## The Social Implications of Social Partnership

The argument that social peace also represents a substantial productivity resource is of particular importance in the eyes of those in favor of maintaining current practice in an essentially unchanged manner, that is, the regulation of relations between capital and labor according to the model of social partnership. Here it is argued that social partnership keeps the social costs of the production process down—despite the price of relatively high wages and rigid labor market regulations—and should thus be seen as a competitive advantage. As is still to be shown, this argument had plausibility for the period dominated by standard industrial employment and high obstacles to capital mobility. However, under the structural and global economic conditions of the present day, the constellation has changed.

Putting this aspect to one side, the social implications of the model of social partnership and its practice during the twentieth century should

first be examined. Four indicators can be used to demonstrate the social consequences of 'social partnership', the first of which involves real wages, working conditions, and working hours. During the twentieth century, their development was subject to severe fluctuation. Real wages increased markedly between 1890 and 1914 while working hours were somewhat reduced. In the Weimar Republic, working hours were cut for both political and economic reasons whereas real wages increased up to 1929–30 from a low level after inflation only to then fall dramatically. Under National Socialism, real wages fell and stagnated respectively while working hours increased significantly. After the Second World War, real wages quadrupled between 1950 and 1995 while working hours were halved. Although the practice of social partnership in the Federal Republic thus seems to have had a great significance for the development of wages and working hours, looking at the century as a whole reveals that the economic and technical framework, the development of productivity and cyclical factors had an even greater influence on wages and working conditions. The practice of social partnership probably had a cushioning effect in both directions: in the Weimar Republic, it prevented a drop in wages in line with the national economy and the situation at works-level, in the Federal Republic between 1950 and the mid-1960s it put an end to wage increases just under the productivity threshold and thus made a substantial contribution to guaranteeing growth without inflation. The practice of social partnership only became linked to inflation due to the rapid wage increases of the 1970s—which were politically backed—but this was corrected again during the 1980s and early 1990s.

Second, a similar picture is presented with regard to unemployment—which was of course subject to structural and economic factors to a far greater degree. So no immediate link can be identified between the regulation of employment under social partnership and the development of unemployment levels. Nevertheless, the state-enforced coupling of social insurance systems to the employment relationship since the 1950s played a fateful role as ongoing structural change and slowing growth rates increased the costs of the welfare system and thus the cost of work which in turn accelerated structural change through a shift in the wage rates. This connection could be seen as an indirect consequence of the

state social policy of protecting the model of social partnership in terms of labor market organization.

Strike rates represent a third indicator with which to measure the social consequences of 'social partnership'. Putting the early Weimar years with their exorbitantly high strike rates aside as a political exception, the comparison can only involve the Wilhelmine era, the second half of the Weimar Republic, and the Federal Republic. The conclusion is unambiguous. The practice of social partnership in the Federal Republic of Germany has provided the country with a strike/conflict rate which is remarkably low in historical terms. Though some fluctuation was linked to economic trends, the level remained low and without comparison in other industrial states, with the exceptions of Scandinavia, the Netherlands, and Switzerland. This illustrates the other side to high wages and cuts in working hours: the low costs involved in the utilization of the labor markets.

Fourth, with the disappearance of strikes and conflicts in the period after 1945, class struggle finally disappeared from West German factories too. The semantics of class struggle, still of decisive importance in Weimar for the temporary escalation of its social conflicts, vanished almost totally after 1950. Even those trade unions which still used the rhetoric of class struggle in their own organization adhered to the model of social partnership in their wage bargaining practice. Of course the attempt to reformulate labor conflicts as class conflict did not only fail because of the success of social partnership: the Cold War, anti-communism, and the undeniable successes of the social market economy also had a major part to play. The practice of social partnership, particularly in relation to company-level co-determination and the works constitution, made a clear contribution to this result, insofar as works-level cooperation became transparent for all sides and thus calculable. In this sense, class struggle was replaced by 'conflict partnership' (W. Müller-Jentsch).

## **Social Partnership in the Context of Globalization**

The practice of social partnership is essentially bound up with the employment relationship, so each of its successes led to a rise in labor costs.

These high labor costs were not a problem given West Germany's technological superiority and substantial productivity lead compared to the number of potential production sites up to and during the 1970s, so to relatively limited conditions for capital mobility. In addition, the utilization costs of the labor markets fell or remained limited. In the meantime however, this constellation has fundamentally changed. Moreover, under the conditions of the global mobility of capital and labor, the structure of social partnership based on the employment relationship has led to entrenched unemployment and thus to a so-called insider–outsider problem. Favorable working conditions for employees increase the hurdles faced by the unemployed upon entering the labor market due to the high costs of utilizing human labor. So in the context of globalization, the previously successful and proven regulation of the labor market according to social partnership can have paradoxical effects insofar as it promotes unemployment and increases the hurdles facing the unemployed when re-entering the labor market. This situation was not foreseeable prior to the First World War during the period when the concept was developed. After the First World War, such considerations remained far from practice, not least because the supply of and demand for labor were basically thought to be inelastic.

Hence the concept of social partnership was based on two essential prerequisites: on calculable employment relations on the one hand and on limited capital mobility on the other. At the beginning of the twentieth century, indeed still in the 1950s, these prerequisites were given. The employment relationship in major industries was discovered by the social sciences at the turn of the twentieth century and then classified as the standard form of employment, the framework and payment of which were then defined by regional collective wage agreements. Employers were quick to criticize the leveling of individual employment, believing an individualistic, liberal wage agreement to be more appropriate to the reality of the working world and the function of performance incentives. After the establishment of regional collective wage agreements in 1918–19, the criticism of its leveling effect became stronger, said to be out of touch with reality and an inhibition to productivity. Numerous attempts of employer associations to push down agreed wage levels after 1924 were also explained by the need for a greater margin of play with

regard to a more subtly diverse wages policy. The critique of regional collective wage agreements only quietened after the Second World War. During the 1960s and 1970s it then at times became totally mute once a Fordist concept of production had become established in major branches of industry and had led to a homogenization of tasks at least in core areas. In addition, a far-reaching internalization of labor market functions enabled major Fordist companies to combine regional collective wage agreements with a diverse work organization. Since the 1980s, the criticism of regional collective wage agreements has of course returned after the decline of 'standard jobs' in major industries and the emergence of new fields of work and new job profiles, especially in the areas of information technology and data processing, and of new service sector jobs.

The second prerequisite for the ability of the model of social partnership to function in the classical sense was that capital mobility remained limited. This prerequisite was basically given in the German case up to the end of the 1970s with the exception of some notable capital export prior to the First World War and in some cases also during the 1920s. The aim was not as a rule to utilize the (labor) cost advantages of foreign production sites but to secure market access. Labor costs initially continued to be insignificant in terms of capital export after the Second World War too, as West German wage costs long remained under the OECD (Organisation for Economic Co-operation and Development) average. However, after the end of the 1960s, it became more and more clear that the advantages of social partnership and an expansive state social policy had to be paid for by relatively high labor costs. Yet capital export was at first no real solution as foreign production sites with low labor costs first required substantial investment in terms of infrastructure, and for technical and/or political reasons before they could be used. So in this context, social partnership in fact increased the quality of the Federal Republic as a production location insofar as it guaranteed social peace and minimal costs for the regulation of social conflicts. The comparatively high wage levels were also counterbalanced by high productivity as by low transaction costs and these were at this point still accepted as the unavoidable price for the specific advantages of Germany as a production location.



Since the end of the 1970s/beginning of the 1960s, economic globalization has undermined the specific prerequisites of the German model of social partnership and of an expansive state social policy. While standard jobs in industry regulated by regional collective wage agreements still exist, their number has been markedly reduced. Today workforces are mostly more heterogeneous and in particular subject to different employment uses and job profiles which cannot be classified in broad occupational and industry-wide wage and framework agreements. New fields of work and new occupations, especially in the area of information technology, do not fit into traditional systems of wage agreements, not least because of the changing approach of employees themselves. These changes have been debated intensely within industrial sociology. This has revealed that the extent of these changes should not be overestimated; nonetheless, it remains that homogeneous industrial employment no longer exists as the basis for regional collective wage agreements. While the mobility of capital has greatly increased, the relative price of the labor markets involved has become an incentive for mobility too. So the calculation of the demand for labor now focuses more on the actual cost of wages and additional wage costs as there are numerous locations to choose from where, despite low wage costs, the transaction costs are also low, such as in Central Eastern and Eastern Europe. In this context, the West German recipe for success—of high wages linked to low transaction costs—no longer automatically makes economic sense. In short, the former structural prerequisites for social partnership have begun to crumble. At the same time, given the negative effect of labor market cartels as a barrier to market access for outsiders, it also loses functional significance: new jobs are not necessarily created within the location of Germany, jobs in the ‘old economy’ are dwindling, and ‘simple work’ is too expensive to be used profitably.

## **A New Paradigm for the Twenty-First Century**

So does Germany now need a new model for labor market regulation and for the development of relations between capital and labor? Let us first approach German social partnership through the eyes of its critics

(collective labor market regulation in the context of the welfare state). An overregulated, practically completely cartelized labor market, as Norbert Berthold and Rainer Hank argue, maintains wage costs at a level which both handicaps the international competitiveness of the German economy and represents the root of high structural unemployment. Although the negative effects of labor market cartels are known to the political system, they argue, any change is blocked by insider interests, their lobbyists as well as by politicians focused on re-election; thus only insignificant modifications could be made which fail to reach the heart of the labor market cartels. Most economists agree that the German labor market requires fundamental institutional reform in order to restore the functions of wage and price mechanisms and thus a balance to the labor market. If wages were to fall in real terms, market access would improve for outsiders, the flexibility of the labor market would generally increase and the wage burden carried by companies would sink. This argument is usually illustrated by reference to American or British examples. Yet critics assume that far-reaching change is exceedingly improbable and, in particular, not politically acceptable given the strength of the forces of persistence. The majority of employees and thus the majority of voters profit from the existing system; liberalization would only bring disadvantages.

The critique of the regulation of labor markets according to the model of social partnership outlined above is essentially based on Mancur Olson's theory of collective action and the concept of institutional sclerosis within economies. In 1981 Olson claimed that within economies which had existed under conditions of political stability for a long period of time, special-interest coalitions would increase and shift the center of economic activity away from production to the egoistic redistribution of national income, thus making these economies generally more inefficient. Classic examples of Olson's argumentation were the UK and the USA, while Japan and Germany were judged more favorably in this context because after defeat in war, special-interest coalitions had been widely eradicated. Even though the argument that a lost war, occupation, or revolution could be beneficial in economic terms sounds cynical, it remains the case that societies could only free themselves from sclerosis in a radical way in order to restore market mechanisms and increase economic efficiency. So for Olson and for the critics following in his wake, it is clear that only

a radical departure from labor market cartels under the model of social partnership can end the paralysis of sclerosis. Of course, their argument that deregulated labor markets are more efficient than regulated ones is not necessarily valid as empirical verification of the argumentative base is not easy. The claim that deregulated markets function without cost is not compelling from the perspective of transaction costs theory alone; the eradication or thorough flexibilization of collective wage agreements can equally lead to an increase in search costs, bargaining, and enforcement costs within labor markets and exacerbate the principal–agent problem. In short, deregulated labor markets have other but not necessarily lower costs than regulated ones. A reduction in real wages in connection with deregulation measures would also only be advantageous in the segment of ‘simple work’, which although significant only represents one of the problems concerning the labor market. The current problem involving the lack of highly qualified workers in the area of information technology would barely be influenced by such deregulation.

Olson developed his critique of structural sclerosis in 1981. Since then, numerous measures have been introduced to deregulate the labor markets in the UK and in the USA, which have overcome the state of sclerosis and in the American case have even led to a job boom. However, whether these developments can be used to draw a comparison to the German case is questionable given that similar structures of social partnership existed neither in the UK nor in the USA. The balance in material terms is also not unambiguous. In the case of the UK, criticism has been strong. In his analysis of the twentieth century, Eric Hobsbawm, for example, forecasts a premature end to neoliberalism in its Thatcherite and Reaganite versions in the face of spreading poverty and major ecological risks, and instead argues in favor of a return to a regulation of the labor market supported by the state.

Other, very positive statements have also been made about the developments in the UK and the USA. It is worth noting that Germany can today already benefit from developments in the UK, the USA, in Sweden, and in other nations. So perhaps Germany could again slip into the role of second mover as it did successfully in the nineteenth century (albeit with an education system generously supported by the state) and endeavor to flexibilize labor markets without the loss of the benefits of conflict resolu-

tion according to the model of social partnership. This would require an ability to adapt and to learn; it is not the case that a whole new paradigm has to be created but that the existing potential of regulation under social partnership needs to be exploited. In particular, the crumbling base of the practice of social partnership to date must be taken seriously. If social partnership is to survive, it must recognize the end of standard industrial employment just as of the national context of economic development. Whether this adaptation can be achieved by those actors whose existence depends on these very factors (politicians, trade unions, and association representatives) is of course open to question.

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# 12

## Carl Duisberg, the End of World War I, and the Birth of Social Partnership from the Spirit of Defeat

For the Leverkusen industrialist Carl Duisberg, the end of hostilities in 1918 could not have come at a worse time. He had celebrated his 57th birthday shortly before the Armistice. He had, in other words, reached an age at which change is often unwelcome. His life had been shaped by the German Empire. He had begun his career in 1884 as a low-level chemist at a dye factory in Elberfeld. By 1890, thanks to his talent and energy—and probably also to an advantageous marriage—he had become a senior officer of the company; by 1900, he had been promoted to the executive committee; and in 1922, he was made sole managing director of ‘Farbenfabriken, vormals Friedrich Bayer’, which had meanwhile been relocated to Leverkusen. In the years before the outbreak of First World War, Duisberg was one of the highest earners in the country, and he enjoyed the lifestyle of the modern business elite. The war put an end to all that: Duisberg’s income declined, his lifestyle became positively Spartan, and his company’s dazzling success gave way

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to a bitter struggle over the manufacture of explosives and securing raw materials, labor, and foodstuffs. By the end of 1918, Duisberg had every reason to give up or at least to grumble about the 'new era'. It would not have been a surprise if he had adopted a stance of fundamental opposition to the Republic, which he had not wanted and which was casting a cloud over the future of the private sector. But, in contrast to some of his friends and acquaintances in the world of industry, Duisberg did not do so. Although Duisberg did not participate in the much-discussed 'patricide' of the Emperor Wilhelm II<sup>1</sup>—who was, after all, only two years his senior—, he made a comparatively unsentimental break with the Empire and its political traditions. More importantly, he was one of the few industrialists who drew the conclusion from the defeat of Germany's old political system that the only way to secure broad acceptance of capitalism throughout German society in future was not to oppose the Social Democratic Party (SPD) and the trade unions but to cooperate with them. His transformation from defender of the imperial order, opponent of Social Democracy, and businessman of the old school to pioneer of a new social partnership between management and labor is the subject of the discussion that follows. It will focus primarily on the years 1918–20 and the beginnings of the Zentralarbeitsgemeinschaft der industriellen und gewerblichen Arbeitgeber und Arbeitnehmer Deutschlands (ZAG).<sup>2</sup>

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<sup>1</sup>The 'patricide' idea enjoyed extraordinary popularity in the immediate post-war years. Broad sections of the Weimar intelligentsia saw the outcome of the war as the logical consequence of a thoroughly putrid pre-war society. The charge of social decay was often leveled by younger Germans against their parents' generation—by sons against fathers. For an overview, see Wolfgang Schivelbusch, *Die Kultur der Niederlage. Der amerikanische Süden 1865, Frankreich 1871, Deutschland 1918*, Berlin 2001. The extent to which this was a generational question is made clear by Friedrich Meineke [1862–1954], *Drei Generationen deutscher Gelehrtenpolitik*, in: *Historische Zeitschrift* 125 (1922), 248–83, esp. 268.

<sup>2</sup>This may throw further light on the whole complex of Germany's wartime and transitional economy—an area that was long the focus of Gerald Feldman's work. See in particular his *Army, Industry and Labor in Germany, 1914–1918*, Princeton 1966. See also Gerald D. Feldman/Irmgard Steinisch, *Industrie und Gewerkschaften 1918–1924. Die überforderte Zentralarbeitsgemeinschaft*, Stuttgart 1985.

## Carl Duisberg

Carl Duisberg<sup>3</sup> was a man who knew how to get things done. Prior to 1914—indeed, in effect up until 1917—he had fought the Social Democrats and labor movement with every means at his command. Politics and ideology played only a very small part in his opposition to the Social Democrats and the unions, however. Duisberg was a pragmatist. As he saw matters, the Bayer dye and chemical works was doing as much for its workers as financially feasible and socially necessary. Thus, neither the unions nor the SPD could have any material reason for behaving as they did. In Duisberg's view, their conduct was dictated by political bias and self-interest. Accordingly, because they were disturbing the social peace on the factory floor without introducing a single improvement, they must be kept out of the factories altogether.<sup>4</sup>

Given the unparalleled boom in the dye industry in the years before 1914 and the accompanying increase in workers' wages and benefits, Duisberg's arguments were, in material terms, not wrong. Nonetheless, Bayer's industrial welfare policy robbed the firm's workers of their autonomy. As a result, many workers, particularly the younger ones, shunned the 'disciplinary harmony' of the Bayer model. Strikes and other open

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<sup>3</sup>There is no recent biography of Carl Duisberg. The standard work is still Hans-Joachim Flechtner, *Carl Duisberg. Vom Chemiker zum Wirtschaftsführer*, Düsseldorf 1959, which traces Duisberg's life quite reliably, albeit with major omissions. Duisberg's autobiography—*Meine Lebenserinnerungen* (Leipzig, 1933), edited by Jesco von Puttkamer—is unreliable as well as incomplete for political reasons. Despite the lack of a fully satisfactory biography Duisberg's achievements—his important contributions to the chemical industry, to Germany's war effort in the First World War, to the economic policy of interest-group associations, and to promoting science and helping students—have been the subject of scholarly research. On his activities during the First World War, see Thomas Portz, *Großindustrie, Kriegszielbewegung und OHL, Siegfrieden und Kanzlersturz: Carl Duisberg und die deutsche Außenpolitik im Ersten Weltkrieg*, Lauf an der Pegnitz 2000. On the compulsory recruitment of Belgian labor, see Jens Thiel's recent 'Menschenbassin Belgien'. *Anwerbung, Deportation und Zwangsarbeit im Ersten Weltkrieg*, Essen 2007, esp. 109–22. See also the commendable unpublished doctoral dissertation by Hans Klose, *Carl Duisberg. Politische und soziale Aspekte seines Lebens*, University of Cologne 1991. This essay draws upon the scholarly literature on Duisberg and his times as well as Duisberg's extensive literary remains preserved in the Corporate Archives of Bayer AG in Leverkusen.

<sup>4</sup>On industrial social policy in Leverkusen, see especially Anne Nieberding, *Unternehmenskultur im Kaiserreich. J. M. Voith und die Farbenfabriken vorm. Friedr. Bayer & Co.*, Munich 2003. See also Stefan Blaschke, *Unternehmen und Gemeinde. Das Bayerwerk im Raum Leverkusen 1891–1914*, Cologne 1999.

manifestation of conflict were rare before 1914, however. The situation changed only with the outbreak of war as working conditions became harder and the company grappled with supply problems and a labor shortage.<sup>5</sup> Discontent grew, and the employee committees newly established under the Hilfsdienstgesetz of 1916—bodies within the company that, for the first time, were constituted by free elections of the workforce—began voicing workers' increasingly urgent demands. In the months that followed, Duisberg was obliged, like it or not, to enter into a cooperative arrangement with the 'independent', that is, SPD-affiliated, trade unions; the experience was, by his own reckoning, on the whole positive.<sup>6</sup> The arrangement survived during the revolutionary period of 1918, when Duisberg sat on the Leverkusen Workers' and Soldiers' Council for a time and was able to ensure that revolution left his company virtually unscathed (albeit burdened with a large number of material concessions). Some Solingen Spartacists did want to arrest him in December 1918 and remove him to Magdeburg, but a timely tip-off and escape to Cologne kept him safe before New Zealand and British occupying forces put an end to 'Bolshevism' in the southern part of the Solingen district.<sup>7</sup>

It was not the war-time industrial arrangements that prompted Duisberg to advocate more extensive cooperation with the unions in the years after 1918. Rather, he shrewdly reckoned that he would be able to maintain his position only by cooperating with labor and offering concessions. In wider political terms, Duisberg had not been a 'dove'. He had laid himself wide open since autumn 1914. This he had done for many reasons, the chief of which was probably the fact that from the outset he had seen the war as a disaster that would do great harm to the chemical industry. The surprising conclusion that he drew from this, far from pressing for an early peace at any price, was actually the exact opposite. A victorious outcome to the conflict might indeed inflict heavy damage

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<sup>5</sup> For a detailed treatment of this subject, see Werner Plumpe, *Betriebliche Mitbestimmung in der Weimarer Republik. Fallstudien zum Ruhrbergbau und zur chemischen Industrie*, Munich 1999.

<sup>6</sup> That assessment has to be weighed carefully: Duisberg usually assumed that he was the master of the situation. Still, other sources, such as the minutes of the workers' council meetings, also point into the direction of cooperation between labor and management.

<sup>7</sup> As described in a letter from Carl Duisberg to Emil Fischer, 18 Dec. 1918, Bayer Corporate Archives, Leverkusen (hereafter BAL) AS.



on the export interests of dye producers, who until 1914 had enjoyed almost unlimited dominance in world markets. But in the event of a defeat the worst might be expected: the victors were not going to pass up the opportunity of hitting their German competitors' very viability. So it was a question of winning the war at any price in order to subsequently be able to establish a Europe-wide peace from which any threat to the livelihood of German industry was to all intents and purposes excluded.

## War

The outbreak of war took Duisberg by surprise. Busy preparing for a vacation trip to Sils-Maria, Switzerland, he had not taken the political situation seriously. As he wrote to the Nobel prizewinning chemist Emil Fischer, 'So in your concern at the time, and I am referring to the official opening of the Coal Research Institute in Mühlheim an der Ruhr,<sup>8</sup> you were right and I, who refused to believe in a war, was mistaken.'<sup>9</sup> Duisberg was by no means so detached from events to be unaware of the threat of war, but the mounting political tensions had little practical impact on his thinking before hostilities actually began. The Leverkusen dye works were thus unprepared for war. Aside from dyes for uniforms, they did not manufacture militarily significant products. The war posed a fundamental threat to the company. Because of the ban on exports, its sales collapsed, plant laid idle, and the personnel still on hand after the mobilization had nothing to do. As a result, there was little evidence of enthusiasm for war in Leverkusen. 'It is enough to make one weep, seeing this huge factory, not through any shortage of office staff or labor but through a lack of sales, slowly and gradually running out of steam and coming to a full stop, as will happen if the export ban is not rapidly lifted or restricted', Duisberg wrote in August 1914.<sup>10</sup> He was truly outraged by the mood he witnessed in Berlin a month later:

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<sup>8</sup>The ceremony referred to took place on 27 July 1914.

<sup>9</sup>Carl Duisberg to Emil Fischer, 12 Aug. 1914, BAL AS.

<sup>10</sup>Carl Duisberg to Emil Fischer, 12 Aug. 1914, BAL AS.

Not even in Berlin did I feel as comfortable as I had hoped. People there are already too much taken up by the intoxication of victory. They talk about nothing else. Every conversation is about how we should carve up Belgium, France, and Russia. There is far too much hooray patriotism around, and not enough of the dignified *gravitas* that here in the western part of the country, closer to the theatre of war, with the many wounded flooding in, one comes across everywhere.<sup>11</sup>

Duisberg's dismay over the excitement in Berlin was exacerbated by the continued problems at the dye works. Although conscription had shrunk the company's workforce, employees in Leverkusen and Elberfeld were working reduced hours, as was the case, Duisberg noted in his correspondence with Fischer, at companies elsewhere in Germany.<sup>12</sup>

Looking beyond his own firms' difficulties, Duisberg quickly realized that the favorable international economic climate of the pre-1914 years—a climate in which the German dye industry had been able to dominate the world market—was not going to return once the war was over. 'Unfortunately', he wrote to Emil Fraas, 'I cannot share the view that, if we smash our way through splendidly, we shall have a great future to look forward to. Granted, at home we shall be politically stiffened and feel stronger morally, but we shall be surrounded by enemies and our economy will take years to climb back up to the level it once stood at.'<sup>13</sup> Given this situation, Duisberg thought it obvious that Germany could not be held responsible for a war that, no matter what the outcome on the battlefield, it stood to lose. The real forces behind the outbreak of war, he maintained, were French revanchism, Russian territorial ambitions, and British 'mean-spiritedness' and 'coarse malevolence'.<sup>14</sup>

Never should I have believed that a major European power would dare spark off the international conflagration that has been predicted for so long. Least of all should I have thought Great Britain would do so. There,

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<sup>11</sup> Carl Duisberg to Emil Fischer, 10 Sept. 1914, BAL AS.

<sup>12</sup> Carl Duisberg to Emil Fischer, 10 Sept. 1914, BAL AS.

<sup>13</sup> Carl Duisberg to Emil Fraas, 19 Aug. 1914, BAL AS.

<sup>14</sup> In the original, 'krämerhafter Geist' and 'gemeine Missgunst': Carl Duisberg to Emil Fraas, 21 Dec. 1914, BAL AS.

however, war has systematically been prepared for and, as Haeckel explains in a marvelous article in the *Jenaer Volksblatt*, Britain bears the blood guilt for this world war, which is why the whole panoply of our skills must be directed at bringing this perfidious Albion to its knees.<sup>15</sup>

Duisberg's anti-British tirades were inspired in part by very tangible concerns: 'How short-sightedly and pettily the British are behaving can best be seen from the ban on commercial traffic between Britons and British firms and their German counterparts, notably in connection with the "penalty of high treason", the destruction of our British patents and trademark rights, and from the efforts being made from on high and from below, in this relatively short period of wartime, to cut us off from the export trade for ever and ever.'<sup>16</sup>

Whenever Duisberg was criticized after 1918 for his wartime stance, he would defend himself with the argument that it had not been his job to justify a senseless war. But going to war, waging it only halfheartedly, and then, when hostilities were over, attacking those who had given their all for their country although they had not wanted war in the first place—that struck him as a spineless way to behave. In a letter of February 1919 to Theodor Diehl, who at that time was chairman of Germany's chemists' association, the Verein Deutscher Chemiker, Duisberg wrote,

It is truly a sign of madness to seek, as you quite rightly say, to blame the representatives of industry—who wanted to win (we all wanted to win, surely?) and who therefore did their utmost to help on the industrial front—to seek to make them responsible for the lengthy duration of the war and the wretched peace terms, particularly when it is in fact representatives of the military doing so. [...] And it makes one weep to see what is transpiring once again now in the Rhineland-Westphalia industrial region right up towards Wuppertal. Yet we who saw it all coming and in consequence exhorted all Germans to give of their best in order to win the war

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<sup>15</sup>Carl Duisberg to Emil Fraas, 19 Aug. 1914, BAL AS.

<sup>16</sup>Carl Duisberg to Emil Fischer, 10 Sept. 1914, BAL AS. Duisberg nonetheless advised against retaliatory countermeasures: Duisberg to Oberregierungsrat F. Damme, 23 Oct. 1914, BAL AS. This 'British fixation' was not peculiar to Duisberg and found widespread expression in the early months of the war; see Hermann Lübke, *Politische Philosophie in Deutschland. Studien zu ihrer Geschichte*, Basle 1963, 171ff., esp. 220f.

are accused of harboring personal ambitions and pursuing private interests. Apparently (at least so far as I am concerned) people are unaware that at the urging of Bethmann-Hollweg the civil cabinet gave instructions to all national and state agencies that I should be placed on the black list<sup>17</sup> and that my own private interests, at least so far as the pecuniary aspect is concerned, would have been substantially better served had we stuck to the peacetime years with their brilliant expansion in the field of chemistry and not been sucked into war. [...] But that our people, including the educated and governing classes, would be so stupid, nay positively imbecilic, as to see revolution as the salvation of mankind, ushering in a new dawn of bliss and contentment—that I should never have expected.<sup>18</sup>

Soon after the war began, Duisberg concluded the simple dictates of survival demanded that, before all else, Britain must be defeated. From the autumn of 1914 onward, he was willing not only to turn his company's dye works over to the manufacture of explosives but also to take up the production of poison gas shells. Duisberg, eager to distinguish himself, increasingly came under the influence of Colonel Max Bauer. He backed the call for an ambitious list of war aims and became one of the Third Supreme Army Command's major supporters in the ranks of industry. Rather clumsily, Duisberg backed the military in its bid for greater authority vis-à-vis the government. By 1917, however, he had had enough of politics for the time being.

Duisberg nonetheless remained strongly in favor of continuing to fight and strongly opposed to the parliamentary majority in the Reichstag, to the Social Democrats, and to the unions. Not until the autumn of 1918 did it dawn on him that continuing the war effort without the support of labor was no longer an option. Writing to the Darmstadt pharmaceuticals producer Emanuel Merck on 17 October 1918, he went so far as cast the negotiations with the leaders of the SPD-affiliated unions<sup>19</sup> in the following terms:

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<sup>17</sup> On Duisberg's role in the plotting against Bethmann-Hollweg, see Portz, *Großindustrie, Kriegszielbewegung und OHL* (see above, note 3), 343–405.

<sup>18</sup> Carl Duisberg to Theodor Diehl, 18 Feb. 1919, BAL AS.

<sup>19</sup> See Gerald D. Feldman, *Hugo Stinnes. Biographie eines Industriellen 1870–1924*, Munich 1998, 513ff.

As you can imagine, I like yourself am extremely concerned about the political situation. The fall from a once proud height has been too great and too abrupt. I had never doubted up to now that we should be victorious or at least get off with a black eye. Now, of course, victory is out of the question. Yet if we go about it in the right way we can still emerge not unsatisfactorily from the deep hole we find ourselves in. The only thing is, we must not lose our heads; we need to stand tall, gathering together the entire German people and with them taking up a position with one mind in support of our troops, who are fighting so hard at the front. Unlike previously, however, that impulse must come not from the right and from above but from the left and from below. Here in the Rhineland we are already endeavoring to mobilize the union leadership and march forward at their side. Perhaps you can do the same or something similar where you are. In any event, the worst course would be for us simply to place our hands in our lap and resign ourselves to our fate.<sup>20</sup>

## The War's End and the Revolution

The actual end of the war came as a severe blow to Duisberg. The terms of the Armistice suggested that hopes of a bearable peace settlement would have to be abandoned. Duisberg came in for even greater public criticism because of his support for the Third Supreme Army Command. The journalist Maximilian Harden accused Duisberg of having given Ludendorff his cue on economic policy, thus suggesting that the industrialist was indirectly responsible for prolonging the war and the suffering it brought.<sup>21</sup> Even Duisberg's friends and acquaintances criticized him for having over-exposed himself as regarded both the public and the authorities. Although elected chairman of the Verein zur Wahrung der Interessen der Chemischen Industrie Deutschlands (VVICID) by a large majority

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<sup>20</sup> Carl Duisberg to Emanuel A. Merck, 17 Oct. 1918, BAL AS.

<sup>21</sup> Maximilian Harden to Carl Duisberg, 7 Dec. 1918; Carl Duisberg to Maximilian Harden, 18 Dec. 1918, BAL AS. Duisberg considered himself unjustly accused and saw himself as the victim of a rumor that hugely exaggerated his political importance.

in October 1918, Duisberg realized that his earlier views on the Social Democrats and the labor movement were no longer viable.<sup>22</sup>

Criticism of Duisberg had some very tangible consequences. In December 1918, as noted above, some Spartacists in Solingen tried to have him arrested on the charge of separatism. The attempt failed,<sup>23</sup> but for the next few months Duisberg gave up his almost weekly visits to Berlin. He cited difficult travel conditions as his reason for remaining in Leverkusen: the far from good news he was receiving from the capital may have provided additional reason to stay put at home. 'I have the very greatest misgivings about the way things are here', Fischer wrote to him from Berlin on 10 December 1918: 'For us, too, a wholly Russian economy may come about, with banks being seized by a Bolshevik government and even private individuals being plundered. I am myself toying with the idea of leaving Berlin in the very near future, at least for a time, because there is a risk of starvation here.'<sup>24</sup> Duisberg responded on 18 December: things were bad on the Rhine, too and basically one must 'be prepared for anything' on account of the difficult conditions. 'Even so, we have it better in some respects than you do in Berlin. I cannot believe the population in the occupied zone will go hungry', he continued. 'Surely the first concern here will be the food supply. We are also, so far as our personal freedom is concerned, better protected than before.'<sup>25</sup> Nor did he have any desire to travel to the 'city on the Spree' in the new year: 'I should have liked to come to Berlin some time to discuss all the rest with you face to face', he wrote to Fischer toward the end of January 1919, referring to their joint efforts to foster the younger generation of industrial chemists, 'but I can scarcely be blamed if, given

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<sup>22</sup> Emanuel Merck wrote to Duisberg that a prominent gentleman had considered trying to persuade Duisberg to resign shortly after his election 'because politically, after all, you have shown yourself too much opposed to many people, including those in authority'; Emanuel Merck to Carl Duisberg, 30 Oct. 1918, BAL AS.

<sup>23</sup> How exceptional this experience was can be seen from the fact that the assault on Duisberg at this time found repeated reflection in his correspondence. See also his autobiography: Duisberg, *Meine Lebenserinnerungen* (see above, note 3), 107.

<sup>24</sup> Emil Fischer to Carl Duisberg, 10 Dec. 1918, BAL AS.

<sup>25</sup> Carl Duisberg to Emil Fischer, 18 Dec. 1918, BAL AS. Nevertheless, he had made prompt arrangements to have his securities moved to the safe at Henry Theodor von Böttinger's Neumark estate because one could not, at that time, be too sure in an industrial district such as Cologne; Carl Duisberg to Henry Theodor von Böttinger, 21 Nov. 1918, BAL AS.

the popularity that I enjoy throughout the land merely because I wanted Germany to win and did what I could to help (albeit without success, unfortunately) – I cannot be blamed for staying away from the Sodom and Gomorrah of the German empire until further notice.<sup>26</sup>

Duisberg thus found himself in a state of quarantine of sorts in late 1918–early 1919 that gave him opportunity to come to take stock of recent events and to rethink his views. During this period, his outlook changed fundamentally. It was not so much his overarching goals that changed—he remained committed to the existing economic order and sought to ensure its success—as his ideas about the best means for achieving those goals. That he was opposed to the revolution and the situation it created was beyond doubt. On occasion, he was scathing about the ‘moral decline’ that had followed the revolution. But, because there was no other realistic option, Duisberg ultimately reconciled himself to the idea of working with the Social Democrats and the SPD-affiliated unions. As early as 31 October 1918, he remarked to Emanuel Merck,

Ever since I saw that the cabinet system had had its day I greeted the switch to the parliamentary system with delight, and nowadays, when what is at stake is the highest of my ideals, the fatherland, I take my stand behind democratic government and march hand in hand with the unions so far as possible, seeking in this way to save what can be saved. I am an opportunist, you see; I adapt to circumstances.<sup>27</sup>

Having witnessed how quickly the established order fell apart during the revolution reinforced Duisberg’s resolve in breaking with the past. As he wrote to Henry Theodor Böttinger, the chairman of Bayer’s supervisory board and a personal friend, in late November 1918,

The future lies dark and dim before us. No glimmer of light yet shows in the sky of the revolution that has arisen so swiftly with its reddish glare. It

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<sup>26</sup>Carl Duisberg to Emil Fischer, 25 Jan. 1919, BAL AS. Duisberg’s friend Henry Theodor Böttinger, a long-serving member of the Reichstag as well as of the Prussian Landtag, voiced his disgust at political developments in the capital in early January, noting resignedly: ‘Of course our hydrocephalus, Berlin, in which the mangiest elements have congregated and where they continue to wreak their mischief and havoc, is now poison’; Böttinger to Duisberg, 4 Jan. 1919, BAL AS.

<sup>27</sup>Carl Duisberg to Emanuel A. Merck, 31 Oct. 1918, BAL AS.

looks, however, as if the holders of power will not allow any Constituent Assembly to deprive them of it without a struggle. Only then, I fear, as with every major revolution, will blood begin to flow—an outcome that the weakness and indulgence of all the bourgeois parties without exception have so far avoided. But where are the stalwarts for whom the future of our fatherland (economically, as well) is the highest priority and who are prepared to lay their lives on the line? It is supremely sad that they have not even emerged among the officer class, not to mention civil servants and members of parliament.<sup>28</sup>

Duisberg drew his own very personal conclusions: ‘I in any event, as a non-politician and an opportunist, have taken a great leap leftward and now stand in spirit on the same ground as the new democratic party to be forged from the Progressives and the National Liberals.’<sup>29</sup> Not that he had any desire to become active politically, of course.

He accepted the revolution only very reluctantly. ‘The mob does not yet have hold of the reins of power, but I fear that Cologne too will have its military soviet. Resistance would be madness.’<sup>30</sup> Duisberg did not resist. To the contrary: he sought to act in such a way as to keep control of the situation and to remain acceptable to the ‘revolutionary’ workers as a negotiating partner. Aside from the Spartacists’ attempt to have him arrested, he was largely successful in this effort. Developments in Leverkusen could have served as a textbook example of social partnership. Duisberg reported to Merck in mid-November,

With us [...] the employee committee set up on the basis of the *Hilfsdienstgesetz* has been toppled and replaced by a new and more radical workers’ committee of people appointed by representatives of the various businesses and factories. I have already held detailed negotiations with it concerning the eight-hour day, breaks, cost-of-living supplements, etc. Despite the fact that the workers’ committee decided unanimously in favor of our proposals, the workers on the shop floor refused to accept them,

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<sup>28</sup> Carl Duisberg to Henry Theodor von Böttinger, 21 Nov. 1918, BAL AS.

<sup>29</sup> Carl Duisberg to Henry Theodor von Böttinger, 21 Nov. 1918, BAL AS.

<sup>30</sup> Carl Duisberg to Emanuel A. Merck, 8 Nov. 1918, BAL AS.



with the result that I had to negotiate with the representatives, of whom there are ten times as many.<sup>31</sup>

‘It wasn’t easy’, he went on to explain. ‘However, in four hours of discussions I did manage at least to deal with the cost-of-living supplement and limit the dispute over the eight-hour day (where opinions differed widely) to an agreement to the effect that at tomorrow’s meeting of the workers’ and soldiers’ council, on which I sit myself, the question will be finally decided.’<sup>32</sup> Duisberg had no doubt that he had the situation under control only provisionally. But he calculated that in the last resort the Allied occupation of the Cologne bridgehead would protect his freedom of action: ‘As for the occupation [...], we don’t yet know. In any event, there is a greater degree of security against Bolshevik interventions than in the non-occupied fatherland. With luck, also the freedom of movement that we so urgently need. In any event, I shall stay on here and do my bit, come what may.’<sup>33</sup>

Little by little, Duisberg realized that this kind of social-partnership relationship with his own employees would mean an end to the management tradition of the pre-war years: ‘Of course, as manager-in-chief of an industrial enterprise you have to say goodbye to the way you gave orders and ran things before’, he wrote to Böttinger on the very last day of 1918. ‘You need to consult more with both office and shop-floor staff.’<sup>34</sup> This was hard work, particularly because the new pay agreements had to be renegotiated constantly as circumstances changed and the mark depreciated. ‘Last Friday’, Duisberg wrote to Emanuel Merck on 10 April 1919,

A number of workers’ meetings were held here at which the pay agreement so recently agreed in lengthy negotiations between the employers’ association and the unions [...] was thrown out and a 20 per cent pay rise demanded on top. On Saturday the workers’ committee then turned up with several labor representatives, stating that if this demand was not met the workforce would be called out at noon. After three hours of lively

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<sup>31</sup> Carl Duisberg to Emanuel A. Merck, 18 Nov. 1918, BAL AS.

<sup>32</sup> Carl Duisberg to Emanuel A. Merck, 18 Nov. 1918, BAL AS.

<sup>33</sup> Carl Duisberg to Emanuel A. Merck, 18 Nov. 1918, BAL AS.

<sup>34</sup> Carl Duisberg to Henry Theodor von Böttinger, 31 Dec. 1918, BAL AS.

discussion we finally said we were prepared [...] to top up the wage agreement with a cost-of-living supplement. The strike threat was then withdrawn, but there is still some grumbling among the discontents and strike action may well follow very soon.<sup>35</sup>

This kind of conflict took a lot out of him, even if he tried to remain calm. Strike fever was rife in the factory, he wrote two days later:

I face the prospect [of a projected strike] with unusual equanimity. Nothing is coming in now anyway: in fact, we can only gain by no work being done. So let the shop-floor workers and even the office staff strike whenever they please. It is only in the interests of our workforce that I take the trouble to stop them. Still, that's all the thanks a man gets.<sup>36</sup>

By dint of painstaking effort and continuous negotiation, it proved possible to keep order in the company through late 1918 and 1919 even though many members of the workforce were becoming increasingly radical. It was precisely this radicalization that stiffened management's resolve to cooperate with and even make concessions to the 'more responsible representatives' of the workforce. As Duisberg explained to Böttinger: 'Once the extreme elements are out of the picture or have come to their senses, things will also be simpler than they are now. Here at least our people have started to realize what is happening and no longer see the future through such rose-colored spectacles as at the outset.'<sup>37</sup> Behind this change in Duisberg's stance toward the labor movement lay realistic calculation. 'Nowadays, in fact, working hand in hand with the unions has become an urgent necessity', he wrote to Rudolf Frank, chief executive of the Chemical Industry Association, on 18 February. The revolution, he noted 'has changed everything. Given the large number of representatives that the Social Democratic Party has returned to the National Assembly, we factory-owners can make progress not just in purely employer matters, that is social-policy matters, but also in economic-policy matters [only] if we convince the representatives of the workers and hence the workers

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<sup>35</sup> Carl Duisberg to Emanuel A. Merck, 10 April 1919, BAL AS.

<sup>36</sup> Carl Duisberg to Henry Theodor von Böttinger, 12 April 1919, BAL AS.

<sup>37</sup> Carl Duisberg to Henry Theodor von Böttinger, 31 Dec. 1918, BAL AS.

themselves and get them on our side. That is why I am now a supporter of the newly formed Zentralarbeitsgemeinschaft, much as I was originally against giving labor, too, a right of co-consultation in economic affairs.<sup>38</sup> Duisberg himself was quite clear in his mind that he was floating these far-reaching ideas about co-determination not out of conviction but as a result of tactical calculation. The alternative to such pragmatism was potentially ruinous confrontation. And that was something Duisberg wished at all costs to avoid. He was determined to remain successful.

## The Zentralarbeitsgemeinschaft der industriellen und gewerblichen Arbeitgeber und Arbeitnehmer Deutschlands (ZAG)

At the time of its foundation in November 1918, the Zentralarbeitsgemeinschaft der industriellen und gewerblichen Arbeitgeber und Arbeitnehmer Deutschlands (ZAG)<sup>39</sup> was little more than an idea and the promise that management and labor would work together in tackling the problems of reorienting the economy to peacetime. It was uncertain how the economic transition was to be structured. As early as the spring of 1918, Duisberg was involved in consultations on the transition at the Reichswirtschaftsamt (RWA). It was clear by the autumn, however, that the ministry had neither the means nor the authority to manage the economic demobilization at that point. Distrust of the incumbent authorities, uncertainty about the form the future German state would take, and fear of the revolution prompted leading industrialists to join the heads of the SPD-affiliated unions in calling for the creation of a Demobilisierungsamt to replace the clearly overstretched RWA in organizing the economic transition. Within the framework of the new office, which was to be headed by Major Joseph Koeth, previously the director of the Kriegsrohstoffabteilung, working groups made up of equal numbers of management and labor

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<sup>38</sup>Carl Duisberg to Rudolf Frank, 18 Feb. 1919, BAL 46/16.1.

<sup>39</sup>The agreement setting up this organization is reproduced in Feldman/Steinisch, *Industrie und Gewerkschaften* (see above, note 2). This is still the standard work on the subject. Its arguments influence the present text, even where they are not always explicitly referenced.

representatives would oversee the demobilization process in individual industries and sectors of the economy.<sup>40</sup> The new Demobilisierungsamt and the Zentralarbeitsgemeinschaft agreement, both of which date from November 1918, symbolized the determination of industry and unions to take control of the economic transition cooperatively and corporatively rather than leave it up to bureaucrats or revolutionaries.

This solution to the problem of economic transition existed only on paper. The Demobilisierungsamt and its various departments were set up quite quickly. The department for the chemical industry, for instance, was headed by Fritz Haber. Nonetheless, the new office's responsibilities were not yet clear, and Koeth's tendency to side with labor did not sit well with management. Industry leaders thus looked around for other options.<sup>41</sup> In early 1919, the RWA rapidly grew in importance under the newly appointed Social Democratic Minister of Economics Rudolf Wissell and the dynamic Under State Secretary Wichard von Moellendorff,<sup>42</sup> who were constantly on the lookout for ways to use the transition to create permanent public sector structures. As the Demobilisierungsamt became less important in setting economic policy, it also lost influence in the area of social policy as well. The newly established Reichsarbeitsministerium, to take just one example, completely bypassed the Demobilisierungsamt, as well as the ZAG, in drafting legislation on employee representation.<sup>43</sup>

The ZAG's days thus seemed to be numbered in early 1919 despite the fact that it was not yet fully functioning. It still had the backing of union leaders but the representatives of industry were becoming increasingly

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<sup>40</sup> Gerald D. Feldman, *Wirtschafts- und sozialpolitische Probleme der deutschen Demobilisierung 1918–19*, in: Hans Mommsen/Dietmar Petzina/Bernd Weisbrod (eds), *Industrielles System und politische Entwicklung in der Weimarer Republik*, Düsseldorf 1974, 618–36.

<sup>41</sup> On the background situation, see Franz Oppenheim to Carl Duisberg, 15 Feb. 1919, BAL 46/16.1. Duisberg was, quite rightly, not alarmed by the widespread rumors of nationalization and social ownership: 'You see, if an industry is ill-suited or not suited at all to such socialist measures, it really is our own, where everything depends on the small number of chemists who work in it and above all on the good will of those in leading positions. So I feel quite serene in the face of such endeavors and urgently recommend that you too take no action for the moment.' Nonetheless, Duisberg was ready to fight if need be: 'In any event, I shall defend my Leverkusen child and our German dye industry to the last drop of my blood.' Carl Duisberg to Emanuel A. Merck, 22 Nov. 1918, BAL AS.

<sup>42</sup> Feldman, *Hugo Stinnes* (see above, note 19), 566f.

<sup>43</sup> See also Friedrich Zunkel, *Industrie und Staatssozialismus. Der Kampf um die Wirtschaftsordnung in Deutschland 1914–1918*, Düsseldorf 1974.

critical. They did not object to the ZAG per se, but they were at odds among themselves on how the ZAG should be structured and how much weight each industry should have within it. Unlike the SPD-affiliated unions, the employers did not have established organizational structures in place in early 1919 that participated in the ZAG. Only with the controversial founding of the highly unstable Reichsverband der Deutschen Industrie (RDI) at the end of 1919 could the status of the ZAG be adopted.<sup>44</sup> By that point, the Deutscher Metallarbeiterverband had already announced that it was quitting the ZAG. And because the revolution seemed to pose less of an immediate threat and the government had demonstrated that it could take effective action, many industrialists no longer saw reason to cooperate with labor. That was evident when industry was able to block a ZAG condemnation of the Kapp Putsch in 1920. The ZAG was largely insignificant thereafter and failed to exercise any influence. In 1924, in the wake of the inflation crisis, the ZAG did not so much collapse as expire.<sup>45</sup>

It is one of the lesser-known chapters in the history of the Weimar Republic that the idea of a management-labor working group was a success in the chemical industry from the outset. That was certainly due to the political situation. Despite the talk of class struggle after the November 1918 revolution, the chemical industry was not seriously threatened with nationalization,<sup>46</sup> and the revolution had not been a particularly traumatic experience in Western Germany. The presence of Allied occupation forces prevented strikes and social conflict from escalating dangerously, at least until late 1920 and early 1921—and even there was little chance that unrest would take on civil war-like dimensions in Ludwigshafen, Höchst, and Leverkusen, the main centers of the chemical industry. Moreover, the chemical industry had reservations about government-initiated solutions to its problems, be it the leftist policies of Demobilization Office or the

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<sup>44</sup>Stephanie Wolff-Rohé, *Der Reichsverband der Deutschen Industrie 1919–1924/25*, Frankfurt a.M. 2001.

<sup>45</sup>For a detailed account, see Feldman/Steinisch, *Industrie und Gewerkschaften* (see above, note 2).

<sup>46</sup>Duisberg stressed several times that there was no danger of nationalization. ‘Socialization of the means of production by the present government is not something that we in the chemical industry need to worry about—at least, so I believe. Our industry is far too finely structured and too dependent on the export trade to be suitable for nationalization.’ Carl Duisberg to Rudolf Frank, 29 Nov. 1918, BAL AS.

variety of planned capitalism promoted by the RWA under Wissell and Moellendorff. The ZAG, as an umbrella organization for employers and unions, offered a viable alternative to government action. Similarly, a chemical industry working group made up of the industry's employers' associations and its highly cooperative unions must have seemed to offer an ideal solution to addressing the problems of the economic transition, even if it meant giving labor a say in decision making.

As the chairman of the VWICID, Duisberg played a key role in the development of the Reichsarbeitsgemeinschaft Chemie (RAG Chemie). Duisberg remained in Leverkusen, more or less of his own free will, and showed little inclination to travel to Berlin. As a result, he followed the establishment of a chemical-industry employers' association under the guidance of Mannheim industrialist Rudolf Frank from a distance. In his letters and memos, Duisberg showed himself to be a firm supporter of the idea of an employers-labor working group. Frank, who succeeded in having the new employers' association be based in Berlin despite opposition not least from Leverkusen,<sup>47</sup> increasingly became a close associate of Duisberg's. Both men welcomed the idea of working with the unions, which was taken as a matter of course in the chemical industry. The only differences of opinion between them arose over the question of how quickly the RAG Chemie should be set up. Whereas Duisberg argued that the fundamental questions should be cleared up first, the Berlin representative on the VWICID, later BASF board member Julius Bueb, and Duisberg's vice-chairman in the association, Agfa spokesman Franz Oppenheim, were in favor of proceeding quickly.

There were several reasons for Duisberg's hesitancy, which in essence had to do with the uncertain political situation. There was a pronounced anti-Berlin mood in the air in Leverkusen in late 1918–early 1919: 'Feeling against Berlin is [...] so bitter that no one is inclined any more simply to accept what Berlin decides at the highest level. People have no wish to abandon their freedom and simply allow themselves to be dragooned by Berlin-based organizations. This is a consequence of the current situation and will soon change, one hopes, when the fever of

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<sup>47</sup> On Leverkusen's 'separatism', see also Carl Duisberg's apologetic comments in a letter to Rudolf Frank, 13 Jan. 1929, BAL AS.

revolution has finished raging and normal conditions return.’<sup>48</sup> Duisberg did not share this view but found it understandable. ‘In this case I am [...] wholly innocent. However, this stems from the same source as the efforts of certain Cologne groups, prompted by their antipathy towards Berlin, to set up a Republic of Western Germany. Not entirely without reason people are worried that the Berlin situation will be seen as and taken to be typical of the whole of Germany.’<sup>49</sup> Much as Duisberg welcomed the founding of a nationwide chemical-industry employers’ association, he was deeply reluctant to allow the VWICID to become affiliated with the newly formed RDI, which was a prerequisite for the formation of the ZAG. The RDI would have to ‘grant us very substantial special rights, otherwise we cannot and may not go along with this centralization’, Duisberg wrote to Frank on 18 February 1919. He also justified his hesitancy by noting that an organization representing the interests of the chemical industry alone would be more effective.<sup>50</sup>

Bueb and Oppenheim, based in Berlin, were much more exposed to the pressures of day-to-day operations and political developments. Wissell and Moellendorff in particular were demanding action in the creation of an employers-labor working group, which they saw as one element of a *Gemeinwirtschaft* (a new cooperatively planned economy). Bueb and Oppenheim suggested to Duisberg that he invite Moellendorff to Frankfurt to a general committee meeting of the VWICID so he could explain his ideas to them. The meeting could also be used as occasion to press ahead with the establishment of the *Arbeitsgemeinschaft Chemie*. Duisberg, however, considering Bueb too ambitious, reined him in. To Duisberg’s mind it was still not yet clear whether the unions were going to be truly reliable partners. ‘What good is any amount of discussion with the Ministry and all the new organizations going to do us if Bolshevism is still around and the labor organizations no longer have their people under control?’ Duisberg wrote to Bueb on 22 February 1919. ‘All the same we must and will go through with the working group because I think the time is ripe for it now. [...] But if we come together, then some-

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<sup>48</sup> Carl Duisberg to Rudolf Frank, 13 Jan. 1929, BAL AS.

<sup>49</sup> Carl Duisberg to Rudolf Frank, 18 Feb. 1919, BAL AS.

<sup>50</sup> Carl Duisberg to Rudolf Frank, 18 Feb. 1919, BAL AS.

thing will have to be done, it mustn't be like with demobilization, where first a large new organization is created and then, after a few weeks, by common consent the child is killed off.<sup>51</sup> For that reason, he thought, a meeting with Wichard von Moellendorff was premature.

At the beginning of March, Duisberg felt his judgment had been vindicated. With the chemical industry employers' association established, he felt they could go ahead with the Zentralarbeitsgemeinschaft but advised further caution:

There is [...] not the rush with which they are currently trying to drive everything forward in Berlin. So I am pleased that I kept calm and did not fall for the blandishments of Mr. Bueb. The fact is, if we now, as our feeble government has conceded to the workers, get the constitutional fabric with the workers' and soldiers' councils, the [Zentral-]Arbeitsgemeinschaft will again have little value or will at least need to be structured quite otherwise than planned.<sup>52</sup>

What chiefly upset Duisberg was that the trade unions, now so ready to cooperate, would be weakened by soviet-type council legislation. As a result of that legislation, he feared, 'the unions will be pushed into the background and these congresses of councils with their syndicalist views accorded greater prominence. The best thing we can do in such circumstances is stay calm and sit it out.'<sup>53</sup> Bueb and Oppenheim meanwhile pushed ahead and called a general committee meeting of the VWICID. Duisberg would have preferred to wait until the second half of April to hold the meeting, but he gave his Berlin vice-chairman Oppenheim a free hand, considering himself too far away to judge conditions in the capital. He did, however, travel to Berlin for the first time since the revolution to attend the meeting. 'Should the meeting in Berlin decide to accede to the Arbeitsgemeinschaft, which as I said earlier has my warm support, there is some doubt as to whether [the] soviet-style council system decided on in Weimar will not overturn this whole organization', he wrote to Frank. 'Even so, the chemical industry should

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<sup>51</sup> Carl Duisberg to BASF head Bueb, 22 Feb. 1919, BAL 46/16.1.

<sup>52</sup> Carl Duisberg to Rudolf Frank, 4 March 1919, BAL AS.

<sup>53</sup> Carl Duisberg to Rudolf Frank, 4 March 1919, BAL AS.



no longer hesitate over this question but join in.<sup>54</sup> At the Berlin meeting, held on 29 March as planned, it decided to join the RAG and at the same time appointed a working group of representatives from the VWICID and the chemical-industry employers' association that should coordinate work in the RAG. Rudolf Frank took the chair of that committee, at the same time giving up his job in a Mannheim chemicals factory and joining the executive committee of the chemical-industry association.<sup>55</sup>

Duisberg's delaying tactics had nothing to do with any antipathy toward the idea of a working group. Indeed, he and the other leaders of the chemical industry were of one mind on cooperation with the unions, not least because preparations were underway at that time for the first industry-wide wage schedule. The chemical industry was in fact pushing for an agreement on wages.<sup>56</sup> For a time, Duisberg considered the idea of using the planned working group to bring the unions together into a single body at least for the purpose of wage negotiations because conducting negotiations with a number of competing unions was extremely laborious. Nothing came of this idea, however, not least because the unions were (and remained) fundamentally opposed to having the *Arbeitsgemeinschaft* deal with pay matters.<sup>57</sup>

<sup>54</sup> Carl Duisberg to Rudolf Frank, 20 March 1919, BAL 46/16.1.

<sup>55</sup> Carl Duisberg to Rudolf Frank, 15 April 1919, BAL AS. See also the confidential document that Carl Duisberg addressed to the members of the general committee of the VWICID, 15 April 1919, BAL AS. Rudolf Frank's salary was paid half by the Verein and half by the firms of the Interessengemeinschaft der deutschen Farbenfabriken—which Duisberg had supported strongly in order to obtain Frank's services in the first place. In practice, therefore, Frank was now an employee of the Interessengemeinschaft. Rudolf Frank to Carl Duisberg, 8 May 1919, with two handwritten agreements from which it emerges that in addition to Frank's official salary of 50,000 marks he received a further 50,000 marks from the firms of the Interessengemeinschaft. Certainly, Frank took a great weight off Duisberg's mind: 'That I am very pleased no longer to have to visit Berlin before Whitsun you will readily understand. I hope many weeks will pass before I am compelled to travel there again after Whitsuntide. At all events, I am delighted that I now have so excellent a representative in the Society who relieves me of all the burden and effort.' Carl Duisberg to Rudolf Frank, 2 June 1919, BAL AS.

<sup>56</sup> The original version of the national pay agreement for the chemical industry that remained in force until the end of the Republic and in part beyond was concluded on 19 July 1919. Although the agreement was added to or modified subsequently, the basic framework was never questioned. See Reichsarbeitsgemeinschaft Chemie, *Der Reichstarifvertrag (Rahmenvvertrag) der chemischen Industrie*, RAG pamphlet no. 5/21 (Berlin, 1921), BAL 46/16.1. On the industry's 'push for an agreement', see Rudolf Frank to Carl Duisberg, 11 Feb. 1919, BAL AS.

<sup>57</sup> See *Entschließung des 14. ordentlichen Gewerkschaftstages des Fabrikarbeiterverbands* (1921), BAL 46/16.1.

The constituent meeting of the RAG Chemie took place in Berlin on 29 April 1919, after the chemical-industry employers' organizations and three blue-collar unions formally concluded an agreement to establish a national working group. On the employers' side, the participants in the constituent meeting included Duisberg, Oppenheim, Frank, and Bueb. Frank became the first chairman of the RAG; union leader Conrad Bruns was elected vice-chairman.<sup>58</sup> Over the next few months, as well as the RAG dealing with some initial problems of substance, its structure was systematically driven forward with the result that the first general committee meeting could be held in December 1919. The working group devoted much of its attention over the next few months to organizational matters, though it also had to deal with several substantive issues. By December 1919, it was in a position to hold its first general committee meeting. An executive committee was formally appointed on that occasion. Duisberg, Oppenheim, and Paul Müller represented employers on the board, and Frank was made chair of the working group's Zentralschlichtungsausschuss.<sup>59</sup>

The RAG's purpose was 'to preserve and promote jointly, on the basis of cooperation between equal representations, the economic and social interests of the chemical industry in Germany and to play a part in all legislative and administrative matters pertaining to the sector'.<sup>60</sup> It was headed by an executive and a central committee, with the latter comprising the chairs of the sectional and regional groups of the RAG.<sup>61</sup> These formed the nucleus of the organization. In economic policy, its functions included

Supporting efforts to obtain job contracts and raw materials for the chemical industry, administering and controlling matters relating to import and export, advising the authorities on how to deal with draft legislation, com-

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<sup>58</sup>Bericht über die konstituierende Sitzung des Vorstands der Gruppe Chemie, 29 April 1919, BAL 46/16.1.

<sup>59</sup>Reichsarbeitsgemeinschaft Chemie, *Die Grundlagen der Reichsarbeitsgemeinschaft Chemie*, Memorandum no. 8, Berlin, 11 Dec. 1919, BAL 46/16.1, 10f.

<sup>60</sup>Reichsarbeitsgemeinschaft Chemie, *Die Grundlagen der Reichsarbeitsgemeinschaft Chemie*, Memorandum no. 8, Berlin, 11 Dec. 1919, BAL 46/16.1, 3.

<sup>61</sup>Reichsarbeitsgemeinschaft Chemie, *Die Grundlagen der Reichsarbeitsgemeinschaft Chemie*, Memorandum no. 8, Berlin, 11 Dec. 1919, BAL 46/16.1.

mercial treaties, customs matters, transport questions (rail fares, shipping, etc.), laying down principles of price-measurement and conditions of sale in cases where for general economic reasons some regulation is necessary—in short, assuming all those functions that self-governing bodies are required to perform, including collective distribution of rationed raw materials and finished products for the period of the transitional economy.<sup>62</sup>

Its social policy functions related to ‘joint regulation of conditions of pay and work between the organizations on both sides, performing regulated industrial mediation with equal executive representation, forming committees of arbitration’.<sup>63</sup>

The working group set up 12 committees corresponding to the structure of the chemical industry to address economic issues.<sup>64</sup> Social policy issues were to be handled by 12 regional committees. The chairs of these committees formed the RAG’s central committee. The 1919 agreement on the structure and purpose of the working group was to last three years and could be renewed annually thereafter. The working group and its committees operated very successfully in the years that followed even though the *Arbeitsgemeinschaft* idea became less important generally and major policy issues faded into the background or were discussed elsewhere. Nevertheless, employer-labor cooperation lived up to Duisberg’s expectations. Work in the sectional groups had the effect of disciplining the free unions economically [Participation in the section groups made the unions more realistic in their wage demands]. Cooperation on social policy in the regional groups led to largely frictionless negotiation and arbitration procedures that, in marked contrast to the heavy-industry sector, functioned on a long-term basis without government intervention. The big strike battles in the chemical industry—in Leverkusen in 1921, for example, and Ludwigshafen in 1924—were wildcat actions without the backing of the socialist unions. The chemical industry’s bet on social

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<sup>62</sup>Reichsarbeitsgemeinschaft Chemie, *Die Grundlagen der Reichsarbeitsgemeinschaft Chemie*, Memorandum no. 8, Berlin, 11 Dec. 1919, BAL 46/16.1, 3.

<sup>63</sup>Reichsarbeitsgemeinschaft Chemie, *Die Grundlagen der Reichsarbeitsgemeinschaft Chemie*, Memorandum no. 8, Berlin, 11 Dec. 1919, BAL 46/16.1.

<sup>64</sup>Carl Duisberg to Rudolf Frank, 20 March 1919, BAL 46–716.1.

partnership, in short, paid off. The example of the chemical industry demonstrates, moreover, that during the Weimar Republic social conflicts that might imperil the republic were by no means inevitable.<sup>65</sup>

The social partnership was not narrowly confined to cooperation on economic and social issues. The chemical industry also gave its express backing to the preservation of the republic. Whereas the RDI and the Zentralarbeitsgemeinschaft were slow to respond to the Kapp Putsch, the RAG Chemie not only condemned the putsch with harsh words but also voiced its approval of the anti-putsch general strike and announced that chemical companies were prepared to pay their workers for the strike days. Although the pledge on pay was heavily criticized within the chemical-industry employers' association and was seen as a weakening of the policy not to tolerate any sort of political strike, the working group's rejection of the Kapp Putsch was not a source of controversy. Speaking at the executive-committee meeting of the employers' association on 12 April 1920, Rudolf Frank explained the working group's decision to oppose the Kapp Putsch. According to the minutes, Frank reported,

The Reichsverband der Deutschen Industrie had been unable to bring itself to adopt a clear position, instead simply deciding on an empty statement that was to have a disastrous effect on the future development of our socio-political situation, particularly with regard to a joint approach by employer and employee organizations. After mature reflection and following protracted and detailed consultations with the representatives of organized labor, the employer representatives on the executive of the RAG Chemie had formed the conviction that they could not align themselves with this statement by the National Association but must speak out clearly and unambiguously against the Kapp Putsch, which constituted a crime against the German people and the life of our economy. This had been the first important occasion on which the employers had been able to come out into the open and show that they accepted the new situation and wished to march shoulder to shoulder with the employees. Furthermore, there need now be no doubt that the very existence of the Arbeitsgemeinschaft idea was at stake here and that the employers, if they had any desire to adhere

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<sup>65</sup> See the minutes of executive-committee meetings of the RAG: *Protokolle der Vorstandssitzungen der Reichsarbeitsgemeinschaft, 1919–1922*, BAL 46/16.1.

to that idea, must therefore join forces with the employees. The most drastic action taken against the putsch had been the general strike. So anyone who truly believed that the *Arbeitsgemeinschaft* idea must remain viable (and this was a belief that presumably everyone present shared)—if that was so, then the general strike must in this exceptional case receive the approval of the employer side as well. It was at the prompting of this conviction that the employer representatives on the executive of the *Zentralarbeitsgemeinschaft* had adopted the resolution of 15 March.<sup>66</sup>

That was strong stuff, coming from a representative of a major industry. Although he was criticized for supporting the general strike, Frank held to his position and argued for it in the executive committee of the RDI—remarkably, with the full support of Hugo Stinnes.<sup>67</sup> Duisberg saw the situation in much the same light. In his view, the putsch by the ‘army party’ was a ‘crime against our country’. His verdict was clear: ‘Sinking one’s head into one’s hands, one wonders whether people of intelligence and good sense or fools and imbeciles have taken control of the new government’,<sup>68</sup> he wrote in a letter to Böttinger. Analyzing the situation soberly, he drew several conclusions. The putsch could not have come at a more awkward time, he told Böttinger, because the currency had just begun to stabilize and the economy was picking up. The putsch attempt put that progress in jeopardy and could also threaten Germany’s foreign relations. Nor, Duisberg thought, did the putsch help the domestic political situation; it threatened only a renewed radicalization and an aggravation of the country’s left–right polarization. Indeed, the scenes in Leverkusen following the general strike called to mind the events there in December 1918 before British troops moved in to occupy the bridgehead.<sup>69</sup>

Duisberg’s argument for the republic and for a working social partnership did not follow from ideological or political convictions, as was

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<sup>66</sup>Report of the executive-committee meeting of the German Chemical Industry Employers’ Association held in Berlin on 12 April 1919, reproduced in Feldman/Steinisch, *Industrie und Gewerkschaften* (see above, note 2), 168–70, esp. 169.

<sup>67</sup>On Stinnes’s stance, see Feldman, *Hugo Stinnes* (see above, note 19), 600–6.

<sup>68</sup>Carl Duisberg to Henry Theodor von Böttinger, 15 March 1920, BAL AS.

<sup>69</sup>Carl Duisberg to Henry Theodor von Böttinger, 15 March 1920, BAL AS.

clear by March 1920, but was shaped by the pragmatic judgment that, in a democracy, preserving capitalism and his own firm's success could not be achieved in opposition to the masses and their representatives. Cooperation with the moderate Social Democrats and the unions was thus necessary. Duisberg no more mourned the passing of the German Empire than he would have regretted seeing the collapse of the National Socialist regime. He remained focused pragmatically to the end of his life on the smooth functioning of the social center.

## Social Partnership as an Instrumental Strategy

The Zentralarbeitsgemeinschaft was something after Duisberg's own heart: an association of energetic individuals who would cooperate to get things working again. Once it had become clear that the bourgeois camp alone could no longer guarantee the survival of capitalism—that it would in fact have cowardly sat by and watched the revolution unfold—an understanding with reasonable labor leaders would be necessary. Duisberg held firmly to this view even after the demise of the Arbeitsgemeinschaft in 1924, much as he had clearly rejected the ideas of rolling back the revolution in early 1923. Paul Silverberg,<sup>70</sup> the head of the coal producer Rheinbraun and a close friend of Hugo Stinnes, used the 1922 Christmas break to put forward a radical liberal plan for rebuilding the German economy that would ultimately result in the abolition of the right to collective bargaining and a declaration of war on the labor movement. Consulted by Silverberg and asked for his opinion, Duisberg left no doubt about his opposition:

To my mind your demands would take us back to Manchesterism but without the benevolence and without incorporating in your program the things that recent decades have brought us. Even if your program is correct from the economic standpoint and one I share in most respects, certain of your demands are perhaps politically and tactically untoward. What you write constitutes a fully rounded, powerful, impressive dictate. As you

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<sup>70</sup> On Paul Silverberg, see the excellent recent study by Boris Gehlen, *Paul Silverberg (1876–1959). Ein Unternehmer*, Stuttgart 2007.

know, I am not exactly a weak or irresolute individual myself, but I have always had a certain feel for the requirements of the time, particularly as regards the labor force, and I have not been afraid to give way occasionally and make compromises. My experiences with such tactics hitherto have been extremely favorable. We should not become entangled in the spokes of historical development; we should go on observing that a Germany that is as united as possible becomes a more urgent requirement with each passing day.<sup>71</sup>

During his term as chairman of the RDI (1925–31), Duisberg allowed advocates of a cooperative approach to labor relations—men such as Abraham Frowein, Paul Silverberg (who made a U-turn in 1926 and came out in favor of social partnership), and Ludwig Kastl<sup>72</sup>—to set the association's policy—to the irritation of heavy industry and many smaller firms in the textile and metal industries eager to see the Weimar welfare state and collective bargaining rights thrown overboard.<sup>73</sup> Social partnership served the chemical industry very well—so well, in fact, that Duisberg's power base in the industry enabled him to fend the ever more frequent attacks from heavy industry within the RDI during his terms as the organization's chairman. It is part of the tragedy of the Weimar Republic that economic conditions, particularly in the years after 1929, prevented other sectors from following the example of the chemical industry.

The transformation of Duisberg's stance after 1918 are not as surprising as it might seem. There are numerous examples of such 'turncoats' in his age cohort. Age was, in fact, one factor in his change of mind on labor relations. Duisberg was 57 at the end of the war and would have had to retire had he wanted to devote himself to opposing the republic. His reluctant adaptation to the new situation offered him a way to follow up on his earlier successes and again attain tremendous influence in business and politics. This adaptation was ambiguous, though. Duisberg

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<sup>71</sup> Carl Duisberg to Paul Silverberg, 12 Jan. 1923, BAL AS.

<sup>72</sup> On Frowein, Silverberg, and Kastl, see Reinhard Neebe, *Großindustrie, Staat und NSDAP 1930–1933. Paul Silverberg und der Reichsverband der deutschen Industrie in der Krise der Weimarer Republik*, Göttingen 1981. On Silverberg, see Gehlen, *Paul Silverberg* (see above, note 70).

<sup>73</sup> On the conflicts within the RDI, see Neebe, *Großindustrie* (see above, note 72).

had to break with the imperial era, on the one hand, but, on the other, he could not allow that break to become a renunciation of his earlier achievements. The way out consisted in taking advantage of the new situation to regain his former eminence. This distinguished him dramatically from the young 'patricides' who wanted a more decisive break with the past. Totalitarian allurements never ensnared Duisberg; he was too old and too *bürgerlich* or that.<sup>74</sup> In the end, it was his age and post-1918 successes that brought Duisberg to terms with the 'new age'. One of the most important roots of what later became known as 'Rhenish capitalism' took shape during the occupation of the Rhineland, which ruled out the kind of radicalization of class conflict seen in the Ruhr, Hamburg, Berlin, and central Germany: a social partnership that was to develop in full only under the conditions provided by the Federal Republic of Germany.

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<sup>74</sup> Conversely, the representatives of the old bourgeois order were particularly unpopular with the right-wing radicals of the Weimar period. 'In the agitation of the far right, such as by Gregor Strasser, for instance, and Josef Goebbels, denunciation of the "outdated" bourgeoisie became inseparable from polemical ranting against the senescence of the Weimar Republic.' See Hans Mommsen, *Die Auflösung des Bürgertums seit dem späten 19. Jahrhundert*, in: Jürgen Kocka (ed.), *Bürger und Bürgerlichkeit im 19. Jahrhundert*, Göttingen 1987, 288–315, here 290.



# 13

## Industrial Relations in the GDR: A Mere Footnote to German Economic History?

When it comes to discussing the history of industrial relations in Germany, basically one is dealing with the history of organized labor and specifically with the structure and constitution of labor markets. The problem is economic and social at one and the same time. In modern economies, labor markets are no ordinary markets. Here too price formation follows the law of supply and demand; price fluctuations, however, are limited—on the one hand, by the minimum amount that employees can live on, and on the other, by how much employers are able to pay. The labor market is generally deemed a special case. Karl Polanyi goes so far as to dismiss out of hand any subordination of human labor to the market principle, calling it a ‘developmental disaster’. Human beings simply cannot tolerate the risk to which an anonymous labor market exposes them.<sup>1</sup> The term

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<sup>1</sup>Karl Polanyi, *The Great Transformation. Politische und ökonomische Ursprünge von Gesellschaften und Wirtschaftssystemen*, Vienna 1977. See also Eckart Pankoke, *Die Arbeitsfrage. Arbeitsmoral, Beschäftigungskrisen und Wohlfahrtspolitik im Industriezeitalter*, Frankfurt a.M. 1990.

‘industrial relations’ denotes the mechanisms by which the price of ‘labor’ (wages, working hours, working conditions, and so on) is established. It is very largely defined by how a given workforce potential is allocated. A distinction is normally drawn between labor-market arrangements arrived at individually and collective labor-market structures. In most developed industrialized countries, individual labor-market arrangements have gradually, since the late nineteenth century, been replaced by more moderate joint solutions.<sup>2</sup>

In Prussia after the Stein–Hardenberg reforms and in the states of the Rhineland Confederation following the adoption of French civil law, the labor market was in principle free from pre-modern commitments. Within a sparse regulatory framework, freedom of contract had prevailed since the beginning of the nineteenth century. Such freedom had of course long been the subject of criticism (child labor, female labor, penury). So, total freedom of contract did not reign for long. Restrictions were placed on child labor as early as the 1840s, and in Prussia the factory inspectorate monitored observation of the relevant legislation from the 1850s onward. Altogether, a totally unregulated labor market did not meet with approval in Germany. So far as social affairs are concerned, Germans have always been significantly more risk-averse than other cultures, and when it came to construing labor-market risks the debate held in Germany was quite unlike that conducted in the English-speaking countries. Not surprisingly, then, Germany was the first modern country in which comprehensive social-insurance arrangements were introduced.<sup>3</sup> In Germany, conservative no less than bourgeois social reformers, churches, and social democrats rejected an open, unregulated labor market as being too risky and anti-social, according to Bruch.<sup>4</sup> Together

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<sup>2</sup>Walter Müller-Jentsch, *Soziologie der industriellen Beziehungen. Eine Einführung*, 2nd revised and extended edn, Frankfurt a.M. 1997; Werner Plumpe, *Kapital und Arbeit. Konzept und Praxis der industriellen Beziehungen im 20. Jahrhundert*, in: Reinhard Spree (ed.), *Geschichte der deutschen Wirtschaft im 20. Jahrhundert*, Munich 2001, 178–99.

<sup>3</sup>Francois Ewald, *Der Vorsorgestaat*, Frankfurt a.M. 1993 (first published in French in 1987); Adalbert Evers/Helga Nowotny, *Über den Umgang mit Unsicherheit. Die Entdeckung der Gestaltbarkeit von Gesellschaft*, Frankfurt a.M. 1997; Niklas Luhmann, *Soziologie des Risikos*, Berlin 1991.

<sup>4</sup>Rüdiger vom Bruch, *Weder Kommunismus noch Kapitalismus. Bürgerliche Sozialreform in Deutschland vom Vormärz bis zur Ära Adenauer*, Munich 1985.

they constituted the sounding board on which during the later Empire and in the early Weimar years the typically German model of a social-partnership-style labor market took shape.<sup>5</sup> After 1945 the future Federal Republic seamlessly continued this tradition, while the eastern Länder followed a different course. How far that course should be assigned to pre-modern German economic history or whether it marks a German tendency or is basically a Soviet import are questions I wish to address in what follows.

I shall do so in three steps: there is the question (first) of motive or motives; we then need to look at the institutions and protagonists involved in industrial relations in East Germany; and third we must examine how they were conducted and to what effect. In conclusion, I shall seek to establish the place of such relations in the broad sweep of German economic history.

However, two qualifications before we begin:

- (a) Strictly speaking the term ‘industrial relations’ (Anglophone in origin) covers the relatively autonomous system of labor-market regulation by firms and employer associations on the one hand and workforces and trade unions on the other. The framework is laid down by national legislation, but the way in which industrial relations operate in practice is fairly independent of such regulation. To that extent, ‘industrial relations’ have only very limited relevance to the GDR, as we shall see. However, since our concern here is with the overall perspective of German economic history, this chapter casts an admittedly skeptical eye over the GDR system as part of the history of industrial relations throughout Germany.<sup>6</sup>
- (b) The second qualification concerns the current state of research and relates to my own competence. The social history of the GDR and the reality of the labor scene in East Germany have of course been

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<sup>5</sup> Volker Hentschel, *Geschichte der deutschen Sozialpolitik 1880–1980*, Frankfurt a.M. 1983.

<sup>6</sup> Werner Plumpe, *Industrielle Beziehungen*, in: Gerold Ambrosius/Dietmar Petzina/Werner Plumpe (eds), *Moderne Wirtschaftsgeschichte. Eine Einführung für Historiker und Ökonomen*, Munich 1996, 389f.; Wolfgang Schroeder, *Das Modell Deutschland auf dem Prüfstand. Zur Entwicklung der Industriellen Beziehungen in Ostdeutschland*, Opladen 2000, 49–75.

much studied since the country's foundation.<sup>7</sup> However, a proper account of the relative position of labor in East Germany and how that position developed has yet to be presented. There has been one study with a particularly promising title,<sup>8</sup> but even that does not serve the purpose. So for me (and I am not a specialist in the economic history of East Germany) it has been no easy task to reconstruct even so much as the relevant institutional regulations and formal groups of interacting individuals set up by repeated amendments of labor legislation in the GDR. The following essayistic observations are wholly provisional and do not set out to plug any research gaps. They constitute an experiment—albeit one founded in fact.

## Preliminary Considerations

The starting point for a reorganization of labor in the GDR was the political notion that the old organization of the production process was inefficient (because of economic crises) and anti-social (because of the unequal distribution of the risks brought about by those crises). Underlying that idea was the thought that capitalism, with its private-enterprise orientation, generated risks that had the effect of facilitating private appropriation of the social surplus by those who owned the means of production. The social instability of capitalism coupled with its supposed inefficiency was a prominent theme in the German tradition. Conservative criticism of bourgeois modernization in the early nineteenth century had already voiced it,<sup>9</sup> and with the parallel rise of industry, social democracy, and bourgeois social reform it gathered power.<sup>10</sup> Like communicating vessels these factors engendered an intensification and variation of discussion

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<sup>7</sup> Peter Hübner/Klaus Tenfelde (eds), *Arbeiter in der SBZ-DDR*, Essen 1999; Renate Hürtgen (ed.), *Der Schein der Stabilität. DDR-Betriebsalltag in der Ära Honecker*, Berlin 2001; Schroeder, *Das Modell Deutschland* (see above, note 6).

<sup>8</sup> Doris Schwarzer, *Arbeitsbeziehungen im Umbruch gesellschaftlicher Strukturen. Bundesrepublik Deutschland, DDR und neue Bundesländer im Vergleich*, Stuttgart 1995.

<sup>9</sup> Paul Grebe, *Die Arbeiterfrage bei Lange, Ketteler, Jörg, Schäffle. Aufgezeigt an ihrer Auseinandersetzung mit Lassalle*, Berlin 1935.

<sup>10</sup> Heinrich Herkner, *Die Arbeiterfrage. Eine Einführung*, Berlin 1905.

topics that, given the prosperity of the Kaiserreich, increasingly highlighted the possibilities of structuring risk (through insurance, co-determination, agreed wage rates, and so on) without actually constituting a formal system. The end of the First World War then produced a paradoxical result: on the one hand, with the ZAG (Zentralarbeitsgemeinschaft der industriellen und gewerblichen Arbeitgeber und Arbeitnehmer) agreement between employer and employee organizations as well as with the welfare legislation of the Weimar parliament, bourgeois welfare reform and social democracy carried through all the reform ideas of pre-war imperial days, while on the other hand, after the fighting and in the light of the social consequences of war and inflation, those ideas no longer seemed to go far enough.<sup>11</sup> The emergent Communist movement posed the systemic question. The present economic constitution (it claimed) was basically not in a position to balance out social injustice and economic inefficiency. On the contrary, it created both and harnessed them together to force workers under the yoke of capital with the threat of starvation.<sup>12</sup>

This radical view of things failed to find practical implementation in the Weimar Republic, but it chimed with what a powerful minority of the German working class was thinking. Furthermore, it matched the spirit of the times, according to which social problems flowed from the way the economy was organized politically. On this point Communists, Christians, Social Democrats, and even National Socialists all agreed. Only their suggested solutions differed fundamentally. The down-to-earth approach whereby aspiring to the productivity of the modern economy meant braving its constitutive risks (risks that should be curbed but could not be avoided altogether) was never popular in Germany except among a small group of economic ‘liberals’—and certainly not in the final years of the Weimar Republic. There was an overriding blind belief that the advantages of modernity might be enjoyed without having to take the risks it brought. All that was required (supposedly) was a kind of political leadership that, rather than being in hock to the interests

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<sup>11</sup> *Deutsche Sozialpolitik 1918–1928. Erinnerungsschrift des Reichsarbeitsministeriums*, Berlin 1929.

<sup>12</sup> Heinrich August Winkler, *Von der Revolution zur Stabilisierung. Arbeiter und Arbeiterbewegung in der Weimarer Republik 1918 bis 1924*, Berlin 1984.

of capital, served the people as a whole. Ultimately even liberalism said goodbye to its old notion of a self-regulating economy. With the arrival of 'Ordoliberalism' (as 'Neoliberalism' was termed in Continental Europe), German liberals themselves argued for a strong state—one that would establish and guarantee the disciplined political conditions that a dynamically creative market economy needed.<sup>13</sup>

The disastrous turn that events took under National Socialism strengthened this belief.<sup>14</sup> Even in the 1930s the various wings of the illegal or émigré labor movement relentlessly denounced National Socialism as the dictatorship of capital or at least as acting in its interests. The subsequent war and its outcome were widely seen (notably by Communists, given the military success of the USSR) as a kind of world court passing judgment on capitalism. Many people felt that the capitalist system must not be allowed to survive in its traditional form beyond the end of hostilities. So after 1945, right across Germany, it was a blend of motives (political, economic, and social) that steered public opinion firmly in the direction of expropriation, economic planning, and labor controls.<sup>15</sup>

Initially, therefore, the lineaments of labor organization in the various zones of occupation had much in common. Wage scales were bound by occupation law, but trade unions and industrial representation re-emerged with the same swiftness as (by common consent) private ownership was mistrusted in key sectors of the economy.<sup>16</sup> A further consideration (namely, that the economic process should be planned in future rather than left to the anarchy of the market and the danger of distortion resulting from its totalitarian make-over) was common property, at least initially, if for quite different reasons. The CDU, for instance, with its 'Ahlemer Programm', had no intention (for all that capitalism was under

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<sup>13</sup>Dieter Haselbach, *Autoritärer Liberalismus und soziale Marktwirtschaft. Gesellschaft und Politik im Ordoliberalismus*, Baden-Baden 1991.

<sup>14</sup>Rüdiger Hachmann, *Industriearbeit im 'Dritten Reich'. Untersuchungen zu den Lohn- und Arbeitsbedingungen in Deutschland 1933–1945*, Göttingen 1989.

<sup>15</sup>Christoph Kleßmann, *Die doppelte Staatsgründung. Deutsche Geschichte 1945–1955*, 5th edn, Bonn 1991.

<sup>16</sup>Lutz Niethammer/Ulrich Borsdorf, *Arbeiterinitiative 1945. Antifaschistische Ausschüsse und Reorganisation der Arbeiterbewegung in Deutschland*, Wuppertal 1976; Gloria Müller, *Strukturwandel und Arbeitnehmerrechte. Die wirtschaftliche Mitbestimmung in der Eisen- und Stahlindustrie 1945–1975*, Essen 1991.

such criticism) of actually getting rid of the market economy.<sup>17</sup> Nor did the various drafts of a 'Third Way' between Washington and Moscow that the SPD favored from time to time advocate state socialism of any kind. They saw themselves as following in the tradition of economic democracy. However, not even the SPD's foundational slogan of June 1945 spoke of socialism as such but always of 'bourgeois democracy'.

The start of the 'Cold War' and the fading Soviet hope of gaining influence right across Germany soon transformed the basic conditions of development for industrial relations in what was to become the German Democratic Republic.<sup>18</sup> Under the overwhelming influence of the Soviet-occupying power, the Soviet zone of occupation (the later East Germany) departed from the common route followed by all the zones so far as the practical arrangements governing employment relations were concerned. Nevertheless, it did not abandon the joint motivational situation, continuing to pursue the goal of human benefit. Subsequent interventions in traditional industrial relations and the institutional restructuring of labor law were certainly quite radical. However, industrial relations became a functional complement to the state-socialist economic system that was the ultimate goal. They shed completely the character of being an instrument in the autonomous shaping of labor by the respective protagonists, installing no genuinely viable alternative in its place. The resultant inefficiency in the harnessing of human labor crippled East Germany from start to finish. It was unquestionably responsible, in part, for the functional problems that assailed the country's economy.

## Institutions and Protagonists in Industrial Relations in East Germany

Any portrayal of the system of industrial relations adopted by the GDR should properly begin with a description of the country's economic sys-

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<sup>17</sup>Gerold Ambrosius, *Die Durchsetzung der sozialen Marktwirtschaft in Westdeutschland*, Stuttgart 1977; Ernst-Ulrich Huster, *Determinanten der westdeutschen Restauration*, Frankfurt a.M. 1983.

<sup>18</sup>Wolfgang Zank, *Wirtschaft und Arbeit in Ostdeutschland. Probleme des Wiederaufbaus in der Sowjetischen Besatzungszone Deutschlands*, Munich 1987.

tem. However, the following remarks assume such knowledge as a given.<sup>19</sup> With it (that is to say, with the socialist economic system) what Walter Müller-Jentsch call the macro-level of industrial relations was predetermined. Because of the abolition of all relevant private ownership and strict indicative planning of the economic process, structure and substance of industrial relations (size of wage fund, working hours, working conditions, ‘labor-market’ structures, and so on) became political issues, wholly subject to party and hence state prerogative. There were certain rights and avenues of complaint through the Free German Trade Union Confederation (Freier Deutscher Gewerkschaftsbund or FDGB) and its representatives in party, government, and parliament, but industrial *relations* as such did not really exist at the macro-level. Instead, a sort of benevolent paternalism prevailed. This was never regarded as a problem in the GDR because of course it was explicitly willed: the party of the working class naturally governed in the interests of the working class!

But of course deeply ambivalent consequences were involved here. In East Germany, arising out of the aforesaid motivational situation and a belief that in any competition its system would prove to be the most successful socially, from its first labor code in 1950 to its eventual demise the country remained faithful to a labor-market arrangement that placed a very high value on the rights of the employed person. A ‘right to work’ genuinely existed, and dismissal was either out of the question or confined to exceptions (politically aberrant behavior, criminality). That meant no ‘collective bargaining’, of course; there was no need for it in GDR eyes. Truly conflicting interests were impossible under socialism. With the people, by the people, for the people—the slogan denoted a conviction that was subjectively embedded in the political leadership of the country, grotesque though that may seem from a distance. The clear inconsistency between conferment of political privilege on the one hand and denial of a political voice on the other created a paradox at the industrial level. There were no collective rights, granted, but neither could firms permit individual bargaining. We shall later be looking at the countless, often

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<sup>19</sup>Gerold Ambrosius, ‘Sozialistische Planwirtschaft’ als Alternative und Variante in der Industriegesellschaft—die Wirtschaftsordnung, in: André Steiner (ed.), *Überholen ohne Einzuholen. Die DDR-Wirtschaft als Fußnote der deutschen Geschichte*, Berlin 2006; André Steiner, *Von Plan zu Plan. Eine Wirtschaftsgeschichte der DDR*, Munich 2004.



unsuccessful attempts to impose efficient performance-pay systems on the shop floor—sometimes even in the teeth of resistance by workforces. They are evidence of the situation.<sup>20</sup>

There was no middle level of industrial relations, strictly speaking. There was planning for individual branches of industry and major combines involving branch unions (these were weak) as well, but even less than at the macro-level could there be a question here of negotiations. Here too the size of the wage fund (technically the crucial measure of wage growth) was a political matter, decided ultimately in the Politburo—and from the 1970s onward by Günter Mittag and his colleagues acting more or less on their own. The fact that the planned size of the wage fund was usually exceeded (sometimes well exceeded) by wages actually paid out once again points to the unique phenomenon of a theoretically all-powerful state dependent in practice on the actual behavior of its working population.<sup>21</sup>

Very much more important was the micro-level of People's Enterprises (Volkseigene Betriebe or VEB). Here too, while workforces did not possess actual bargaining rights, the de facto result was that wage rates, supplements, bonuses, and working conditions were negotiated within firms. Initially most provisions were contained in so-called joint industrial agreements (Betriebskollektivverträge). While not actually laying down pay and working hours, these determined the concrete form such things should take in individual industrial operations; they also set the size and scope of supplementary payments. However, when it emerged that the agreements could turn out to offer openings for what was officially (and very disapprovingly) known as 'trade unionism pure and simple' (Nurgewerkschaftertum), they soon lost importance. On the other hand, pay and working hours were part of plan discussion, which ranged from debate about the task of planning to concrete plan presentation. Plans once presented were after all legally binding. They laid down performance targets and bonus amounts. Plan discussion (so far as one can

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<sup>20</sup> Axel Bust-Bartels, *Herrschaft und Widerstand in den DDR-Betrieben. Leistungsentlohnung, Arbeitsbedingungen, innerbetriebliche Konflikte und technologische Entwicklung*, Frankfurt a.M. 1980.

<sup>21</sup> Rainer Deppe/Dietrich Hoß, *Arbeitspolitik im Staatssozialismus. Zwei Varianten: DDR und Ungarn*, Frankfurt a.M. 1989.

judge at this point) certainly comprised elements of true negotiation, where of course the front line between firm and plan authorities ran.<sup>22</sup> So if with the agreement of the workforce the head of the firm argued for lower plan targets (and hence for higher bonuses) that was hardly an expression of autonomous industrial relations, even if he used the mood of the workers as a negotiating tool. In turn, as the political and party leadership saw matters, the presence of negotiating elements within firms constituted a serious obstacle to boosting labor productivity without at the same time overstressing the wage fund. So the authorities were concerned from the outset to limit the scope available to firms. This began with the reintroduction of piecework in 1947, continued with the adoption and further development of the wartime catalogue of wage groups (by means of which employees were assigned to one of a successively growing number of wage groups), and finished up with the implementation of scientifically established technical labor norms that fixed wage levels in relation to quantitative performance. In the 1960s, purely quantitative incentive systems were abandoned because they said nothing about quality of labor. Also introduced were quality bonuses, which were assessed by new procedures. In this way, state and party leadership sought to diminish negotiating scope in order (as we saw above) to sever the link between higher productivity and higher wages. This correction of productivity and pay policy failed, admittedly, because the real world of firms ruled out a schematic adoption of instructions from outside the relevant firm. Scope for negotiation was diminished, but the micro-level remained the level at which negotiation prevailed and the fight continued over the grouping of employees and the concrete deployment of technologically determined labor norms.<sup>23</sup>

These three levels together made up industrial relations in East Germany: labor constitution; economic planning together with branch

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<sup>22</sup>Jörg Roesler, *Spielraum für betriebliche Entscheidungen volkseigener Betriebe während des Zweijahresplanes 1949/50 und Schlussfolgerungen für die betriebsgeschichtliche Forschung*, in: Werner Plumpé/Christian Kleinschmidt (eds), *Unternehmen zwischen Markt und Macht. Aspekte deutscher Industrie- und Unternehmensgeschichte im 20. Jahrhundert*, Essen 1992, 90–104.

<sup>23</sup>Klaus Ewers, *Der Konflikt um Lohn und Leistung in den Volkseigenen Betrieben der SBZ/DDR. Ein historisch-soziologischer Beitrag zur innerbetrieblichen Lohngestaltung—von 1945/46 bis zu den langfristigen Folgewirkungen des 17. Juni 1953*, Diss. University of Osnabrück, Bielefeld 1985; Bustartels, *Herrschaft und Widerstand* (see above, note 20).

and business planning; joint industrial agreements, concrete organization of wage groups, and piecework rates. Occasionally they left some scope for negotiation, but they were a long way from constituting an autonomous way of settling labor relations by the protagonists concerned. The party's political prerogative was clear.

If we take a closer look at the protagonists concerned in industrial relations in the GDR, structurally it is possible to name three groups. These need to be distinguished in greater detail. Looking first at the 'employer side', in the case of East Germany one is dealing with national government. This played very different roles, from the central ministries and regional government agencies, the State Planning Commission, the heads of the 'Association of People's Enterprises' (Vereinigung Volkseigener Betriebe or VVBs) and later combines, down to individual People's Enterprises or VEBs. Officially, all these levels were nationally owned and therefore subject to the directives of the GDR government. In practice, however, the directors of individual VEBs, planners, and ministerial bureaucrats quite often faced each other across the table as negotiating partners (not to say, opponents)—though of course the fact could never have been admitted openly. Regarding the actual negotiations that went into the planning processes, all we have up to now are indications. Furthermore, since the way the various tiers of government management interacted changed frequently (although bureaucratic remodeling gradually decreased from the late 1960s onward), one assumes that day-to-day conflicts regarding plan structure and planning controls were mainly about matters of bureaucratic competence.

In principle, the partner of government economic management in industrial relations was the union side. The Free German Trade Union Federation (Freier Deutscher Gewerkschaftsbund or FDGB) was set up in 1945 as a central unitary trade union, with the industrial unions forming nonautonomous departments within it. Initially, the same model was favored by the founders of the German Trade Union Federation in the British zone but failed to find acceptance. The occupying power feared that an organization so structured might present an uncontrollable concentration of power.<sup>24</sup> On paper the FDGB was indeed a remarkably

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<sup>24</sup>W. Radzio, *Export englischer Demokratie? Zur Konzeption der britischen Besatzungspolitik in Deutschland*, in: Vierteljahrshefte für Zeitgeschichte 17 (1969), 219–36.

powerful organization. In practice, however, from 1947 onward both FDGB and its constituent industrial unions forfeited more and more autonomy. Seen by the governing 'Socialist Unity Party of Germany' (Sozialistische Einheitspartei Deutschlands or SED) as the largest mass organization of working people, after 1947–48 it was not only cleansed in terms of staff, with older trade unionists who had grown up during the Weimar Republic being sidelined in the new organization, but the SED also fought to extinguish what it termed 'trade unionism pure and simple' (Nurgewerkschaftertum), which held that the work of trade unionists was to improve the material circumstances of employees. Unions were increasingly drawn into the emergent socialist economic system as 'transmission belts' of party policy. Above all, however, they were to act as propagandists for the new economic system. Their role was not so much to foster members' material interests as to make one thing clear to workers: only through communal effort was the higher economic goal of a better life for all to be attained. Though prominently represented at all three levels, trade unions gradually lost their function in the system of industrial relations. Like the German Labor Front (Deutsche Arbeitsfront) under National Socialism, they became an enfeebled umbrella organization of the workforce, their effectiveness deliberately diverted by party and state into the field of general social policy (holiday service, and so on). So far there has been insufficient research into the role played by unions at the level of individual firms. What little has been conducted suggests that from 1948 to 1949 'union obduracy' steadily declined—even if individual instances of conflict between trade unionists and party authorities could and indeed did occur.<sup>25</sup>

The real protagonists-in-chief of industrial relations were the workforces of firms (notably of VEBs) as well as the unemployed and 'silent reserves'. Under the Weimar Republic, worker rights had been enshrined in the 'Works Council Law'. The Works Council Law adopted by the Allied Control Council in 1946 took up works-council ideas once again. This was partly because, following the catastrophe of National Socialism,

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<sup>25</sup> Peter Hübner, *Konsens, Konflikt und Kompromiß. Soziale Arbeiterinteressen und Sozialpolitik in der SBZ/DDR 1945–1970*, Berlin 1994; Helke Stadtland, *Herrschaft nach Plan und Macht der Gewohnheit. Sozialgeschichte der Gewerkschaften in der SBZ/DDR 1945–1953*, Essen 2001.

fresh works councils (many of them headed by former works councilors) had instantly been formed to represent the economic, social, and political interests of workforces. These spontaneously engendered bodies, which trade unions could not readily control, were hardly welcome to the occupying authorities either. However, only in the Soviet zone were they swept away completely. In what was to become West Germany the 1952 Industrial Relations Law re-installed the industrial relations structures of the Weimar Republic. Coming after the relatively liberal legislative regime of the Allied Control Council and a law governing co-determination in the coal and steel industries, this felt more restrictive.<sup>26</sup> In the Soviet zone of occupation, from 1947 onward works councils were squeezed out by what were called 'industrial union boards', until the 1950 Labor Code abolished them altogether.<sup>27</sup> The reason for this radical break with German tradition was a fear that having workforces elect works councils would introduce an element of autonomy into firms that might not always be entirely compatible with an emergent socialist economic system. The idea that uncontrolled articulation of interests might and should be possible under socialism was politically awkward and theoretically reprehensible to the Socialist Unity Party and its Moscow masters. One major reason for this was that implementing new forms of pay designed to enhance labor productivity could be expected to encounter resistance from workers who in the immediate aftermath of the war were strongly against traditional wage differentials and in favor of new, more egalitarian forms of pay.<sup>28</sup> For instance, changes were also made to the composition of industrial wage committees, which made concrete decisions about wage groups and performance-pay systems. In the immediate postwar years such committees comprised three works councilors sitting opposite three management representatives. First the works councilors were replaced by trade unionists; later, management alone determined the composition of these relatively important bodies, appointing suitably 'reliable' cadres. Workforces were then (as already stressed) granted

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<sup>26</sup> Gloria Müller, *Mitbestimmung in der Nachkriegszeit. Britische Besatzungsmacht, Unternehmer, Gewerkschaften*, Düsseldorf 1987.

<sup>27</sup> Bust-Bartels, *Herrschaft und Widerstand* (see above, note 20), 26–38.

<sup>28</sup> Ewers, *Der Konflikt um Lohn und Leistung* (see above, note 23), 13–21.

extensive rights, but deliberate assertion of those rights in joint action was prohibited.

Nevertheless, workforces were not entirely without a voice. The Soviet view was that the firm was not only a locus of production but a socialization authority in what in the case of Russia was a still imperfectly heterogeneous working population. The Soviet form of labor organization (with its 'brigades', which went far beyond the purely organization sphere) was taken over by the GDR. This was despite initial resistance among workers—if only because the new terminology (brigade, brigadier, and so on) seemed to suggest an attempt to militarize labor relations. However, the SED got its way. The labor groups formed in Germany on the workshop- or firm-based principle were after 1950 reorganized in the GDR into brigades, which gained great social and political effect beyond the world of work in terms of community cohesion. In some areas of social historiography, the brigadier came to enjoy the status of modern folk hero. Certainly, through the brigades the normal working person was trained up to become a conscious, pro-active element in the social order. Such research as has been done up to now indicates that this objective (or at least its communal-cohesion element) was achieved. There was a price, of course. Brigades began to assume functions of autonomous representation of worker interests, sometimes even replacing the old works councils and becoming, at the level of individual firms, genuine protagonists in the field of industrial relations.<sup>29</sup>

Of course, in the GDR this trio of protagonists (government—unions—workforces) was reshaped and extended in a very distinctive way. The general arrangement aside (where the SED played a major part), in the relevant sphere of legislation and regulation the party occupied no role as such. In fact, however, it was the leading actor in the system of industrial relations practiced in East Germany. Lent initial legitimacy by Soviet weapons and subsequent authority as a result of well-organized electoral successes, over time the SED came to constitute a structural double to the apparatus of state. It was where the important decisions

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<sup>29</sup> Jörg Roesler, *Die Produktionsbrigade in der Industrie der DDR. Zentrum der Arbeitswelt?*, in: Hartmut Kaelble/Jürgen Kocka/Hartmut Zwahr, *Sozialgeschichte der DDR*, Stuttgart 1994, 144–70.

were made before being implemented by the organs of political power. Yet this was only a fraction of the party's role. Through its members the SED was prominently represented in every other group of protagonists; without its consent no senior positions in other institutions could ever be occupied. That meant that the party (more precisely, the party leadership) held sway over budgets and appointments and was the focus of allegiance. Despite all differences of interpretation in detail, the party could ensure that reliable protagonists gave it advice regarding decisions and their execution. The only incalculable measure of input might come from workforces and their brigades, who were therefore kept under increasing scrutiny from the late 1950s onward so far as national security was concerned. With that, the internal structuring of industrial relations in the GDR was complete. In the end, the system broke down, not because it failed to operate as its inventors had intended but through its inability to solve the problems it faced. Worse, in fact: as time went on, it gave rise to more problems than it solved.<sup>30</sup>

## How Industrial Relations Worked in Practice in East Germany

The tasks facing the system of industrial relations in the GDR lay at the level of planning, industrial organization, and development of labor productivity. In the eyes of the political leadership, its chief job was to boost the latter. Under capitalism, the worker-allocation aspect is a further key function of the industrial relations system, wage levels being of considerable importance to how the pay/interest ratio develops and hence to determining profitability of workforce use. In East Germany, where worker allocation was determined politically by the plan, these things played a relatively minor role. So in what follows, this aspect will be addressed only marginally. Even in the system of industrial relations outlined earlier, boosting labor productivity proved by no means easy. On the contrary, all efforts in that direction failed in the end to beat problems that were inherent in the system itself. In particular, they ran

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<sup>30</sup>Hermann Weber, *Geschichte der DDR*, new revised and extended edn, Munich 1999.

into worker resistance to all measures that by altering wage forms and incentive systems had the effect of lowering pay. In capitalist conditions, increased labor productivity comes at the price of the risks implicit in economic growth. Competition and cost pressure for firms, coupled with the threat of dismissal and the imposition of performance pay for employees, make it necessary to raise labor productivity constantly or face economic demise. Under capitalism, the system of industrial relations has to balance the social interests of workers against the economic logic of firms. In an economic situation that is changing all the time, such balancing forms part of a permanent process of negotiation, as a result of which pay and working conditions undergo constant adjustment. All protagonists defend what the logic of their own system requires. Management and unions pursue clearly defined interests. Mutual independence is a precondition of effective wage settlement.

In East Germany, as we have seen, no capitalist labor market survived, so there were no mutually independent market protagonists. The 'disciplinary whips' of capital (performance pay and the risk of dismissal, according to Max Weber) had also, at least in their historic form, been moderated or abandoned altogether. Moreover, the GDR's economic planners declared confidently that capitalist competition had been permanently replaced by state ownership. However, dispensing entirely with 'disciplinary' productivity incentives brought major problems of its own. Thus in the late 1940s and more specifically with the Labor Code of 1950 and subsequent amendments, the search began for functional equivalents. The fact was, in the initial postwar period workers, works councils, and trade unions deliberately resisted wage differentials and performance-pay systems and largely got rid of them completely. In place of the multiple pay groups of former times, most wage agreements in the Soviet zone in 1946–47 provided for only four, while piecework systems, once quite widespread, were in practice all supplanted by hourly pay. However, from 1947 onward both the Soviet-occupying power and German economic institutions pushed for greater labor productivity without simultaneously placing the results in jeopardy by increasing total pay by too much. So disciplining unions, boosting efforts to combat 'trade unionism pure and simple' and 'leveling down', and finally seeking to bring worker representation at works level under the control of the party and of 'cleansed'



trade unions must also, in this context, be seen as attempts to prevent potential and actual resistance to the reintroduction of piecework systems. Officially, this succeeded. However, the fact that performance pay did spread in practice shows that such success was only 'official'.<sup>31</sup>

To achieve the goal of boosting productivity without at the same time increasing total pay, several steps had to be taken: first, performance-related, realistic production planning; second, performance-related grouping of workers by qualitative features; and third, suitable quantitative measurement of work processes coupled with development of appropriate empirically based time targets for individual operations. The reintroduction of piecework after 1947 was therefore successful only on paper until such time as good plans, clear worker groupings, and accepted norms were available.<sup>32</sup> As time went on, improvements were made at all three levels, but a satisfactory solution was never found. Above all, it never proved possible, outside the individual firm, to draw up group catalogs and norms (even on a theoretical basis) that could then have been used in all firms without major negotiations. Even the highly sophisticated industrial-branch group catalogs had to be adapted to the concrete operational circumstances of the individual case. The same was true for technical norms or (from the early 1960s) the bonus systems that replaced purely quantitative norms when these proved partially counterproductive. And that brought back in just the sort of parleying that the whole exercise had been meant to obviate or reduce. The clearest expression of this at least partial failure of performance-pay policy (and hence nonfulfillment of the function that the system of industrial relations had been designed to perform) was an increase in the amounts actually paid out, which invariably exceeded the wage-fund thresholds laid down in the plan. Granted, labor productivity was in some instances increased impressively, but workforces usually extracted wage increases in proportion. The end result was that the hoped-for economic effects did not ensue or were achieved only to a limited extent. These relative failures of measures to boost labor productivity became apparent at an early

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<sup>31</sup> Stadtland, *Herrschaft nach Plan* (see above, note 25).

<sup>32</sup> Bust-Bartels, *Herrschaft und Widerstand* (see above, note 20); Jörg Roesler, *Vom Akkordlohn zum Leistungslohn*, in: *Zeitschrift für Geschichtswissenschaft* 32 (1984), 778–95.

stage. Repeated fresh attempts by state and party leadership to set performance targets high, coupled with an invariably defensive attitude on the part of workforces determined to reach higher targets only in return for increased pay, together governed the dynamics of industrial relations in East Germany, which revolved around a constant but never openly declared (indeed, never really admissible) state of conflict.

The situation being what it was, in addition to performance-pay systems being imposed East Germany also saw, from the outset, campaigns designed to persuade workforces to put in extra time of their own free will. Institutionalization of in-house and interfirm contests (socialist competing [Wettbewerb] rather than capitalist competition [Konkurrenz]) and the similarly institutionalized as well as meticulously planned ‘innovator movement’ (Neuererbewegung) were the principal steps taken to boost productivity on a voluntary basis. There were also drives by the party, by trade unions, and by the Free German Youth (Freie Deutsche Jugend or FDJ) (activist movement, appeals, and so on). Initially designed to serve as examples, these very soon became compulsory rituals.<sup>33</sup> To take one instance, the activist movement soon brought out the major problems facing campaigns that, rather than showing the everyday reality of working life, reflected only exceptional situations. Everyone knew that Adolf Hennecke, an ‘activist’ selected for propaganda purposes, could not turn out such performances day after day. Furthermore, it later became apparent that extra achievements by such individuals could severely impair proportionality in materials flow. The result was not only to foment resistance among fellow workers (most of whom did not look kindly upon ‘activists’). The dubious success of such campaigns also, in the end, caused their importance to decline. That left only ordinary labor policy with its inherent conflicts. The setting of plans and norms, the grouping of workers, the way they reacted in each case to directives from above—these were the factors that mainly shaped everyday workplace life in the GDR. The ‘socialist trappings’ of productivity contests, activism, and appeals became, as time went on, increasingly blatant ‘window-dressing’, serving little purpose. Or rather, their sole function seemed to be to make

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<sup>33</sup> Horst Barthel, *Adolf Hennecke. Beispiel und Vorbild*, Berlin (Ost) 1979; Gottfried Dittrich, *Die Anfänge der Aktivistenbewegung*, Berlin (Ost) 1987.

labor confrontations look like questions of awareness. This served to duck any need to address the real, underlying conflicts. These were structural in nature, arising from the problems of a hierarchical coordination of division of labor, with a variety of role attributions (from director to auxiliary laborer) set within a framework of industrial organizations. In any case, such problems are not specific to a particular system (e.g. capitalism or socialism) but typical of modern industrial labor generally. Yet the GDR had maintained from the outset that the conflicts in question typified capitalism and that, while their continued existence could not be admitted, nor (at least, so far as its symptoms were concerned) could it be denied. The obvious response was to treat systemic problems as personnel problems (false consciousness, influence of the class enemy).

It is difficult, given the state of research at the moment, to divide industrial relations practice in East Germany into periods and portray it appropriately.<sup>34</sup> However, three major phases stand out, roughly speaking. The first phase extended from the war's end to June 1953. Immediately after the war (and up until 1947) the influence of workforces, works councils, and trade unions was great, and traditional wage systems and grouping characteristics were suppressed in new wage agreements that made for more egalitarian arrangements. From 1947 onward, both occupying power and German authorities changed their policy, pushing for wage differentials as a way of boosting performance. Rejecting previous models, rules governing grouping became more nuanced and splaying of wage rates increased in a way that particularly benefited skilled workers and members of the 'scientific and technological intelligentsia'. It was not a development that most workers welcomed. In connection with quantitative performance incentives, initial experiments were conducted with provisional labor norms. From 1949 there was increased use of technological labor norms, gauged by time-measurement methods and scientific calculations. The effect was identical, of course. For the same or only moderately rising pay, workers were expected to perform substantially better. Resistance to this took many different forms, ranging from initial open protest through withdrawal of labor to eventual passive resistance

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<sup>34</sup> Bust-Bartels, *Herrschaft und Widerstand* (see above, note 20); Ewers, *Der Konflikt um Lohn und Leistung* (see above, note 23).

and flight to the West. The desired results were not achieved, so the early 1950s brought a step-change in efforts to drive through performance-pay systems effectively. Since upgrading equipment still swallowed a substantial share of resources, this policy meant performance demands soaring as social security declined. At the same time, the problems of the planning system worsened because supply shortages and problems of materials flow failed to ensure that the required performance could in fact be achieved. The outcome is well known: the attempt to proceed rigidly to harness high norms and wage differentials in a bid to increase labor productivity and violently push through an ambitious development and militarization program after the crisis years of 1948–49 was brought down in 1953 by worker resistance. The defeat of the worker uprising may have seemed to reveal an enhancement of the power available to a leadership that did not shrink from military repression, but in fact the basic conditions for a proper ‘labor-market policy’ worsened.

There now began a second phase in the development of industrial relations in East Germany, which lasted until the wall went up in 1961. The leadership went on trying to push through wage differentials and quantitative performance control but without any real success—particularly since they shied away from further conflict with the workers. The latter’s scope for action was smaller after June 1953, but psychologically it had grown. However, now there were additional difficulties. Flight across the border to the West was on the increase, while regional wage differentials led to structural distortions favoring certain regions and certain branches of industry, with disadvantaged branches deliberately stockpiling labor surpluses. A notable loser was agriculture, from which worker emigration rocketed—fueled not least by recent recruits to the sector unable to face scraping a living on the new mini-holdings or in the emergent ‘agricultural production collectives’ (Landwirtschaftliche Produktionsgenossenschaften or LPGs). The SED appeal for ‘industrial workers on the land’ was an abortive attempt to counteract this trend. Other appeals (e.g. Belegschaftsenthortungen or ‘shedding of surplus manpower’) on top of resistance to firms improving their performance were further signs that the system of industrial relations developed in East Germany was a failure on two counts: it did not really improve the workers’ lot, and it failed to meet its structural and productivity

goals. The disadvantages of Technological Labor Norms that uniquely pursued quantitative increases in production were also becoming apparent. Product quality declined, and proper management of resources was ignored. Indeed, wasteful overuse was the only possible reaction to forced imposition of purely quantitative targets.

Meanwhile, with the border open in Berlin it was possible to blame the functional problems of the labor market and of the system of industrial relations as a whole on the deliberate pursuit by the West of what was officially dubbed a policy of 'wooing away' East Germany's workers. The erection of the wall in 1961 (the second major change after June 1953 and the beginning of the third phase of the history of industrial relations in the GDR) put a stop to mass flight from the country and provided the conditions for big reform projects. These set out to create stronger economic performance incentives—for firms, initially, but then also for their workforces. However, the half-heartedness of such reforms was partly what accounted for their self-contradictory nature. As a result, at the start of the 1970s major losses of traction prompted a crisis of legitimacy to which Honecker responded with the concept of the unity of economic and social policy—basically, living off your assets. However, not even Honecker could solve the underlying problem in this way. Economically and technologically, bit by bit East Germany had been falling behind since the 1960s, with the result that the growing gap between East Germany and the West, coupled with the policy of living off capital assets, harbored the seeds of its own decline.

For a while after 1961, the GDR had a free hand. The industrial relations system could bed itself in without the pressure of people leaving the country. And growth did indeed increase—for a while. Problems of allocation on the labor market did not diminish. On the contrary, labor shortages continued to increase. Placing an obstacle in the way of structural economic change released too few workers from 'outdated industries'. Also, labor productivity increased only inadequately. Pressure on productivity was low, and firms were overmanned. Little structural change took place, and even that had to be helped along by means of costly campaigns. However, changes to the performance-pay system from the early 1960s on facilitated qualitative leaps forward in comparison with the 1950s. For a time East Germany succeeded in permeating the

field of industrial labor with performance-pay agreements, which had previously met with sustained resistance from workforces. At the end of the 1950s, the degree of penetration was less than 50 %, but by the start of the 1970s the spread of performance-pay and bonus systems was virtually complete. A key factor in this success was a turning-away from the rigid system of quantitatively oriented Technical Labor Norms, which considered individual work processes in isolation, toward 'best-worker' systems and more sophisticated norms. The latter took account of the altered technical structure of production as well as of the complexity of work processes. Drawn up for entire labor groups, they led to an intensification of the reciprocal labor controls that must not be underestimated when it comes to assessing the productivity advances of the 1960s. The potential for worker resistance was reduced as a result. So was the drift between planned pay levels and wages actually paid. Nevertheless, that drifted points to continuing opportunities for negotiation on the part of workers, who were not (in the normal course of events) prepared to work overtime unless they received appropriate material compensation. In the 1970s under Erich Honecker this comparatively successful development was broken off mainly because of poor opportunities for consumerism. Under Walter Ulbricht, industrial modernization of the GDR had taken clear priority. However, fear of what his own citizens might do brought Honecker to his concept of the unity of economic and social policy, which consisted chiefly in a thorough politicization of the economy and of distribution of resources. The same applied to the labor market and industrial relations, which nevertheless, from the 1960s, slowly ceased to operate altogether. Productivity increases were now possible, but the material participation of the workers still had to be considered—or (as happened in some instances) the workers imposed such a course.

With that, a kind of homoeostatic balance might well have entered into industrial relations (a balance that also characterized West German capitalism at the time), where enhanced performance requirements were exchanged for more consumer opportunities, with growth effects remaining high so long as consumer opportunities increased gradually—and at a slower rate than labor performance. However, this was precisely where the GDR's economic system failed. It was unable to guarantee greater consumer opportunities for any length of time. Pretending to do so for

political reasons (as happened under Honecker) undermined the economic system as a whole. On the one hand, it was living off its assets; on the other, it remained unable to satisfy its workers' consumer desires. That being so, however, the possibility of stimulating performance with material incentives had ultimately cancelled itself out. Under Honecker, consumption switched from being a labor incentive to being, in effect, a 'labor disincentive'. The fact was, measured by actual opportunities for consumption, incomes were quite adequate, even given that savings in the GDR were very unevenly spread. In a situation where the consumption on offer was at a low level, holding rents, energy costs, and food prices (including beer and spirits) held down artificially meant that additional income did not increase consumer opportunities. Leisure and independence were more desirable, so the opportunity costs of longer hours or harder work were extremely small—especially when for consumption purposes leaving work promptly (to allow for queuing, possibly!) was a more rational response than increasing one's income through overtime. Is it any wonder that labor discipline was low, measured against the capitalist reality that arrived in 1990? The system of industrial relations in East Germany thus collapsed as much under its inner contradictions as because of unfavorable economic parameters—to which it contributed greatly itself, of course. By not permitting any independent regulation of the labor market, it above all missed the goal of contributing to an efficient allocation of manpower and a steady increase of labor productivity. That in turn reduced any possibility of using material incentives to boost actual productivity. The end result was a situation in which employment no longer guaranteed an income giving trouble-free access to limited consumer opportunities—not least because of effective worker resistance to unpaid overtime. For the average employee, boosting his or her labor productivity no longer made sense. On the other hand, success might lie in the direction of taking skillful advantage of consumer opportunities for which the money was available anyway but often the time and experience were not. That was what people concentrated in the end, and we all know what happened then.

In general terms, we can agree with Lothar Fritze:

A paradox characterized East Germany: on the one hand the power of the state was potentially ever-present and all-embracing; on the other that

power was not (in so far as the line to full dictatorship was not crossed) backed up by the possibility of real sanctions. In conditions of labor shortage coupled with workers' rights (dismissal only on grounds of gross infringement of work obligations, for instance), the paradoxical impotence of potentially total power put the employed person in the strong position described above. Workers at machines and workbenches made particular use of that position to resist unwelcome decisions by management or to give drastic expression to their displeasure. In so doing they provided what one might call an original interpretation of the propaganda theory of the allegedly 'leading role of the working class'. They could also, by deliberately exploiting welfare benefits or simply not working as hard as they might [...], very easily 'go into hibernation'. Placed in this position, many people 'played' the system (and so in some respects and to a certain extent accepted it)—ultimately helping to bring it down. The East German social system was characterized by political repression, ideological patronization, and restriction of personal freedom. But it was also characterized by a remarkable unassailability of the individual worker that sometimes laid a particular superior or management as a whole open to blackmail and frequently tied their hands.<sup>35</sup>

This social reality was especially located in industrial firms:

The collapse of the planned-economy model cannot properly be assessed without taking the dual, even multiple function of the firm under socialism. The firm served not only (though of course primarily) an economic function. On top of that it was a locus of ideological indoctrination and verification of the political conformity of individual conduct. On the other hand it was also a social-welfare provider. This multifunctional nature of the firm under actual socialist conditions should be allowed for in any efficiency comparison between planned economy and market economy and specifically between the economies of East and West Germany. As can well be imagined, performance of these additional non-economic functions tied up capital and above all labor to a not inconsiderable extent and led to substantial losses of both efficiency and motivation.<sup>36</sup>

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<sup>35</sup> Lothar Fritze, *Panoptikum DDR-Wirtschaft: Machtverhältnisse, Organisationsstrukturen, Funktionsmechanismen*, Munich 1993, 112.

<sup>36</sup> Fritze, *Panoptikum DDR-Wirtschaft* (see above, note 35), 96.



## Summary

If one is setting out to assign this system of industrial relations to its proper place in the long-term developmental trends of labor market and labor-market constitution in Germany, quite obviously the institutional structure opted for after 1949 did not conform to the German tradition of collective labor law that had prevailed up until 1933. The new institutional structure also broke with the practice of the National Socialist period. Its implementation, on the other hand, was facilitated by experience of the National Socialist dictatorship and its rigid labor-market policy. However, the model realized was unmistakably of Soviet origin, although for a while it certainly retained specific elements of the German tradition (works councils, wage agreements). From the 1950s onward, it was a Germanized version of Soviet socialism that prevailed, a version that sought to impose the desired labor behavior by means of planning targets, norms, and campaigns on the one hand and strict labor structures (brigades) on the other. Yet practical implementation of such an industrial relations setup was defeated by the resistance of German workers unwilling to have a new performance system imposed on them without a fight. Another reason why it failed was that, unlike in the Soviet Union, following the debacle of June 1953 the GDR leadership made no further serious attempt to break the workers' will. The upshot was a kind of stalemate between an official performance-pay system and de facto accommodation of the interests of the firm concerned and the needs of its workforce. This functioned so long as additional consumer opportunities provided effective incentives. As Soviet-style socialism declined, the sort of labor organization that typified it disappeared. Nowadays only traces remain to recall the reality of labor as it used to be. To that extent, it can justly be said that in the history of industrial relations in Germany, the way labor was organized in the GDR was an eastern import, neither based on any model nor with any consequences. Furthermore, it never fully became a reality that shaped the world of business.

But is that clear assessment the correct one?

Two viewpoints at least merit discussion in any attempt to judge the significance of the system of industrial relations in East Germany as

regards its place in German economic and social history and hence to frame in a more nuanced fashion the consequences to which it led.

Briefly, what one can say is this: it is true, surely, at least so far as motivation is concerned, that labor organization in the GDR was simply a radicalized version of a tendency that had prevailed since Bismarck's time—namely, to solve the social question by pacifying the workers. And does not the kind of thinking that also made possible labor organization in East Germany remain popular in the Germany of today? It is certainly the case that, to the problem of the risks of capitalist labor organization, the GDR gave a Soviet answer. However, the failure of the Soviet response did not do away with the idea that those risks need to be minimized; on the contrary, it made it more urgent. Basically, part of the legacy of the GDR is to have made today's Germans cling to the notion that the national state must offer comprehensive protection against the risks of the market economy. The notion was by no means unpopular in the pre-reunification Federal Republic—quite the opposite, in fact. One might say that the second effect of the system of industrial relations developed in East Germany consisted precisely in strengthening that notion in the western half of the country, if only to duck a legitimation deficit as compared to the social image projected by the GDR. To that extent there is a need to debate the theory that the labor-market constitution of East Germany owed as much to the social-partnership tradition as it contributed to anchoring the social-protectionist approach in the minds of present-day Germans. So the answer to the question whether the industrial relations of the GDR were a mere footnote to the longer-term economic history of Germany as a whole is twofold: the institutions chosen were quite foreign but the thinking was not. The fact is, Germany had been nervous about the market since the early nineteenth century and had asked the big question: will society shatter without some taming of market forces? To this German question, the 'Democratic Republic' formed in 1949 gave a Russian answer. Yet it was one that had been framed at German scholars' desks.

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