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GERMAN BIG BUSINESS AND THE QUEST FOR A EUROPEAN ECONOMIC EMPIRE IN THE TWENTIETH CENTURY

Volker R. Berghahn

This volume is concerned with the historical role of German big business in its larger European context and arose in part from the observation of a major irony of modern history. Following the collapse of communism in Eastern Europe and after German reunification, it has become increasingly clear that Germany, which twice in the first half of the twentieth century vainly attempted to establish by force a formal empire stretching from the Atlantic coast to the Ural Mountains and beyond,¹ now at the end of this century finds herself on the verge of acquiring an informal empire of similar dimensions without having fired a single shot. There can be little doubt that reunited Germany - with its powerful industrial and financial sectors, large well-trained population, and situated in the heart of the continent - will occupy a pivotal position not only in the European Union (EU), but also in Eastern Europe. Already the dominant economic factor in Western Europe, German industry and banking, temporary difficulties in the wake of reunification notwithstanding, have no rival in the construction of capitalism that is currently and painfully going on in the former Soviet Bloc countries. The British, French, Italians, Americans, and Japanese are potentially serious competitors. Not only have they moved cautiously, fearing the loss of their money in a region that could still experience a major social and political explosion, but also they find themselves at a disadvantage vis-à-vis German business, which after 1945 first maintained and later expanded its many traditional links with the economies of Eastern Europe.

This being the realities, some politicians, intellectuals, and businessmen in France, Britain, Holland, and the former Soviet Bloc countries have been worrying about how the new Germany and its powerful entrepreneurs and bankers might behave in a Europe that still remembers two earlier periods when, backed by its military machine, the Reich tried to establish itself by coercive means as the pre-eminent regional power.² In France, a major debate about the old "German Question" has been going on since the late 1980s, if indeed it ever stopped after 1945. In England, feelings, which the British were in the past often too polite to express openly, repeatedly have been articulated and promptly hit the headlines. There was the embarrassing outburst by Nicholas Ridley, the British Trade and Industry Minister, concerning the alleged strategic aims of the Federal Republic within a larger Europe, which made direct reference to the Third Reich. Prime Minister Margaret Thatcher held her intimate consultations at Chequers with a number of eminent British and American historians in order to learn from them whether the new Germany was really any different from the old.

The trouble is that, in trying to answer this question, we quickly discover that we may know much about West German politicians, political culture, and the behavior of the "masses," but we lack information about the behavior of German business in a larger European context in this century. Historians have looked in great detail at the German position from a power-political and military perspective. There are many books on what German diplomats, intellectuals and generals have been doing or dreaming of in this century. Our knowledge of the

¹ See, e.g. F. Fischer, *War of Illusions* (London, 1975); K. Hildebrand, *The Foreign Policy of the Third Reich* (London, 1973).

² For a good survey of European sentiment on the German Question see R. Fritsch-Bournazel, *Europe and German Unification* (New York, 1992).

European strategies of big business, by contrast, is much patchier. The essays in this volume try to fill some of these gaps and hope to stimulate others to enter this neglected field of German history, now that the older concerns with questions of security and military power are, at the end of the Cold War, receding into the background or assuming a different shape.

There is also the question of whether there is a broader framework within which our topic might be examined. Some analysts have tackled this question with the help of the concept of hegemony, arguing that twice in this century German industry aspired to achieving a hegemony position but failed and, having succeeded within the EU at the third attempt, is now in the process of obtaining a similar position in the former Soviet Bloc countries. The problem with the concept of hegemony is that it does not capture well the forms that German aspirations in Europe took in the first half of this century. After all, hegemony in its Gramscian definition, as invoked by Andy Markovits and Simon Reich,³ refers to the more indirect ways and means by which a class or, in this case, a country succeeds in wielding an influence over the fate of another nation by relying not on force, but on gentle persuasion and, to some extent, even on the simple attractiveness of its own model of socio-economic and political organization for those who fall under its spell. Hegemony in this sense is subtle and, above all, more cultural.⁴

Twice in the first half of this century, however, German behavior has been everything but subtle. It has involved instead direct domination, brutal force, and a physical presence in the neighboring states. Although each time the Germans also proclaimed a cultural mission, the intellectual attractiveness of what they offered was invariably weak and repeatedly undermined by the violent methods of occupation and exploitation with which it was pursued.

In light of this experience, hegemony appears to be less suitable as a concept for examining Germany's role in Europe in the first half of this century. This also applies to another notion that can be found in relevant literature. Because the objective of a superior power was to establish its own socio-economic and political system within the region, the Latin term *pax* occasionally has been used. Thus smaller countries are assumed to have lived at various times under a *pax Britannica*, *pax Americana*, *pax Sovietica*, *pax Nipponica*, or *pax Germanica*. Yet again, while the concept of a German peace, defined as the attempt to extend a stable order beyond Germany's national frontiers, may capture aspects of Reich policy within twentieth-century Europe, it says little about the important question concerning the methods by which order was established and maintained.

However, there is a concept that would seem capable of overcoming these drawbacks, i.e. formal and informal empire, as first developed with regard to British imperial history by John Gallagher and Ronald Robinson.⁵ In their influential works the two authors trace the emergence of a formal British empire competing with other

³ A. Markovits and S. Reich, "Modell Deutschland and the New Europe," *Telos*, 89, Fall 1991, 45-63.

⁴ See, e.g., J. Joll *Antonio Gramsci* (London, 1976); G. Williams, "The Concept of 'Egemonia' in the Thought of Antonio Gramsci," *Journal of the History of Ideas* (1959).

⁵ A. Gallagher and R. E. Robinson, *Africa and the Victorians* (London, 1961); idem, "The Imperialism of Free Trade," *Economic History Review*, Second Series, 1 (1953), 1-15.

European powers in the late-nineteenth-century scramble for colonies - an empire that was ultimately characterized by a direct presence of the metropolitan power in the peripheral territories. They juxtapose this formation with the notion of imperialism of free trade or informal empire, at the same time highlighting even more strongly the economic perspective that they have adopted. Above all, they argued that historians have been too preoccupied with imperialism as formal rule, ignoring in the process that for a long time a larger part of British trade and investments actually went to Britain's informal empire. Thus Gallagher and Robinson compare all previous research on British imperialism with an exercise that tried to judge "the size and character of icebergs solely from the parts above the water-line," when in effect London's policy "followed the principle of extending control informally if possible and formally if necessary"⁶ As a result, "the usual summing up of the policy of the free trade empire as 'trade not rule' should read 'trade with informal control if possible; trade with rule when necessary.'" Moreover, they explain why, by the early twentieth century, informal control largely had disappeared from British imperial practice and why formal empires had become the normal form by which the European powers dominated large parts of Africa and Asia.

The subsequent analysis follows this conceptualization of the problem, but adds an explicitly sociological dimension to it. In the German context the ideas of formal and informal empire experienced repeated ups and downs. Yet these shifts were not due to a mysterious anonymous force. Rather they must be related to changing balances of influential socio-economic groups and the outcome of fierce power struggles that occurred between them.

There is another difference that marks the beginning of this century. Although the international developments of the late nineteenth century led to a consolidation of colonial territories, these empires had not yet become synonymous, as was the case later, with the idea of fortress-like blocs whose markets were completely closed off from other nations. Notwithstanding the wave of protectionism that swept all Western countries during the Great Depression of the 1870s and 1880s, the idea of Free Trade and the accessibility of foreign markets continued to be powerful enough before 1914 to preserve a system of international economic exchange that the world abandoned for the next three decades only after 1918. Until then the flow of goods and people was still largely unencumbered. International commerce was at its peak and, while diplomatic tension was rising between Britain and Germany before 1914, they continued to be each other's best customers.⁷

FORMAL vs. INFORMAL EMPIRE?

How did the Germans see the future development of the international system around 1900? At a time when existing empires either had not yet been consolidated fully into impenetrable blocs or seemingly, were on the verge of disintegration from internal weakness, a debate started in Germany concerning the shape of the international map in future decades. Intellectuals and politicians, Reich Chancellor Bernhard von Bülow among them, but also many conservatives in industry predicted a further transformation of existing colonial empires

⁶ J. A. Gallagher and R. E. Robinson, "Imperialism," 13, also for the following. See also M. Doyle, *Empires* (Ithaca, 1986).

⁷ See P. M. Kennedy, *The Rise of the Anglo-German Antagonism* (London, 1980). 8. See, e.g., R Pommerin, *Der Kaiser and Amerika* (Cologne, 1986).

into closed, protectionist entities. Thus with regard to North and South America, they assumed that the Monroe Doctrine would be applied more strictly and the hemisphere be sealed off from the rest of the world.⁸ The British, French, and Russian empires were thought to be moving in a similar direction, expanding their preferential tariff systems and cutting out foreign and, above all German competition.

The decision of the late 1890s to build a huge battle fleet in accordance with a long-term plan, designed by Navy Secretary Admiral Alfred Tirpitz, cannot be understood without this pessimistic vision of the future. The Kaiser's navy of more than 60 capital ships was to be used as a power-political lever in negotiating the renewal of trade treaties or distributing the pieces of collapsing empires, like that of Portugal. As Tirpitz never tired of arguing, if no naval power was available, Germany and its booming industries quickly would be suffocated by their rivals. For Tirpitz and his monarch it was a question of life or death, and the creation of strong defenses and a formal German empire were the only answers.⁹

While many more conservative businessmen shared these Social Darwinist and Mahanist views of the future shape of the international system, others were less inward-looking. They feared that Tirpitz's perceptions of the world might become a self-fulfilling prophecy. Huge blocs, surrounded by massive armor and propelled by notions of imperial self-sufficiency, seemed to them to be recipe for destructive wars and, ultimately, for catastrophe. Although they accepted the need for a certain measure of military and naval power, they viewed peaceful trade and diplomatic arbitration of disputes as a better guarantee of continued stability, prosperity, and self-preservation than sharp political rivalries and diplomatic bullying among dangerously armed power blocs. On the British side, the demand to return to concepts of informality could be found in *The Great Illusion*, a bestseller written by a British businessman, Norman Angell.¹⁰ The Hague Peace Conferences of 1899 and 1907 were held to promote arbitration and a reduction of armaments.¹¹ In Germany, men like Albert Ballin, the director general of the HAPAG shipping line, were deeply troubled by what they saw in the last years before World War I: the spiraling of nationalist protectionism and of a dangerous arms race; and the closing of minds and territories.¹²

It is symptomatic of the profound impact that these two divergent views of the international political and economic system had on the European mind in general and on the German in particular, that the more moderate Social Democrats shared Ballin's nightmares, while their more radical comrades, Vladimir Lenin among them, developed scenarios of bitter rivalries and conflicts between the divergent national-capitalist blocs of highly industrialized and militarized countries.¹³ To be sure, the utopias that they expected to emerge from these struggles differed fundamentally from those of the country's conservatives, but their predictions of an era of clashes and wars between large empires were quite similar. The debate among German politicians, intellectuals, and businessmen after the turn of the century was marked by a further split, this time within the camp of the

⁸ See e.g., R. Pommerin, *Der Kaiser und Amerika* (Cologne, 1980).

⁹ See V.R. Berghahn, *Der Tirpitz-Plan* (Düsseldorf, 1971).

¹⁰ N. Angell, *The Great Illusion* (London, 1910), originally published in 1909 under the title *Europe's Optical Illusion*.

¹¹ See J. Dülffer *Regeln gegen den Krieg?* (Berlin, 1981).

¹² See L. Cecil, *Albert Ballin* (Princeton, 1967).

¹³ See H. Bley, *Bebel and die Strategie der Kriegsverhütung 1904-1913* (Göttingen, 1975); V.I. Lenin, *Imperialism, the Highest Stage of Capitalism* (Moscow, 1966).

formal imperialists, i.e. those who were pressing for the creation of the German power bloc. Here one faction envisaged the future German empire to be structured like the British one, with large colonial possessions overseas. In particular, they had in mind the acquisition of a Central African belt of lands which, firmly tied to the metropolitan country, would connect Germany's West African territories with her possessions on the East African coast.¹⁴

The alternative vision was one of a Central European bloc, a *Mitteleuropa*, whose most ardent advocates could be found in the 1890s among the conservatives in heavy industry and agriculture.¹⁵ They harbored not only deep suspicions of overseas possessions, but also of the socio-economic forces of industrial capitalism that seemed to be pushing for colonies and large navies. Their perceptions of the world are neatly summed up by Otto von Völderndorff who in November 1897 wrote to his friend, Reich Chancellor Clodwig von Hohenlohe-Schillingsfürst:

We must keep away from international rivalries (Welthandel); we must confine ourselves to securing our country against the two neighbors (i.e. France and Russia). Greatest parsimony (except for the Army) and a rebuilding of the Reich on the only reliable estate, the rural population. Our industry is not worth much anyway. It is in the hands of Jews; its products are ... 'cheap and bad;' it is a seedbed of Socialism Moreover, we are coming too late; all valuable overseas possessions are in the hands of others who hold on to them. We are also not wealthy enough to carry on the great power policies we have embarked upon in 1870.¹⁶

In the decade before 1914, politicians and businessmen remained divided over whether Germany should try merely to dominate the European continent or whether the country's ambitions should extend to forming a larger colonial bloc. To put it in terms of two key concepts of the time: should a future *Mitteleuropa* stand as an area of German influence on its own, like the Russian continental bloc; or should a *Mittelafrika* be added to it?

This was the question in the Wilhelmine debate over the future of the international system and of Germany's role within it as it had evolved up to 1906. At the same time, the German naval build-up that was to secure an overseas empire began to run into trouble, due to the rapid expansion and reform of England's Royal Navy under Admiral John Fisher.¹⁷ While it became increasingly clear that the kaiser was losing the Anglo-German naval arms race and that all ambitious colonial aspirations had to be abandoned, the idea of *Mitteleuropa* came into sharper focus. The cancellation of Tirpitz' naval program and the renewed emphasis on land forces were perhaps the clearest signs that Germany's earlier imperial designs were put on the back-burner in favor of fostering the country's position on the European continent. Thereafter the debate on formal vs informal empire in Europe became again the main focus of public argument among Germany's politicians and businessmen, but it also remained inconclusive.

¹⁴ F. Fischer, *War*, 259ff.

¹⁵ H.C. Meyer, *Mitteleuropa in German thought and Action* (The Hague, 1955).

¹⁶ Quoted in V.R. Berghahn, *Germany and the Approach of War in 1914*, 2nd ed. (New York, 1993), 31.

¹⁷ *Ibid.*, 56ff., also for the following

One reason for this stalemate was that the lands between the Rhineland and the Bosphorus were not colonial territories to be wrung from another power; they were made up of a number of sovereign, non-German states, among which the largest, Austria-Hungary, was moreover the Reich's closest ally. These realities strengthened the hand of the informal imperialists, who argued that there was simply no alternative to a policy of penetrating the region with the help of the country's superior industrial and financial power. In this view, a system of bilateral trading links and preferential tariffs, supported by close diplomatic and dynastic cooperation, would secure the Reich's position in the Balkans and slowly, but effectively, undermine that of the enemies of the Central Powers, notably Serbia and Russia.

One of the more influential organizations advocating this approach to the question of continental empire was the *Mitteleuropäische Wirtschaftstag* (Middle European Economic Diet), founded in 1904 by the economist Julius Wolf as an association of individuals and interest groups wedded to the idea of an informal Central European sphere.¹⁸ Again divisions appeared, also with regard to the boundaries of *Mitteleuropa*.

Some groups, like the *Bund der Industriellen* (Association of Industrialists) took the Central European *Zollverein* (Customs Union) of 1834 and the ideas of Friedrich List, its intellectual father, as their model. Others, like Wolf himself, looked across the Atlantic, postulating that Germany's main problem was that its economic space, compared to that of other powers, was too small. What was needed was the creation of a *Großraum* (literally: great space) stretching from the English Channel to the Balkans.

To those who saw the world through the eyes of a businessman, it was also clear that the booming industries of pre-1914 Germany would have the edge within a *Großraum* that included the Habsburg Empire and the predominantly agricultural regions of southeastern Europe. Not surprisingly, Wolf and others eventually viewed the whole region as one that would receive German manufactured goods in return for the delivery of foodstuffs and raw materials.

There were other similar voices. Robert Kauffmann, the leader of the Young Liberals, demanded a customs union "reaching from [the North Sea island of] Borkum to Baghdad."¹⁹ The *Deutsche Volkswirtschaftliche Correspondenz* (a German business publication) urged the establishment of a "pax Germanica over Asia Minor and the Balkan countries." Albert Ritter published a book in which he put a Central European bloc next to "Greater Russia, World Britannia [and] Pan-America." The secretary general of the *Hansabund*, a liberal pressure group, counseled closer European cooperation to "enable us and our neighboring countries to safeguard our export markets in competition with extra-European states, in particular with the United States of America."

In 1913, Walther Rathenau, the chairman of the *Allgemeine Electricitäts-Gesellschaft* (AEG) and a leading industrialist with an interest in larger strategic and philosophical questions, said: "As regards raw materials, North America is the most fortunate country." In contrast, he thought Germany to be seriously handicapped, for "the more industry becomes tied into a world economy, the more the distant lands have to contribute to its raw

¹⁸ See the materials in R Opitz (ed.), *Europastrategien des deutschen Kapitals* (Cologne, 1977), 137ff.

¹⁹ See V R. Berghahn, *Germany, 145*, also for the following.

materials [and] the more dangerous becomes the fact that we own so little land in the world." Rathenau then mentioned "a possible solution" to this problem, i.e. to work for the creation of a larger Central European trading bloc.²⁰ His statement is particularly significant because he was head of a company that depended on the world market for the sale of its products. Clearly, he was not thinking in terms of closed autarkic blocs that, armed to the teeth, would exclude each other from their internal markets. The larger territorial and economic entities that he also saw emerging before 1914 were to remain permeable and linked to a multilateral global trading network.

While this remained an influential position in the business community, there were other industrialists whose companies were less dependent on the world market and whose conservative nationalism reinforced their protectionist stance. Just as they were more inclined to favor price-fixing cartels over "cut-throat" competition at home,²¹ their attitude toward the evolving pre-1914 world economy - and there is a connection between their notions about the organization of the internal market on the one hand, and of the international system of trade on the other - had become one of hostility by the time war broke out in 1914. Afterward they thought in terms of a German-dominated continental European bloc that would be virtually self-sufficient. In February 1913, Gustav Stresemann, the secretary general of the *Bund der Industriellen* and a leading member of the National Liberal Party, spoke of a "closed economic area to secure our need for raw materials and our exports."

Among the many shades of opinion that inevitably existed in this camp, the Pan-Germans probably occupied the most extreme position in that they envisioned more than merely a closed economy.²² They agitated for the unification of all German-speaking peoples within a single territorial bloc run by an authoritarian, centralized government. Although they too spoke of a *Mitteleuropa* customs union as "the backbone" of this larger state, they added the idea of German settlements further East and of ruthless Germanization. This thinking introduced biological and ultimately racist concepts into the debate on the future shape of a Germanic empire in continental Europe and on the principles that would hold this large entity together. At the same time it must be stressed that Pan-German ideas were not widely shared within the business community, where questions of empire posed themselves primarily in terms of industrial and commercial penetration and of the methods that would be employed to establish and maintain a German *Mitteleuropa*.

TERRITORIAL EXPANSIONISM AND WAR

We have spent time trying to outline the diverse views on Germany's role as an industrial power in the heart of Europe as they were discussed during the Wilhelmine period because they contain in embryo all the arguments that remained on the agenda between 1914 and 1945. It also should have become clear that the strength of these views was related to the relative power and influence of the various groups in business and politics that articulated them. Consequently, if 1914 represented not a break, but a continuity with earlier thinking about

²⁰ Quoted in R Opitz (ed.), *Europastrategien, 204ff.*

²¹ On the German cartel system see, e.g. V Hentschel, *Wirtschaft and Wirtschaftspolitik im Wilhelminischen Deutschland* (Stuttgart, 1978), 99ff.

empire in Germany, and if the same positions that have been examined above were promoted thereafter, their success or failure also must be seen in connection with the relative strength or weakness of the forces behind them. The value of such differentiations and of linking ideas to identifiable groups that deploy them in struggles over power and influence within a particular society is stressed here also because it has been challenged again recently as a suitable tool for analyzing the political and economic strategies of German business. At the one end of the spectrum, we find Gerald Feldman who has once more reasserted a more monolithic view of German industry.²³ He sees businessmen as participants in a particular national context. Defending the *Sonderweg* (special path) view of modern German history, he wants the relationship between business and politics to be treated "as an integral element in the evolution of Germany's political culture."

At the other end of the spectrum, Peter Hayes has argued that any attempt to identify industrial factions is bound to fail because there were too many overlaps between branches and groups and individual businessmen that defy such crude categorization.²⁴ Although apparently most concerned with differences of opinion on domestic politics rather than attitudes toward the world economy, he believes "personal determinants and firm-specific rather than sectoral considerations" to have been "decisive." The only exception he grants is that of Ruhr heavy industry, where he found a "somewhat greater solidarity than [among] its putative rivals, if less than it had been before the war." Later, he added in the same vein that "we need to recognize the distorting effect of the extraordinary phenomenon of the Ruhr." If this is so, it may be just as well to emphasize what also emerges from this volume: there was no uniformity of views when it came to questions of formal or informal empire; nor, however, was there total fragmentation and individualism. There is still an analytical middle way, like the one adopted here.

The debate on the different *economic* conceptions of *Mitteleuropa* - formal or informal, open or closed - unfolded further during World War I. It formed the background to the memorandum that Reich Chancellor Theobald von Bethmann-Hollweg drew up in September 1914 on the basis of submissions he had received from a variety of interest groups, among them the lobbies of industry.

Fritz Fischer, who was the first to discover this document, made it the starting-point of his detailed analysis of the evolution of Germany's aims to the end of the war.²⁵ The "September Memorandum" also marked the beginning of a renewed and more sharply polarized argument between those who wanted to use the expected German, victory to establish a formal continental empire and those who were content with deploying the superior economic weight of the Reich to achieve informal penetration of a Central European sphere, stretching from the Atlantic coast to the Balkans and beyond.

The former faction, including Ruhr steel magnate Fritz Thyssen, blatantly demanded annexation. In the West, Belgium and parts of northern France were to be absorbed by the Reich. In the East, a ruthless territorial revisionism schemed carving out new regions that would become part of Germany. Few people thought of a

²² See R. Chickering, *We Men Who Feel Most German* (London, 1984).

²³ G. D. Feldman, "Businessmen and Politics in Twentieth-Century Germany" (unpublished MS, 1992), 5.

²⁴ P. Hayes, "Industrial Factionalism in Modern German History," *Central European History*, 29 (1991), 122-31.

²⁵ F. Fischer, *Germany's War Aims in the First World War* (New York, 1967), also for the following.

simultaneous, *Anschluß* like incorporation of Austria-Hungary. But when it came to discussions about *Mittleuropa*, not even the most moderate advocates of informal empire had any doubts that Germany would call the tune in this region. Meanwhile, the effectiveness of the Allied blockade began to strengthen the hand of those elements in the larger *Mittleuropa* movement who, even before 1914, had advocated the establishment of a self-sufficient bloc that would be able to fend for itself in the postwar world, with the British Empire and the United States as the main rivals.

If the September Memorandum also included demands for a *Mittelafrika*, it appears that they were thrown in primarily to appease those sections of the business community which, even during the period of retreat from *Weltpolitik* before 1914, had never abandoned the idea of overseas possessions. Also, once France and Russia had been vanquished, the prospect of acquiring territories in Africa looked much more realistic than it had in the years of repeated diplomatic setbacks before 1914. However, German attention remained fixed on the European continent. This preoccupation also explains why Friedrich Naumann's book *Mittleuropa*, published in 1915, became an immediate bestseller.²⁶ In it, the author raised the possibility that, as far as the Reich was concerned, "*Mittleuropa* and world trade" might be irreconcilable alternatives. That a man who had been a liberal imperialist before the war should put the problem in terms of an either-or indicates a first shift in the balance of forces between the advocates of a closed Germanic *Großraum* and the protagonists of a more loosely organized German sphere that would be a full participant in the world economy. The former gained ground as the war continued. By the spring of 1918, they had won the upper hand. Nothing demonstrated this point more powerfully than the signing of the Treaty of Brest-Litovsk, which resulted in large territories of the former Tsarist empire falling into German hands.

No less significant as a harbinger of future developments were the methods by which this vast enlargement of the German sphere was obtained: the territories in the East were brutally annexed and close to one million German soldiers were moved in to establish a direct military presence.²⁷ Germany had taken a major step toward building a formal European empire, with the organization of the Balkans and of Western Europe to be settled after final victory in France, which Berlin expected to achieve. While more informal arrangements were still conceivable for some parts of a German-dominated Europe, the crucial point is that, for the moment, the hardline imperialists had won the day. This faction had General Erich Ludendorff as its most prominent spokesman who, together with Field Marshal Paul von Hindenburg, had emerged as the virtual dictator of Germany.²⁸ Since so much of the annexed territories consisted of agricultural lands, it is not surprising that the arguments of the "Ludendorffian" groups should become infused with a heavy dose of Pan-German "blood and soil" ideology. But in staking out his position, Ludendorff also knew that he had the conservative nationalists in heavy industry on his side whose "chief interest was to secure the import of high-grade Ukrainian iron ores and of Caucasian and Ukrainian manganese ores [that heavy industry] needed for steel production."²⁹

²⁶ F. Naumann, *Mittleuropa* (London, 1917). See also P. Theiner, *Sozialer Liberalismus and deutsche Weltpolitik* (Baden-Baden, 1983).

²⁷ See, e.g., J. Wheeler-Bennett, *The Forgotten Peace* (New York, 1939).

²⁸ M. Kithceh, *The Silent Dictatorship* (London, 1976)

²⁹ F. Fischer, *Germany's War Aims*, 483.

The ascendancy of the formal imperialists was short-lived. The collapse of the Western Front and the German defeat a few months after the Treaty of Brest-Litovsk threw all dreams of empire, whether formal or informal, into complete disarray. But while the defeat temporarily destroyed Germany's ability to project its power on the European continent, it did not prevent a majority of Germans, including most businessmen, from dreaming of their country's resurgence. The idea of a revision of the Treaty of Versailles, and particularly its territorial provisions, was discussed widely even before the Peace was signed and continued to gain ground thereafter. The question that divided the nation and also the business community was whether revision should be attempted peacefully and through slow negotiation or by force and unilateral action. Still, for the moment it was clear to all but the most radical opponents of the Versailles Treaty that Germany lacked the means actively to resist the Western Allies. The choice was between fulfillment in the hope of obtaining relief that would help to revive German industrial and military power or passive refusal to comply, especially with respect to the payment of reparations even at the price of increasing the chaos in the war-ravaged postwar economy.

WEIMAR REVISIONISM

As to industry, the early 1920s with continuing civil war, run-away inflation, and a badly weakened economy were not a time to take a strong stand on Germany's role in Europe and the world economy.³⁰ It was more important to revive the economy, rebuild and modernize production facilities, and see if once lucrative foreign markets could be reopened to German exports. To be sure, there were divisions of opinion, but they pertained to the question of formal or informal empire only in an indirect way.

On the one hand, there were those who, like Rathenau, advocated a policy of compliance and fulfillment as a step toward Germany's reintegration into the world economy. They expected this strategy to accelerate the postwar economic reconstruction process, and mobilizing the country's industrial potential would in turn obviously also enhance her political and economic influence within Europe. On the other hand, there were entrepreneurs like Hugo Stinnes who opposed fulfillment and sought cooperation with Bolshevik Russia as a way of building up an anti-Western German position. However, the question of what should happen to the lands in-between had been complicated in the meantime by the disintegration of the Austro-Hungarian Empire and the emergence of a belt of smaller states among which Czechoslovakia, Poland, and Yugoslavia became allies of Germany's arch enemy France. Clearly, *Mitteleuropa* as a region of German predominance could at best be seen as a long-term project, unless one joined hands with those Ludendorffians on the radical Right whose visceral hatred, particularly of Poland, led them to think of another territorial change of the Central European map by armed force.

³⁰ G. D. Feldman, *Iron and Steel in the German Inflation* (Princeton, 1977).

Moreover, if there was any lesson to be learned from the failure of Wilhelmine *Weltpolitik*, it was that Germany had taken on too much at a time.³¹ Should another bid ever be made to establish her as a power "commensurate" with her industrial potential, it would have to be launched from a solid continental position.³² A colonial empire might be built only afterward. Chances of creating a *Mittelafrika* were thought to be even more remote, except for the welter of small colonial pressure groups that never stopped agitating for overseas possessions. Above all, there were - as far as industry was concerned - the realities of the present which had a sobering effect on all speculations about a future German empire, whether formal or informal. Nor was it easy to say in the confusion of the postwar period who in industry had the upper hand politically, until the developments of the mid-1920s gave a boost to the gradualists who looked for cooperation with the West. The settlement of the thorny reparations question through the Dawes Plan in 1924 and the appearance of American banks and industry helped the liberal-capitalists against the nationalist-conservatives in the business community.³³ They were also encouraged by the rise of Gustav Stresemann who, more than any other prominent politicians, came to embody Germany's Western orientation as well as its ambiguities.³⁴ A trained economist and before 1914 secretary general of the *Bund der Industriellen*, he had been an ardent annexationist during the war before becoming the leader of the then anti-Republican *Deutsche Volkspartei* (DVP) in 1919. But witnessing the shipwreck of German foreign and domestic policy that culminated in the Franco-Belgian occupation of the Ruhr and the collapse of the currency in 1923, Stresemann changed his mind and became an advocate of fulfillment. He was aware that industry was the country's main asset and remained a nationalist at heart, but he was smart enough to realize that German economic power could be projected most effectively not by proceeding alone, but by re-entering the world market. His position as Weimar's foreign minister and roving ambassador of German industry abroad was buttressed by the fact that the Ludendorffian formal imperialists had been pushed to the margins of the political spectrum. H.G. Schöter's article deals with how the chemical and electrical industries operated within this milieu. While foreign direct investments remained small, Germany's trading links were at least partially restored. At the same time it is significant that most of this trade was with immediate neighbors. In general, their strategies were guided by a desire to regain pre-1914 export markets and, beyond this, by the quest for international cartels. Though advertised as spearheads of international economic cooperation, these cartels could not conceal the protectionist and defensive mentality that inspired them and the growing influence of the large German trusts that tended to promote them. It is also illuminating to see how international cartels pushed German business toward Scandinavia and Eastern Europe, and how some of the major electrical engineering companies and IG Farben succeeded in establishing an informal economic empire in Europe while professing openness towards the world market. With few exceptions, like Bosch, the advocacy of this kind of

³¹ See the statement by General W Groener in: F. Fischer, *War, i*.

³² See also K. Hildebrand, *Foreign Policy*, 7ff.

³³ See, e.g. W C. McNeil, *American Money and the Weimar Republic* (New York, 1986); K. H. Pohl, *Weimars Wirtschaft and die Außenpolitik der Republik 1924-1926* (Düsseldorf, 1979); W Link, *Die amerikanische Stabilisierungspolitik in Deutschland* (Düsseldorf, 1970); F. Costigliola *Awkward Dominion* (Ithaca, 1984); B. Weisbrod, *Schwerindustrie in der Weimarer Republik* (Wuppertal, 1978); D. Abraham, *The Collapse of the Weimar Republic*, 2nd ed. (New York, 1986); S. Schuker, *American 'Reparations' to Germany* (Princeton, 1988).

³⁴ H. L. Bretton, *Stresemann and the Revision of Versailles* (Stanford, 1953); H. Gatzke, *Stresemann and the Rearmament of Germany* (Baltimore, 1954); H. A. Turner, *Stresemann and the Revision of Versailles* (Princeton, 1963); P. Krüger *Die Außenpolitik der Republik von Weimar* (Darmstadt, 1985); M. Lee and W Michalka, *German Foreign Policy, 1917-1933* (New York 1987).

internationalism did not move beyond export drives and as a result failed to turn the corner towards a policy of foreign direct investments.

Meanwhile, the German steel industry was similarly busy trying to forge international cartels. They never enjoyed more than a precarious existence, partly because the more powerful German members tried to dominate them and partly because many non-German domestic producers liked to rely on their national governments for support against foreign competition. Cartels, it seems, were just not suitable as instruments to promote cooperation among equals.³⁵ Moreover, they furthered bloc-thinking and restrictive practices. It is hardly surprising that German industry in the Third Reich thought cartels were most suitable for becoming the vehicles of a far-reaching reorganization of European industry in Hitler's New Economic Order during World War II.

Still, the clout of the conservative-nationalist factions should not be underestimated even during the Stresemannian mid-1920s. If the power balances within industry had not yet put a brake on the policies of the more outward-looking industries, the onset of the Great Depression certainly stopped them in their tracks. Internationalization came to an end; the advocates of empire blocs raised their voices louder than before. If trade with the West was collapsing, where else could German industry turn? Once again the idea of *Mitteleuropa* began to sway more and more businessmen, who began to push for closer ties with those regions of Europe in which Germany had reestablished a strong position in previous years, especially in the East and Southeast. An early sign of things to come was the revival of the *Mitteleuropäische Wirtschaftstag* (MEWT) in 1927, devoted to research on "the economic and cultural conditions of the Central European states."³⁶ Supported by business, the Reich government propounded the idea of an Austro-German customs union in 1931, only to be frustrated in their endeavor by a vigorous French veto. Conceptions of economic bloc-building now made a strong comeback. The alternative of international cooperation and of the Open Door receded into the background. The new debate was merely about how closed and autarkic the *Großraum* should be in which German business expected to predominate. These developments were exacerbated by the economic nationalism and protectionism of other countries, above all the United States. Consequently, Carl Duisberg, the head of the IG Farben chemicals trust and an erstwhile internationalist, argued in March 1931:

Out of the small national economic space, the strong industrial states and the agrarian states looking for markets push towards greater international economic spaces This tendency was started by the United States ... [but] also in Europe this aim of the regional economic space seems to be gradually taking shape. For the southeast European states, the question of a market for their agricultural products is an existential question. They find their necessary markets for the most part in Germany. What could make more sense for these states than to look for an understanding with their strongest economic partner, i.e. Germany. Through this regional economic combination the European problem can be treated from the southeastern corner Only a uniform economic bloc from Bordeaux to Sofia is going to give Europe the spine which it needs to retain its importance in the world.³⁷

³⁵ See, e.g., C. A. Wurm (ed.), *Internationale Kartelle und Außenpolitik* (Wiesbaden, 1989).

³⁶ R. Opitz (ed.) *Europastrategien*, 535ff.; D. Abraham, *Collapse*, 215ff.

RISE OF GROßBRAUWIRTSCHAFT

After this, what came to be debated among German businessmen and economists in the 1930s under the heading of *Großraumwirtschaft* assumed two already familiar guises. Overall there was now no question concerning the basic desirability and necessity of Germany building a *Mittleuropa* empire. The question was merely how formal it should be, i.e. how directly German political and military power should be projected into the wider region, and how open this region should be toward the rest of the world. The point of no return was reached slowly, as the call for autarky became louder and louder. Not surprisingly, the Nazis and entrepreneurs close to them pursued the notion of formal empire in its most extreme, Ludendorffian form. To them, *Großraumwirtschaft* meant the formation of a closed, autarkic bloc and one that stretched beyond the German-speaking area into the Soviet Union up to the Urals. In their minds, the term was also synonymous with *Lebensraum* and all its racist and Pan-German connotations of resettlement and direct domination.

None of this proceeded without much debate both within the government and between the Nazi bureaucracy and Germany's industrial and financial elites that finally reached its culmination point at the height of the war in 1942.³⁸

Much can be gained from reconstructing this debate. It tells us something about the shifting balance of political and economic forces, and it offers hints at what Europe would have looked like economically had the Third Reich and its allies won the war or at least achieved a temporary truce with Britain and the United States. In this case, the two Anglo-Saxon powers would have recognized Hitler's continental empire as a *fait accompli*, thus giving the *Führer* time to build his New (Economic) Order.

As to the old question of Germany's openness toward the outside world, the dogmatic autarkists remained in the minority for a long time during the 1930s. Those who spoke up for the creation of a bloc that was sealed off from the rest of the world economy were generally found on the agrarian wing of the Nazi Party. Big business by and large favored a more open arrangement that would allow at least some trade with other countries in the West. If Hitler had made up his mind on the basic question of the future shape of occupied Europe, the die might have been cast in favor of the one position or the other. But in this matter, as in others relating to future planning, he avoided a clear-cut decision, arguing that it was bound up with the larger issue of the entire relationship between politics and economics in the Third Reich to be settled after the war had been won. Leaving everything up in the air had the added advantage that there were no losers who would then have sabotaged the implementation of Hitler's final verdict, as happened with many other Nazi policy issues. This was also why Hitler tolerated the continuation of the old argument over *Mittelafrika*, which the colonial lobby

³⁷ R. Opitz (ed.) *Europastrategien*, 581f.

³⁸ See A. Dallin, *German Rule in Russia* (London, 1957); P. Hayes, *Industry*; J. Freymood, *Le Me Reich et la reorganisation économique de l'Europe* (Geneva, 1974); J. Gillingham, *Belgian Business in the Nazi New Order* (Ghent, 1977); R. E. Herzstein, *When Nazi Dreams Come True* (London, 1982); E. Jäckel *Frankreich in Hitlers Europa* (Stuttgart, 1966); A. Milward, *The New Order and the French Economy* (Oxford, 1970); idem, *The Fascist Economy in Norway* (Oxford, 1972); D. Petzina, *Autarkiepolitik im Dritten Reich* (Stuttgart, 1968); W. D. Smith, *The Ideological Origins of Nazi Imperialism* (Oxford, 1986); E. Teichert, *Autarkie und Großraumwirtschaft in Deutschland*

had kept in the limelight throughout the 1930s and which led to the creation in 1940 of a colonial ministry charged with preparing administrators for later service in Africa.³⁹

Certainly, Hitler, though at heart a formal imperialist, had a point when he thought it futile to talk about the Reich's economic relations with Europe and the rest of the world as long as its territorial conquests on the continent had not been secured. As he said in October 1941.⁴⁰

For me the object is to exploit the advantages of continental predominance. It is ridiculous to think of a world policy as long as one does not control the continent When we are masters of Europe, we have a dominant position in the world. A hundred and thirty million people in the Reich, ninety million in the Ukraine. Add to these the other states of the New Europe, and we'll be four hundred million compared with a hundred and thirty million Americans. [Four weeks earlier he had taken the view that] the struggle for predominance in the world will be decided in favor of Europe by the possession of the Russian space. Thus Europe will be an impregnable fortress, impregnable from all threat of blockade The essential thing, for the moment, is to conquer. After that, everything will simply be a question of organization.⁴¹

At the same time, things could not be compartmentalized and put on ice that easily. What undermined Hitler's delaying tactics was the "normative power of the facts" that the extremely violent forms of the Nazi conquest of Europe were creating.⁴² These forms inevitably influenced the shape of the future New Order and gave a boost to the Ludendorffians who were waiting in the wings. They had long advocated direct rule. More generally, it was not part of the Nazi regime's self-image to project its power in velvet-gloves. The Social Darwinism that had pervaded the Third Reich at home during the 1930s became an export commodity. It seemed particularly suitable for Eastern Europe, where Nazi racism assumed the indigenous populations were too primitive to govern themselves. Not surprisingly, Heinrich Himmler began to make plans for the resettlement of German *Volksgenossen* in the Ukraine where they would live in neat towns surrounded by the Slav masses, who would be working as helots and whose living standards would be kept to a minimum. Meanwhile the mass murder of millions of Jews, Slavs, and Gypsies also began.⁴³

Attitudes may have been different toward the populations of Western Europe insofar as they were seen as "Aryan cousins;" but the dynamics of the New Order racism in the East which unfolded from the first days of World War II in Poland as well as the persistent underground opposition that the occupying forces encountered in Western Europe moved German policies in the direction of formal empire. These larger visions of the New

³⁹ See W W Schmokel, *Dream of Empire* (New Haven, 1964); K. Hildebrand, *Vom Reich zum Weltreich* (Munich, 1969).

⁴⁰ H. Trevor-Roper (ed.), *Hitler's Secret Conversations* (New York, 1953), 76.

⁴¹ *Ibid.* 27f.

⁴² See, e.g., A. Dallin, *German Rule*, P. Hayes, *Ideology*; A. Milward, *New Order*, idem, *Fascist Economy*, M. Broszat, *Nationalsozialistische Polenpolitik* (Stuttgart, 1961); L. Kettenacker, *Nationalsozialistische Volkstumspolitik im Elsass* (Stuttgart, 1973); K. Kwiet, *Reichskommissariat Niederlande* (Stuttgart, 1968); C. Madajczyk, *Die deutsche Besatzungspolitik in Polen* (Wiesbaden, 1967); E. Thomsen, *Deutsche Besatzungspolitik in Dänemark* (Diisseldorf, 1971); E. L. Homze, *Foreign Labor in Nazi Germany* (Princeton, 1967); U. Herbert, *Fremdarbeiter* (Berlin, 1985); W Warmbrunn, *The Dutch under German Occupation* (Stanford, 1963).

⁴³ See, e.g., R Hilberg, *The Destruction of the European Jews* (London, 1961); L. Dawidowicz, *The War against the Jews* (Harmondsworth, 1976); G. Hirschfeld (ed.), *The Politics of Genocide* (London, 1986); C. Browning, *Fateful Years* (New York, 1986); R D. Müller *Hitters Ostkrieg an die deutsche Siedlungspolitik* (Frankfurt, 1991).

Order and their incipient implementation from October 1939 onwards, together with the political mentalities behind them, also affected the debate on the economic organization of the European Großraum that had continued throughout the 1930s. To begin with, the general ideological climate promoted in the business world the rise of individuals "whose dynamism degenerated into brutality and who could not be impressed by anything."⁴⁴ By the same token it pushed into the background those managers who believed that a softer touch in dealing with the industries of occupied Europe would yield better results in terms of company profits and of the general milieu in which future business would be conducted among the nations of the continent.

Peter Hayes's contribution examines how one of the country's biggest corporations, IG Farben, tried to maneuver in the minefield of reorganizing the European economy. While mindful of its traditional global interests, it kept an open mind about how autarkic the emergent German bloc should be. Still, the larger backdrop to IG Farben's strategy in those years remains important, and on this score the most contentious issue from the point of view of big business was from the 1930s onward: who would be in charge overall of reorganizing the European economy? Was this to be the task of private industry, assisted by its elaborate system of associations? Or would it be government agencies? When, after some theoretical discussion in the first years after the establishment of the Nazi dictatorship, this question became a tangible issue following the *Anschluss* of Austria in March 1938 and the destruction of Czechoslovakia a year later, matters were still largely left in the hands of individual entrepreneurs whose experts swarmed out either to take over Austrian and Czech companies or to acquire a stake in them and to offer cooperation. Yet from the start there were some state agencies whose leaders rejected this kind of "anarchic" capitalist penetration. One of them was Hermann Göring.

Just as he had set up the *Reichswerke* steel trust as a state-owned alternative to private industry in 1936,⁴⁵ he now began to push the government to assume a major role in the economic reorganization of occupied Europe after 1939. It is significant that Hitler once more avoided taking a stand and that not all ministries were behind Göring.⁴⁶ In other words, the business community had friends, especially in Walter Funk's Economics Ministry, with State Secretary Gustav Schlotterer as the linchpin. There was also Carl Clodius in the Foreign Ministry who, himself an advocate of informal empire, warned (not to "repeat the mistakes of Versailles" and postulated that coercion should not be part of securing "a somewhat more equitable distribution of the world's raw materials."⁴⁷ With Göring and his allies blocked (by their rivals in the Nazi bureaucracy, industry had fairly free rein to move into occupied Western and Northern Europe in 1940.

The same patterns of behavior surfaced as in 1938-1939: Some managers knocked hard at the gates of French, Dutch, or Norwegian enterprises and behaved like colonial masters, flatly declaring that the firm in question had been taken over. Property rights and shareholdings were nullified with the stroke of a pen. But there were others who strenuously negotiated to work toward a partnership with non-German companies and who signed binding

⁴⁴ L. Schwerin von Krosigk, *Die Grosse Zeit des Feuers* vol. 3 (Tübingen 1957/59), 560

⁴⁵ See, e.g., M. Riedel, *Eisen and Kohle für das Dritte Reich* (Göttingen, 1973); G. Mollin, *Montankonzerne and "Drittes Reich"* (Göttingen, 1988).

⁴⁶ See, e.g., the documents in R. Opitz (ed.), *Europastrategien*; see also M. Popofsky, "The Quest for the Pax Germanica" (unpublished Brown honor thesis, 1990).

⁴⁷ Quoted in: M. Popofsky, "The Quest," 114.

agreements that did not differ from those made with foreign firms in peacetime. In this situation it would be naive to assume that their Belgian, French or Danish counterparts did not operate under perceived or real duress, even if they were pro-German collaborators.⁴⁸ However diplomatic and conciliatory their German visitors may have been, in the 1940s the reality of occupation and the daily display of German military power was hard to overlook. Clearly, the power relationship was unequal. It was lost on no one that the bloc that was emerging in continental Europe in the early 1940s would be geared to the interests of the Reich and that the Germans would call the shots.

However important it may be to differentiate between hardline and moderates in German industry, it would be wrong to ignore the tireless activities of men like Göring and Himmler had borne some fruit. As to the question of the role of the state, the balance began to shift in favor of increased interventionism and tighter control, including the economy. This in turn put pressure on private industry to offer more than an "anarchic" take-over program. There now started a debate in which the *Reichsgruppe Industrie*, industry semi-public peak association, assumed a greater role with the encouragement of the Economics Ministry.⁴⁹ Schlotterer and others urged the *Reichsgruppe* to develop more concrete organizational proposals. When these were finally on paper, industry not surprisingly advanced as their ideal solution, the cartel model of capitalist organization that meanwhile - building on the Weimar experience - had been vastly expanded and refined as the basic organizing principle of business inside the Third Reich. This model was now to be introduced to the rest of occupied Europe. Its outward attractiveness was that cartels would have given formal equality to their members, whether foreign or German. In this sense the proposals did not smack of direct imperialism.

However, there is also the German experience of the international cartels of the interwar period. What had often contributed to the instability of those cooperative arrangements was that they had to operate in an environment of independent nation states with their own political dynamics and currency systems. It was at this level that the new Europe would differ from the old. In the conception of German business, there was no question about the Reichsmark being the leading currency. In this regard, as in respect of patents, commercial laws, and other aspects of intra-European economic relations, the entire legal framework would be redesigned to secure German predominance. Like the *Reichsgruppe* and other industrial associations, the German banking world was also busy drawing up its plans along these lines.

A major contribution to the debate on the economic organization of occupied Europe came from a number of experts attached to a variety of research institutes, where the belief that the world was evolving in terms of *Großraum* blocs was no less axiomatic than elsewhere in government and industry. Probably the most detailed proposal to organize Europe on the basis of cartels was produced by Arno Sölter, who in 1941 published his ideas in a very interesting book entitled *Großraumkartell*.⁵⁰ Apart from insisting on industrial self-management, the author invoked Funk and argued against the view that autarky and world economy were mutually exclusive. In this respect Sölter agreed with Professor Andreas Predöhl of the World Economics Institute at Kiel, where IG

⁴⁸ See, e.g., J. Gillingham, *Belgian Business*.

⁴⁹ See the documents in R. Opitz (ed.), *Europastrategien*, passim; see also R. E. Herzste *When Nazi Dreams*, M. Popofsky, "The Quest," 109ff., also for the following.

Farben's Max Ilgner also involved himself in his efforts to preserve the principle of occupied Europe's openness toward the rest of the world. Finally there was Werner Daitz who had long advocated the creation of a *Großraum* that stretched well beyond the borders of the Reich and insisted that this space must be German-dominated.⁵¹ Daitz also made various contributions to the debate on the region's future economic organization. In his numerous writings and speeches he stressed the notion of New Order cooperation, albeit with a marked Germanocentric touch and later with an increasingly racist vocabulary. Daitz was also among those theorists to take a stand on the question of how far the predominantly agricultural East and Southeast should be encouraged to develop their own industries.

Some of the big corporations with an interest in those regions had been favoring a degree of economic development, also as a way of expanding their own markets. Daitz similarly felt that the people of Eastern Europe needed Western technology and expertise, though apparently not beyond a level that would change their primary function as purveyors of raw materials and handicrafts. None of these proposals, whether they came from the *Reichsgruppe*, from Schlotterer, or from *Großraum* theoreticians in research institutes, held much attraction for the non-German nations of Hitler's New Europe. However, they were almost benign by comparison with those of the Ludendorffians, who had meanwhile sharpened their attacks on the "soft options" of 1940. More than ever before they aimed for formal empire, complete autarky, and the underdevelopment of the East through criminal exploitation. Herbert Backe, a blood-and-soil ideologue who came to play a leading role in the Nazi reorganization of agriculture in occupied Russia, was one of them. In 1942 he published a book *On the Self-Sufficiency in Foodstuffs in Europe* which bore the telling sub-title, *Great Space Economy or World Economy*.⁵²

The agrarian wing in the Nazi movement and the SS with its resettlement plans were also united in the view that its members - like Göring, but unlike Schlotterer - were determined not to leave the organization of Europe to private industry and its cartellization program. They agitated for strong state powers, and the more the conquered territories in the East were given over in 1941-1942 to these forces as an experimental field for their racist New Order recipes, the more the balance of power tilted away from Schlotterer, the *Reichsgruppe*, and big business. While there was ultimately too little time for the New Economic Order in occupied Europe to solidify, Nazi economic policies certainly became more rigid. Reckless exploitation and Germanization slowly replaced the more indirect approaches of industrial cooperation of 1940. Purely biological visions began to overrun the proposals of the *Reichsgruppe* which, it might be argued, still contained some measure of rational calculation.

The setbacks on the Eastern front in 1941-1942, Germany's inability to defeat the Red Army, and other signs of an impending Nazi *Götterdämmerung* merely reinforced this trend. But the worsening of the military situation also prevented the emergence of a clear and irreversible economic policy vis-à-vis occupied Europe. Still, the preceding analysis should have made the contours of Hitler's New Economic Order sufficiently clear. By comparison with the Ludendorffians, large sections of industry continued to think in terms of indirect

⁵⁰ A. Sölter, *Großraumkartell* (Dresden, 1941).

⁵¹ M. Popofsky, "The Quest," 107ff., also for the following.

solutions. However, it also should have become evident how far these solutions had been moved from informal toward formal empire. Certainly it was not World War II, with its disruption of all international links and direct conquest of Western as well as Eastern Europe by the *Wehrmacht* that resulted in this particular resolution of the old German debate concerning the country's role on the European continent. The war was merely the vehicle to implement earlier Pan-German notions of *Lebensraum* and "ethnic cleansing." For the second time in this century the Ludendorffians, as at Brest-Litovsk, had gained the upper hand, pulling parts of the business community with them.

Yet, the euphoria of 1940-1941, which had spawned so many schemes for the economic organization of Europe as well as much conflict, soon turned into depression. By 1944, if not before, it was clear that Germany would lose the war. For the second time within a generation a resounding military defeat at the hands of the Allies destroyed the high hopes of empire that large sections of the business community had shared with the Nazis and the majority of the population. It is a reflection of the power of this dream that it did not die an immediate death in 1945. Rather it lived a postwar afterlife. It took German industry some time not only to appreciate the extent of the German defeat which, in the face of the crimes perpetrated during the war, was also a devastating moral catastrophe, but also to take in the total destruction of Germany's power position in Europe. The details of this phenomenon also await further investigation. Thus the diaries of Otto A. Friedrich, a prominent manager who had been Deputy Reich Plenipotentiary for Rubber in World War II, contain much revealing material about this question, as he ruminated upon a postwar German role as a peacemaker and bridge between East and West, between American capitalism and Soviet communism.⁵³ Eventually, even Friedrich came to accept that there was no such role for a defeated and discredited Germany. The more it became clear that Europe and Germany would be divided along the Iron Curtain into an American-dominated and a Soviet-dominated sphere, the more he agreed that Germany's place was within the western world's economic system that Washington was determined to establish after 1945.

The American design for a New World Order had emerged from the disasters of the 1930s and the period of economic nationalism and protectionism that followed the Great Crash of 1929.⁵⁴ It represented a stark contrast to the autarkic New Order that the Ludendorffians pursued in Germany at the same time, and it is worthwhile to compare the statements that came out of Berlin at the height of World War II in 1940-1941 with the messages to the international community drawn up by Washington and ultimately enshrined in the Atlantic Charter and the Preamble to the United Nations Charter. Indeed, from an economic perspective and leaving aside Hitler's intolerant racist ideology and the power-political dimensions of the world conflict, the war amounted to a gigantic struggle between two diametrically opposed views on how to organize the future world market: Closed Blocs vs. the Open Door. As one Nazi expert explained in 1940:

⁵² On Backe see A. Dallin, *German Rule*, 39f, 328ff.

⁵³ See V R. Berghahn and P. J. Friedrich, *Otto A. Friedrich* (Frankfurt, 1993), 57ff.; see also L. Herbst, *Der totale Krieg*, 4 10ff.

⁵⁴ See, e.g., V. R. Berghahn, *The Americanization of West German Industry* (New York, 1987), 26ff.; R. M. Collins, *The Business Response to Keynes* (New York, 1981); R. D. Schulzinger, *The Wise Men of Foreign Affairs* (New York, 1984); M. Wala, *Winning the Peace* (Stuttgart, 1977); W Minter, *Imperial Brain Trust* (New York, 1977).

And thus, in searching for the root cause of the quest for autarky, we encounter two opposing modes of thought: the world-economic, cosmopolitan and the national-economic view The notion of autarky hence finds its basic root in the distinction between national economy and world economy, or to be more precise: in the organizational principles which shape and regulate a national economy and its relations with other national economies.⁵⁵

The defeat of Nazi Germany and Japan - which, at the same time as Hitler, tried to build a closed bloc of its own in the shape of the Greater East Asian Co-Prosperty Sphere⁵⁶ - meant that the idea of a liberal-capitalist, multilateral world trading system finally had a chance to assert itself.

GERMAN BIG BUSINESS AND POST-WAR EUROPE

With the benefit of hindsight, it may be said that West German industry, just like Japan's, fared well in the second half of the twentieth century under this system that was so different from what they had tried to construct in the years up to 1945. The paper by Reinhard Neebe deals with some of the aspects of how this was achieved largely by reverting to the strategies of the interwar period⁵⁷ a concentration on exports aimed at traditional markets in Europe, including Eastern Europe, with little foreign direct investment. Ludwig Erhard, the Economics Minister of the Federal Republic saw trade as a precondition for a stable "social market-economy" that he was trying to build up in the 1950s. But West Germany's return to the world market was accompanied by much belly-aching because it required adjustments in the domestic organization of business and in deeply ingrained business mentalities. As Simon Reich's contribution demonstrates, there was considerable reluctance to forego the "fruits of fascism."⁵⁸ Protectionist arrangements continued, and the government - even one led by Erhard, the neo-liberal Economics Minister - was prepared to lend a hand when it came to favoring indigenous industries vis-à-vis foreign firms that had invested directly in the Federal Republic. The attitudes that come out in these policies harmonize well with the persistence of the cartel mentalities in industry and retailing. Here Erhard battled courageously to prevent the reemergence of cartels and syndicates, and eventually succeeded in getting a German anti-trust bill through the *Bundestag*.⁵⁹ But it took him until 1957 to achieve this. He was also skeptical of the creation of the European Coal and Steel Community and its later enlargement into the European Community, suspecting it would promote traditional thinking in terms of protectionist blocs and revive the old European cartels in a different guise. It was a suspicion that he, the free trader, never lost. It lingered at the time of the founding of the European Economic Community in 1958 and persists to this day, the

⁵⁵ Quoted in V R Berghahn, *The Americanization*, 28.

⁵⁶ See J. Lebra, *Japan's Greater East Asia Sphere in World War II* (Oxford, 1975); R H. Myers and M. R. Peattie (eds.), *The Japanese Colonial Empire* (Princeton, 1984).

⁵⁷ See R. Neebe, *Überseemärkte and Exportstrategien in der westdeutschen Wirtschaft, 1945-1966* (Stuttgart, 1991).

⁵⁸ See S. Reich, *The Fruits of Fascism* (Ithaca, 1990).

⁵⁹ See V R. Berghahn, *The Americanization*, 155ff.

Maastricht Treaty notwithstanding. Consequently, we should beware of painting too rosy a picture of the liberal 1950s.

At the same time and with Erhard's encouragement, West German industry exploited every opportunity to rebuild its pre-1930 markets. Once more Germany became one of the major exporting nations of the world, while proceeding cautiously with foreign investments.⁶⁰ It was only in the late 1950s that some companies began to venture into Western Europe and the United States to take stakes in local firms or to erect their own production facilities.

Memories of the past and of what had happened to direct investments after the two world wars no doubt acted as a brake in this respect. But even as the fear of World War III subsided, many West German entrepreneurs still continued to wonder if the American-inspired multilateral Western Open Door system would work. It is apparently this skepticism that led them to look East. As Mark Spaulding's article shows, *Osthandel*, though never important in terms of volume during the 1950s, nonetheless lived on as an idea. This trade was now more difficult, not only because Eastern Europe had its own memories of recent German formal empire-building, but also because of the Cold War and Western embargo policies. And yet trading links were never completely severed, not least it seems, because West German industry saw these regions as a fallback should the Western world economy for some reason not function as predicted or lapse into another 1930s-style crisis. The détente between the superpowers after the 1960s helped promote the expansion of trade with the East, while Western Europe became the main area of industrial involvement for the Federal Republic, most importantly through trade, but increasingly through direct investments and cooperation with companies in the European Community. The contributions by Margrit Köppen and Jeffrey Anderson provide good insights into recent debates on Germany's role and some of the strategic considerations underlying company decision-making in this field, including the much-vaunted *Standortfrage*.⁶¹

In light of German reunification and of recent upheavals in Eastern Europe, there has been a good deal of conjecturing about Germany's future economic role on the European continent. While there are few voices that conjure up a repetition of history and speak of another formal German empire, there is much talk of indirect domination by the country's manifestly powerful industrial system. Others are more sanguine and point to the inexorable multinationalization of European industry or even to the dangers of Japanese penetration.⁶²

To give this debate a firmer statistical basis, several tables have been compiled at the end of this paper.⁶³ They demonstrate the weight of the German economy in both comparative and absolute terms even before reunification. The *Financial Times* chart of composite leading indicators for the major Western industrial

⁶⁰ See, e.g., V. R. Berghahn and P. J. Friedrich, *Otto A. Friedrich*, 134ff.

⁶¹ See below pp. 159ff., 171ff. See also *Welt am Sonntag*, 27 February 1994, 41.

⁶² See P. Stakes (ed.), *The New Germany in the New Europe* (New York, 1992); R. Rhode, "Deutschland: Weltwirtschaftsmacht oder überfordertes Euro-Hegemon?" HFSK-Report, No. 1 (February 1991); S. Young and J. Hamill, *Europe and the Multinationals* (Brookfield, Vt., 1992); C. Tugendhat, *The Multinationals* (Harmondsworth, 1971); D. van den Boelcke, "Multinational Companies and the European Community," in B. Nelson et al. (eds.), *The European Community in the 1990s* (Oxford, 1992), 106-23.

⁶³ See below pp. 208ff.

nations puts the Federal Republic second in overall performance behind Japan during the 1980s (Table 1.1, p. 208).

Between 1986 and 1988, she moved into the first rank of exporting countries, only to be overtaken again by the United States by a slight margin thereafter. In 1991, Germany's share was 11.4 percent, compared to the United States's 12 percent (Table 1.3, p. 210). Two years later, Japan had almost caught up with Germany's second place. Up to 1970 only Britain's share of exports as a percentage of the Gross Domestic Product had been higher than that of the Federal Republic. By 1980 this ranking order had been reversed (Table 1.2, p. 209). In 1989 no less than 25 of the 100 largest companies in Europe were German, just one ahead of the British figure and six ahead of France (Table 1.4, p. 211). The remaining tables highlight above all three points:

1. Although German direct investments in other countries have increased with some 60 percent still going to the EU, the Federal Republic is still primarily an exporting nation, as it has been since the turn of the century. In this respect, the pattern differs from the behavior of Japanese industry, especially as far as the involvement with America's industrial system is concerned (Table 1.1, p. 208);
2. The European Union is by far the main trading area of the Federal Republic, both in terms of exports and imports.
3. The Germans are strongest in the export of engineering products, including automobiles, chemicals, and electrical equipment (Table 1.9, p. 216);

The impression that Germany is primarily a regional trading nation has been reinforced by the collapse of communism in Eastern Europe.⁶⁴ To begin with, the dissolution of the German Democratic Republic added the Saxon industrial basin, with traditional strengths in chemicals and engineering to the Federal Republic's economic potential (even if it will take some time for this potential to be realized).

Although trade with the former Soviet Union and with other east European countries experienced many ups and downs during the three decades before 1980, it always existed (Table 1.6, p. 213). Exports to the Soviet Union reached 11 billion marks in 1983 and, after another decline in 1986-1987 peaked at close to 12 billion marks in 1989. In the same year goods worth over 29 billion marks went to other East Bloc countries, compared with more than 46 billion to the United States and - confirming our earlier point - more than 352 billion to EU countries. Only Finland and Austria achieved a higher share than Germany's 3.8 percent.

Now there is little doubt that Germany's involvement with Eastern Europe has gained new momentum since 1990. Partly because it feared the collapse of these countries, Bonn has sent millions of marks to support the material reconstruction effort and to help with the organizational transition toward capitalism. The current situation in the East remains too confused to say with any degree of certainty whether there will be a shift in German strategy away from trade toward direct investments.

⁶⁴ See also W. Smyser, *The Economy of United Germany* (New York 1992), 194ff.

In the case of the former German Democratic Republic, the first stages of economic reunification were marked by what has been called a West German *Blitzkrieg* on the underdeveloped consumer markets there.⁶⁵ German goods simply flooded former East Germany. Meanwhile it proved much more difficult to persuade West German companies to invest and establish and modernize production facilities in the five new Federal states.

The situation is even murkier with regard to Poland, Hungary, and the Czech Republic. Here a number of German companies have committed themselves directly, investing some 1.3 billion marks in former Czechoslovakia in 1991-1992 alone, while other countries, mainly France and the United States, injected no more than 600 million marks.⁶⁶ As of 31 December 1994, the German share in FDI in the Czech Republic was 36.2 percent, followed by the US at 21.2 percent, and France at 11.6 percent. Having bought up the Czech Skoda Works, Volkswagen eventually hopes to produce 450,000 cars there destined mainly for eastern markets. In Hungary, where foreign investments since the fall of communism reached some nine billion marks, Germany occupied the second place behind Austria. The Federal Republic also has tried to build up trading positions in these countries.⁶⁷ By 1992, Germany had emerged as Central Europe's largest trading partner, with a volume of some ten billion marks with Hungary and twice that amount with former Czechoslovakia and with Poland. In this respect they probably have the edge over other Western countries and Japan in terms of language and geographic proximity, even if one agrees with the verdict of *Die Welt* that, due to the changes in personnel and in the power structure in Eastern Europe, Germany found itself at the beginning again after the collapse of communism. Still, fears of German economic domination of the region are widespread, and many East Europeans would like to see more investments from other West European countries and from the United States as a counterweight to a perceived German danger.⁶⁸

Yet, however powerful the statistical evidence and however much experts may agree that Germany is and in the long term will be the dominant economic power in both Western and Eastern Europe, the problems of evaluating how this power is going to be used are enormous. Accordingly, the spectrum of academic opinion ranges no less widely than that of the political and economic elites in all countries confronted with the "New German Question," with everybody asking themselves whether they face once more the "Old German Question."⁶⁹ German scholars, politicians, and entrepreneurs have tended to stress that, while Germany's position as an industrial power in Europe may be even stronger than it was in the first half of this century,

⁶⁵ G. Grass, "The West German Business Blitzkrieg," *Guardian Weekly*, November 11, 1990, 22.

⁶⁶ *The Economist*, February 20-26, 1993, 94

⁶⁷ A. Inotai, "The Economic Impact of German Reunification on Central and Eastern Europe," AICGS Seminar Paper No. 1 (June 1992); Deutsche Bank (ed.), *Rebuilding Eastern Europe* (Frankfurt, 1991); *Financial Times*, 12 October, 1992; *Budapest Business Journal* 15-21 July 1994; *Die Zeit*, 19 May 1995.

⁶⁸ *Die Welt*, 10 October, 1992; *Wall Street Journal*, 19 December 1994, 1, 10.

⁶⁹ R. Fritsch-Bournazel, Europe. Opinions have tended to vacillate, with fears strongest immediately after 1989. See. e.g., C. Krauthammer, "Return of the German Question," in *Time Magazine*, 25 September 1989. But there were also hopes. As Timothy Garton Ash put it: "If I have a fear for the next few years it is not that Germany will turn outward in any sort of bid for great power (economic) domination, but rather that it will turn inward, become obsessed with the problems flowing from unification, a little self-pitying, self-protective, and with a wall on its eastern frontier which its West European partners will only help to reinforce." He continued: "In short, the German eagle is unbound. The broken chains lie on the hillside. He has raised his wings a little and given a few friendly cries. Will he now spread his wings and rise up, this time to help, not to attack? Or will he rather ... sit sulkily on his perch, gobbling his ample food and disconcertingly scratching his breast with that great beak?" T Garton Ash, "Germany Unbound," *New York Review of Books*, 22 November 1990, 15. For the view of a Germany absorbed by its own problems see also C. R. Whitney, "Europe Discovers the German Colossus Isn't So Big

attitudes and mentalities have undergone fundamental and irreversible changes. Certainly, they tell us, the ambitions of empire are no longer there.⁷⁰ This would appear to be perfectly credible as regards the question of formal empire. If Germany's elites have learned one historical lesson, it is that the repeated attempts to secure dominance through direct intervention ended in catastrophe and were, with hindsight, even unnecessary.⁷¹ More patience and an earlier defeat of the Ludendorffians would, in the longer term, have resulted in a pre-eminence of the kind achieved after 1945 by peaceful means.

Does this mean that only the old divisions of opinion within Germany have disappeared and German entrepreneurs have all become informal empire-builders? There may be some who genuinely believe that despite the country's sheer industrial and financial weight, economic prosperity can be based on equality and peaceful trade. It is a view that has ancient roots in the economic liberalism of the 19th century and that we have encountered later on in the writings of Norman Angell and his supporters before 1914.⁷² However, it may be more realistic to see a closer link between economic wealth and power differentials than the idealists have been prepared to concede. If wealth creates power, Germany's position as a regional economic force assumes special significance. Accordingly, there have been a number of recent cases when the Federal Republic, much to the alarm of her neighbors, began to throw her weight around. Thus the Federal Republic, "virtually alone in opposition for months, ... practically Germanized the community's Yugoslav policy overnight."⁷³ Some intriguing proposals have been made by leading bankers. During a trip to the Soviet Union in 1988, Friedrich Wilhelm Christians of Deutsche Bank was reported to have proposed to Eduard Shevardnadze that Kaliningrad, the former East Prussian Königsberg, "be transformed into a kind of free trade and settlement area, a major port linking the old Soviet republics with Scandinavia, Poland, and Western Europe."⁷⁴ He also founded a Königsberg Initiative. He went out of his way to emphasize that what he had in mind was not a "re-Germanization, but a Europeanization" of Kaliningrad as a center of "exchange for people, ideas, capital, and goods." But the ever suspicious French press immediately suspected more far-reaching ambitions, especially when it was suggested that the city might be attractive to Volga-German resettlers from farther East.⁷⁵ It was Boris Yeltsin who later put a damper on such plans when he asserted that Kaliningrad was Russian territory and would remain so in the future.⁷⁶

While Christians' proposals may have been eccentric, and above all, quickly overtaken by events, recent policies of the Bundesbank have not only demonstrated the considerable clout of the deutschmark, but also its use for purposes that put German interests over those of the Federal Republic's neighbors. Indeed, there is no question that the German Central Bank pursued its high interest strategy to the detriment of the rest of Europe and that its

After All," *New York Times*, 21 April 1991, E3; K MacGregor, "Weak behind the Mask," *Times Higher Education Supplement*, 12 February 1993, 40; J.T. Bergner, *The New Superpowers* (New York, 1991), 102; *Die Zeit*, 15 July 1994, 4.

⁷⁰ See, e.g., A. Herrhausen, "Toward a Unified Germany," *New York Times*, 7 January 1990, F2; F. Froschmaier, "The Challenge Facing Germany and the Future of the European Union," Speech MS, September 1994, 5.

⁷¹ W. Bühner and H. J. Schröder "Germany's Economic Revival in the 1950s," in E. Di Nolfo (ed.), *Power in Europe*, vol. II (Berlin, 1992), 194f.

⁷² See above p. 6.

⁷³ Joffe, "America in the Balcony as Europe Takes Center Stage," *New York Times*, 22 December 1991, E5; *Die Zeit*, 20 January 1995, 3.

⁷⁴ J. Tagliabue, "A Would-Be Conqueror Is Now Russia's Booster," *ibid.*, 15 February 1992.

⁷⁵ E. Calabuig, "Quand les Allemands retournent à Kaliningrad-Königsberg," *Le Monde Diplomatique*, August 1991.

negative effects could be felt as far as Sweden, while the spokesman of Deutsche Bank, Hilmar Kopper, flatly denied the emergence of a "deutschmark nationalism."⁷⁷

It is difficult to say if these developments are exceptions to the policy of self-restraint that has been observed so far or whether they are harbingers of a new pattern. In the latter case, the arguments of Konrad Seitz's bestselling study on the *Japanese-American Challenge* may have a meaning that goes beyond the book's publicly stated intentions. Criticizing the lack of an industrial strategy, Seitz has predicted the decline of Germany and the degradation of Europe to the status of a "technological colony" of Japan and the United States.⁷⁸ If this study was an appeal to develop a coordinated European technology policy, its implications, given Germany's position as a regional power, may well be to revive protectionist thinking and the traditional notion of bloc-formation. Despite official denials that "we have no interest in building fences," the possibility of a revival of earlier *Großraum* conceptions remains.

Now, it is true that some experts have argued that the path to a genuinely global economy will lead through a triad of co-prosperity spheres that they see emerging in North America, Europe, and the Far East.⁷⁹ The trouble with this scenario is that it looks too much like that of the early 1940s. The internal economic and political organization of these spheres is certainly different today from what it was then. Whatever global interdependencies that have been created already between the triad spheres through multinationalization, electronic communication, and global manufacturing systems pioneered in the auto industry, for Europe they only then would be too costly to break out of in 1930s fashion, if Germany ceased to be a regional European power and if her role as an exporting nation were complemented by policies of direct investment on a global scale that emulated the behavior of Japanese and American industry.

Accordingly, American firms bought 516 European companies worth \$17.5 billion between 1988 and 1992 alone. Japanese companies made 204 acquisitions worth \$12.5 billion during the same period.⁸⁰ No comparable investments have been made by German companies outside Europe.⁸¹ The globalization of the world economy has been propelled from these two countries since the 1970s; they disregarded national frontiers, driving toward the transnationalization of the world economy. Germany has not been in the forefront of this development, regardless of BMW's and Daimler-Benz's recent decision to establish production facilities in the United States and even though some headway has been made with regard to the internationalization of top management personnel - another intriguing indicator that deserves closer sociological analysis. Instead, it has concentrated on Europe and now, given the capital needs of former communist Eastern Europe, it is easy to imagine how Ger-

⁷⁶ *The Economist*, 3 August 1991.

⁷⁷ Quoted in *Die Zeit*, 20 March 1992, 9; but see H. Schmidt, "Deutschland wird zum Störenfried," *ibid.*, 18 December 1992, 3; *idem*, *ibid.*, 6 October 1995, 1.

⁷⁸ See G. Hofmann, "Ein Diplomat, der lieber zuspitzt," *ibid.*, 21 February 1992, 2.

⁷⁹ C. Tenbrock, "Block um Block," *ibid.*, 26 August 1992, 10; *ibid.*, 16 June 1995; *New York Times*, 15 January, IV, 1

⁸⁰ W. Smyser, *The Economy*, 201f; *Providence Journal Bulletin*, 13 January, 1993, B6

⁸¹ D. Julius and S. E. Thomsen, "Foreign Direct Investment among the G-5," RIIA Discussion Paper No. 8 (London, 1988), 11; see also S. E. Thomsen, "The Growth of American, British and Japanese Direct Investment in the 1980s," RIIA Discussion Paper No. 2 (London, 1988).

many's role as a regional power will be reinforced.⁸² Seen in this light, German restraint and caution in international politics is not only reassuring to her neighbors, but represents another way of promoting interdependencies that it would be too costly to abandon in favor of a third attempt to create a German economic empire on the European continent.

⁸² J. Anderson and J. Goodman, "Mars or Minerva? A United Germany in a Post-Cold War Europe," Harvard Center for International Affairs Paper No. 91-8 (Cambridge, Mass., n.d.) See also the Epilogue in R.M. Spaulding, Jr. *Osthandel and ostpolitik* (Oxford, 1996); H.G. Schröter "The German Question, Europe, and the Market Strategies of Germany's Chemical and Electrical Industries, 1900-1992," in *Business History Review*, 67 (1993), 369-405; W Wallace, "Deutschland als europäische Führungsmacht," in *International Politics*, May 1995, 23-28; WD. Graf (ed.), *The Internationalization of the German Political Economy* (London, 1992).