

Working Paper No. 80/03

Bureau Competition and Economic Policies in Nazi Germany, 1933-39

Oliver Volckart

Department of Economic History
London School of Economics
Houghton Street
London, WC2A 2AE

Tel: +44 (0) 20 7955 7084
Fax: +44 (0) 20 7955 7730
E-mail: o.j.volckart@lse.ac.uk

Bureau Competition and Economic Policies in Nazi Germany, 1933-39*

Dr. Oliver Volckart

Abstract

This article examines the hypothesis that in the “Third Reich”, bureaucratic agencies engaged in economic policies competed with each other. First, a model of competition is constructed whose predictions are then compared with actual political processes in Nazi Germany. This shows that the bureaus indeed competed with each other, supplying Hitler with political support in exchange for politically relevant property rights. However, in contrast to what the model predicts, they did not adapt their policy supply to the dictator’s wishes. In order to explain this outcome, the paper examines how Hitler protected himself against competitors to himself and how his choice of strategy affected bureau competition.

* I presented earlier versions of this paper at the Economic History Colloquium of the Free University Berlin (November 2002), at the Session of the Economic History Section of the Verein für Socialpolitik in Berlin (March 2003), at the European Public Choice Society Conference in Århus (April 2003), and at the Conference of the European Historical Economics Society in Madrid (July 2003), and I would like to thank all participants in the discussions for their suggestions, help, and advice.

1. Introduction

Much of public choice concentrates on analyzing modern pluralist democracies. Non-democratic systems have only recently come to the attention of scholars working in this field, and the economic analysis of dictatorship is still a quite new area of research. The first to approach this subject in a systematic and comprehensive manner was Ronald Wintrobe (1990; 1998). Leaning heavily on the theory of bureaucracy, which claims that the behavior of bureaucrats can be better explained in terms of competition and exchange than in terms of commands and obedience (Breton and Wintrobe, 1982, p. 3), Wintrobe (1998, pp. 316 ff.) presents an analysis of the Third Reich which interprets the regime's dynamism as the outcome of competition among its bureaucratic agencies. Taking the insight into account that areas of responsibility in the Nazi bureaucracy were frequently overlapping and that commands emanating from the top were often imprecise and left much room for interpretation (cf. Hüttenberger, 1976; Kershaw, 1998, pp. 529 ff.), he asserts that

“subordinates in large organizations do not ‘obey orders.’ They are placed in a competitive framework in which they are rewarded for the entrepreneurial initiatives that promote the interests and objectives of their superiors. The more useful they are to their superiors, the larger the rewards. The bureaucratic structure of Nazi Germany itself was extremely competitive, and the bureaucrats [...] who were active in the bureaucracy were energetic, entrepreneurial, and competitive – and, except toward the end, they were intensely loyal to their superiors” (Wintrobe, 1998, p. 329).

The present paper aims at testing this hypothesis using one branch of the Third Reich's bureaucracy, which Wintrobe (1998, p. 317) touches on only in passing, as a case in kind: it analyses the behavior of the bureaus engaged in the formulation of economic policies. Because of the large number of agencies

involved in this field of politics,¹ the paper restricts itself to examining just four of them which had special importance in the pre-war years: on the one hand it analyzes the German Labor Front (Deutsche Arbeitsfront, DAF) – the Nazi substitute for the trade unions – and the Reich Sustenance Corporation (Reichsnährstand, RNS) – a mega-organization which brought together producers and retailers of food. On the other hand the Ministries of Economic Affairs and Employment are examined. The article thus covers agencies which were established in the gray area between the state and the party after Hitler had come to power as well as bureaus which belonged to the traditional central administration. Hence, it can be reasonably assumed that the behavior of the actors working in these agencies was representative of the regime as a whole.

In testing the hypothesis that bureaus in Nazi Germany were competing with each other and that their heads acted in an entrepreneurial fashion, the paper proceeds as follows. In a first section (chapter 2), Wintrobe's idea of bureaucratic competition in the Third Reich is presented and made more explicit. Subsequently (in chapter 3), the hypotheses contained in this model are compared to political processes which appear in sources from the Third Reich. In a final section (chapter 4), loose ends are tied up and the arguments of the paper are summarized.

¹ Among the economic-policy bureaus which are not treated here are the Ministry of Finance, the Office of the Reich Commissioner for Price Control, the Reich Labor Service, the Office of the Inspector General for German Roads and Streets and the "Organization Todt", which was linked to it, the Office for the Implementation of the Four-Year-Plan, the Office for the Economics of Defense, the Ministry of Armament, Albert Speer's Central Planning Office, and the Office of the Inspector General for the Allocation of Labor.

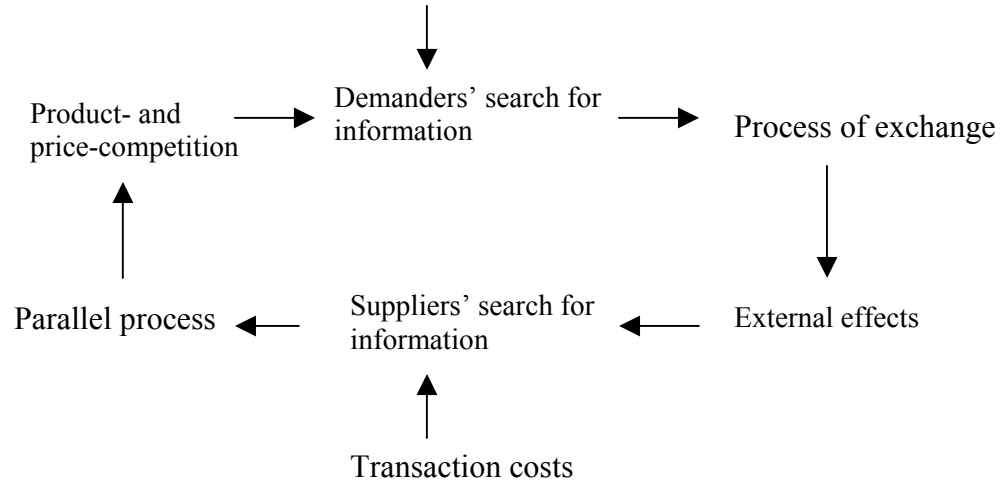
2. Ronald Wintrobe's idea of bureau competition in the Third Reich

Though Wintrobe does not make use of an explicit model of competition in his analysis of the Third Reich, in another major work which stimulated his research in dictatorship Albert Breton and he (1982, pp. 108 f.) rejected neoclassical models which focus on price competition. Instead, the authors gave preference to Austrian concepts of competition where creative and innovative individuals play a central role, that is, to concepts like those developed by Schumpeter (1943/94, pp. 84 f.) and von Hayek (1978). While a similar concept implicitly underlies Wintrobe's analysis of Nazi Germany, his model of competition needs to be made more explicit if his hypothesis is to be tested. For that purpose, a slightly more formal approach based on a recent interpretation of a concept first suggested by Erich Hoppmann (1967, pp. 88 ff.; cf. Streit, 2000, p. 101) seems to be particularly useful. Hoppmann's model draws attention to the fact that competition is a process where actors on both sides of the market interact in a way which leads to the discovery of new solutions to the problem of scarcity. According to it, competition is composed of two interlinked processes, namely

1. of a process of exchange which includes the relations between actors on both sides of the market, that is, between suppliers and demanders, and
2. of a parallel process which includes the relations between actors on one and the same side of the market.

Graphically, the interplay between both processes can be presented like this:

Figure 1: Competition from an Austrian perspective



In the process of exchange, demanders choose goods or services provided by suppliers. Here, they must expend transaction costs in order to acquire information about the several offers and to negotiate transactions. For those suppliers not chosen, the decisions of the demanders create negative externalities which on economic markets take the form of income losses. Externalities, in turn, provide incentives to acquire information about the demanders' preferences. Here, competition becomes effective as a discovery procedure: the substitutional pressure which it exerts forces suppliers to search for ways to satisfy demand better than their competitors, that is, for new solutions to the problem of scarcity. The result is a product- and price-competition which gives the demanders the chance to choose between several offers.

When this model is applied to conditions prevailing within organizations – like for example bureaucracies and dictatorships –, one problem becomes immediately obvious. Usually, the contracts which link the actors on both sides of a market and whose conclusion constitutes the process of exchange are supported by universally applicable institutions which protect property rights, regulate their transfer by consent, and ensure compliance with obligations.

Within hierarchies, no such institutions exist. Hierarchies are based on rules which are not universally valid, but different for the different members of the organization according to the different roles assigned to them (Hayek, 1982, p. 49). Consequently, there are no institutional precautions against breaches of contract. In his analysis of competition within the hierarchy of the Nazi bureaucracy, Wintrobe (1998, pp. 210 ff.) is well aware of this problem. The solution he suggests is based on the idea of networks of loyalty which are formed among the members of the bureaucracy (cf. Breton and Wintrobe, 1982, pp. 62 ff.), loyalty being, in other words, the factor which prevented the members of the bureaucratic agencies from reneging on the agreements they concluded in the competitive process of exchange.

As for the process of competition itself, Wintrobe (1998, p. 317) points out that in the Third Reich, “[s]chemes were constantly put forward by rival power centers or rival entrepreneurs, and Hitler would choose among them. Some were ‘successful,’ others not”. In view of the model of competition presented above, this suggestive remark can be amended by a number of more explicit hypotheses:

1. Within the ill defined hierarchy of Nazi Germany where overlapping areas of responsibility abounded, a kind of political market existed.
2. One side of this market was taken up by bureaucratic agencies (in Wintrobe’s words “rival power centers or rival entrepreneurs”), that is, in the case examined here by the four agencies involved in economic policies which were introduced above.
3. Opposite them, there was one only actor: Hitler, who had at best potential competitors.
4. The bureaus put forward programs and concepts (“schemes”, according to Wintrobe) for economic policies to Hitler.

What would these concepts have had to look like in order to have been acceptable to Hitler? In other words, what did the dictator maximize? In his theory of dictatorship, Wintrobe (1990; 1998, pp. 43 ff.) makes a distinction

between several types of dictators. Most importantly, he distinguishes “tin pot-dictators” like those common in the post-colonial Third World, who maximize material income, from “totalitarians” like Hitler, Stalin, and Mao, who maximize power over the population under their control. This means that like his totalitarian colleagues, Hitler cannot have had any fixed preferences regarding economic policies. Instead,

5. in order to be acceptable to him, the programs and concepts offered by the regime’s economic policy bureaus had to be designed in a way which maximized his power.

In the context of his analysis of Nazi Germany, Wintrobe mentions only in passing what the heads of the bureaus were maximizing: He speaks of “abundant resources” which were put at the disposal of successful bureaus and of possibilities of advancement which were “almost never-ending” (Wintrobe, 1998, p. 316, 324). Still, in other places he is more precise. A central argument in his theory of dictatorship is the hypothesis that dictators are usually forced to buy their supporters’ loyalty by granting them rents (Wintrobe, 1990, p. 865; 1998, p. 49). Consequently, Wintrobe’s theory implies that

6. Hitler offered property rights to the bureaucratic agencies which allowed them to appropriate rents.

This is, in fact, what the resources and the chances of advancement granted to successful bureaus amounted to. Having made the assumptions contained in Wintrobe’s model of bureau competition in the Third Reich more explicit, it becomes possible to deduce two conclusions:

1. In competition, the bureaucratic agencies discovered new ways of satisfying the dictator’s demand for political support. As their support took the form of programs applying to economic policies, these programs were constantly and increasingly adapted to Hitler’s wishes.
2. Because Hitler had a de facto monopsonistic position vis-à-vis the bureaus, he could almost arbitrarily determine the price he paid for their support. There

was only one relevant restriction: the probability that a competitor to himself – that is, another dictator – would enter the market grew when he lowered the price.

Put briefly, the model predicts that over time, Hitler would choose bureaucratic agencies with increasingly lower curves of supply, that is, bureaus who were prepared to supply him with more support at a lower price paid in rents. By first looking at the competitive process of exchange and then analyzing the parallel process, the next section will show whether this prediction is correct.

3. Bureaucracy and economic policy

3.1. The process of exchange

Let's first consider the supply and demand of the bureaucratic actors. As mentioned above, the present analysis restricts itself to pre-war Germany and concentrates on the Ministries of Economic Affairs and Employment, on the German Labor Front and on the Reich Sustenance Corporation. During the first months of the Third Reich, the Ministry of Economic Affairs was led by Alfred Hugenberg,² from June 1933 to June 1934 by Kurt Schmitt, after that by Hjalmar Schacht and, after a brief intermezzo when Hermann Göring took over as acting minister, since February 1938 by Walther Funk (Boelcke, 1983; Herbst, 1993). Franz Seldte stayed Minister of Employment for the whole duration of the regime. The Labor Front was led by Robert Ley (Smelser, 1988; Frese, 1991), the Reich Sustenance Corporation by Walther Darré who, until 1942, held the position of Minister of Agriculture, as well (Corni, 1989). What were the aims of these actors, and what did they demand of Hitler?

At first glance, the behavior of Nazi bureaus which shows up in the sources does not seem very closely to correspond to Wintrobe's assumptions. Rather, it agrees with hypotheses put forward by Anthony Downs (1965) in his contributions to the theory of bureaucracy. According to Downs, the utility function of bureaucrats is made up of factors like sloth, loyalty, pride in a high level of performance, and of the creation of "territories", that is, of autonomous decision-making powers defined by property rights. Territories in this sense had really prime importance, as became evident for the first time when the question arose who should control the obligatory professional associations created since 1933 (Esenwein-Rothe, 1965, pp. 39 ff.). In August 1934, the association of traders in imported groceries of Chemnitz, a medium sized town in Saxony,

² Until his resignation in June 1933, Hugenberg was also Minister of Agriculture.

published a circular for its members. “There is still no clarity”, it said. “In Berlin, two powers are fighting with each other: the Minister of Agriculture and the Minister of Economic Affairs. Who will be the winner? Until today, nobody knows where the grocers belong” (BArch, R 3101/9043, p. 19).³ Two days later, another circular asked: “What is up in Berlin? What is the game at the government’s table? The fight has been swaying to and fro for weeks now: register with the Reich Sustenance Corporation, don’t register, register, don’t register, and so on. Now who has the right to demand that, and who has not?” (BArch, R 3101/9043, p. 20).

While the bureaus engaged in this squabble just tried to add one business branch to their respective territories, the argument between the Ministry of Economic Affairs and the DAF touched more fundamental questions. After assuming office, Schacht remodeled the obligatory business associations founded by his predecessor and brought them together in a new umbrella “Organization of Commerce and Industry” (*Organisation der gewerblichen Wirtschaft*) (Schweitzer, 1964, p. 254; Esenwein-Rothe, 1965, p. 65). In spite of this organization being under the Ministry of Economic Affairs, the Labor Front saw a chance to intervene (Lölhöffle, 1965, pp. 175 ff.). In June 1936, Schacht complained to Ley: “Lately, news multiply that functionaries of the German Labor Front [...] are claiming that the Organization of Commerce and Industry will shortly disappear and will be absorbed by the German Labor Front. [...] Such intentions of the Labor Front are already discussed by the public and by the press, too” (BArch, R 3101/10314, p. 61). Schacht pointed to the rumor “that these activities of your functionaries are due to recent directives of the Labor Front leadership, and that you, too, have adopted this claim” (BArch, R 3101/10314, p. 60). Schacht obviously feared that Ley was about to take over the competence to shape commercial and industrial policies as a whole.

³ Shelf-marks of sources from the Bundesarchiv (Federal Archive) in Berlin-Lichterfelde are cited “BArch”. R 3101 designates files from the former Ministry of Economic Affairs.

The circular of the imported grocery's traders' association of Chemnitz shows that what was at stake in these quarrels was the issue who should have the right to act in certain ways and who not. Specifically, two types of property rights were relevant here. On the one hand, the bureaus competed for rights which gave them the power to determine certain aspects of the behavior of individual concerns, business branches or whole sectors of the economy, and which thereby circumscribed the territories they tried to aggrandize. On the other hand, there were rights which allowed the bureaus to appropriate resources at the expense of some third party (the identity of this party being defined by the rights of the first type just mentioned).⁴ Such rights were in demand because in order to exercise the rights which delineated the bureaus' territories, an administrative apparatus of some size was needed: beginning with local farmers' leaders of the Reich Sustenance Corporation and small Labor Front functionaries to the business branch leaders of the Organization of Commerce and Industry and finally up to Reich Commissioners or Inspectors General appointed to solve specific problems. By 1938, the RNS alone was supporting 20- to 30 000 functionaries, spending over 70 million Marks per year on the upkeep of its organization (Corni, 1990, p. 74). The need to acquire these funds explains the general interest in the formation and control of obligatory business associations. Thus, a closer examination shows that Wintrobe's assumptions do, after all, agree with what the sources show. Appropriating rents was really of prime importance for the bureaucratic agencies.

Their rent seeking was, in fact, a variant of the budget maximizing endeavors of bureaus stressed by the Niskanen-school of bureaucratic theory. Usually, this theory is focussing on the budgetary means bureaus demand of their political principals (cf. Niskanen, 1971/94). In the present case, this demand was obviously relatively unimportant because many bureaus had their own means and income which made them independent of financial support by the government.

⁴ While initially both types of rights were closely linked, they might become separated over time. This was important for the behavior of the bureaus in the process of exchange.

The DAF and the RNS, for example, had taken over the property of the trade unions and of the traditional farmers' associations, respectively (Lölhöffle, 1965, p. 157; Corni, 1990, p. 73). Additionally, both organizations collected subscriptions of their members. Thus, the bureaucratic agencies of the Third Reich did not maximize their budget in the narrow sense of the word but rather the rents which they could appropriate with the help of the property rights they demanded of Hitler. For the dictator, this was convenient: he did not have to draw on the government's budget in order to buy an economic policy program devised by one of the bureaus, but could pass on the costs to the population. In so far, the rents granted to the bureaus equaled additional and discriminatory taxes. Note that the aims of the bureaucratic agencies were at least in part mutually exclusive. In commercial or industrial policies, only Schacht or Ley could have the last word, and when the Reich Sustenance Corporation annexed a business branch, Darré gained competencies which the Minister of Economic Affairs could then not exert any longer. Put briefly: as the actors were trying to appropriate property rights which could not be divided, the gain of one implied, as an external effect, the loss of the other.

So much for the demand of the bureaucratic agencies. What was Hitler demanding on the opposite side of the market? In order to answer this question, it is helpful to consider what the bureaus were producing. Here, concepts and programs which applied to economic and social policies and which at least in part widely differed from each other were really prominent. As pointed out by Wintrobe (1998, p. 319), divergence was possible because Hitler used to reveal his political demands only in a very concealed way. For example, when he demanded in February 1933 that "within four years the German farmer must be saved from impoverishment" and that "in four years, unemployment must be overcome" (Thamer, 1994, p. 470), this did not only leave much room for interpretation, but also for the development of widely different solutions and ideas. A few years later, Ley himself confessed that "it was not as if we had had a finished program which we could have pulled out and used to set up the Labor

Front. Rather, the Führer ordered me to take over the trade unions, and then I had to see what to make of them” (Thamer, 1994, p. 496). What Ley set up initially was an umbrella organization for semi-autonomous corporations not only of workers, but of employers, too (Bruns, 1937, pp. 20 f.; Barkai, 1990, p. 123; Frese, 1991, p. 74). At the same time, the leader of the Reich Sustenance Corporation and Minister of Agriculture, Darré, advocated a program which amounted to the de-urbanization and de-industrialization of Germany (Schoenbaum, 1968/80, p. 198; Grundmann, 1979, p. 24; Corni, 1990, p. 22). As minister of economic affairs, Hugenberg was unwilling or unable to develop programs of his own (Boelcke, 1983, p. 53), but his successors supported concepts which were hardly compatible with those of Darré and Ley. Schmitt, whose way into office Göring cleared by ousting Otto Wagener – a Nazi ideologist and theoretician of the corporatist state (Barkai, 1990, p. 109; Boelcke, 1983, p. 67) –, was rather more oriented towards a market economy, and Schacht proved from the start to be a friend of big business (Schweitzer, 1964, p. 255; Boelcke, 1983, pp. 82 f.). Thus, the bureaus did not only spare Hitler the effort of formulating his own program for economic policy, but also let him choose between their concepts; moreover they carried part of the costs of implementing them. This was how they rendered him political support. When Weber’s (1978, p. 53) definition of power as being in a position to carry out one’s own will despite resistance is considered, it becomes evident that this support considerably increased the power Hitler could exert in matters of economic policy.

The dictator probably knew the economic programs put forward by the bureaus quite well. As they wanted to be chosen by him, it was in their interest to keep him informed and to carry the transaction costs involved here.⁵ However, what determined Hitler’s choice of program? If the explicit form of Wintrobe’s model which is presented above is correct, he would select the scheme which

⁵ Creating multiple and overlapping zones of responsibility allows political principals to reduce informational asymmetries between them and their bureaucratic agents. This strengthens the principals’ relative power (Wintrobe, 1997, p. 436).

helped him to maximize the support rendered to him – this, and not the expected economic consequences of the programs offered to him was the relevant factor. On the basis of this assumption the sometimes erratic political decisions of the regime can indeed be explained quite well. Thus, it is of course possible that Hitler's refutation of concepts of the corporatist state and economy in the second half of 1933 and his swing to an economic policy which, though creating numerous interventionist instruments, did at least initially not destroy market mechanisms (Blaich, 1971, p. 9), was due to the insight that neither rearming nor reducing unemployment would be possible with the help of policies like those initially pursued by Ley (cf. Barkai, 1990, p. 110). It is, however, at least as likely that Hitler just realized that while his regime was still consolidating, he needed the support of actors like Schmitt who were on good terms with big business and had some standing abroad, too (Feldman, 2001, pp. 104 f.). Still, if Hitler wished to gratify or placate old comrades who advocated different economic programs, he could make concessions to them, as well. Thus, in October 1934 he signed a declaration prepared by Ley which conferred important responsibilities in economic and social policies to the DAF, among them the right to mediate between employers and employees and "to find that settlement which corresponds to national-socialist principles" (Reichsorganisationsleiter der NSDAP, 1937, pp. 185 ff.). This could be interpreted as if the Labor Front was from now on to determine wages. Understandably, both the Ministry of Economic Affairs and of Employment went into an uproar (Broszat, 1983, p. 152). If an agency impressed Hitler by proceeding against competitors with particular ruthlessness, thereby promising to support him with more than average energy, he could also choose this bureau's program. Such a decision could always be justified with social-Darwinist arguments which were a central component of Hitler's ideology (Weiß, 1993, p. 75). Though the schemes put forward by the bureaus examined here do not seem to have been chosen according to this "principle of letting agencies grow until the strongest gains acceptance", as a leading party functionary called it in 1942 (Mommsen,

1976/2001, p. 260), the actors were certainly well aware of the criteria on which Hitler based his choice, and behaved accordingly. Some instances of this are discussed in detail below.

Regardless of what determined Hitler's choice of economic policy, his decisions always constituted an implicit contract between him and the bureau he favored and to whom he either granted new property rights or confirmed old ones. So, how about Wintrobe's hypothesis that it was loyalty which prevented the violation of these contracts? In fact, if Hitler and the heads of the bureaus considered here were really linked by feelings of loyalty, the relationship must have been extremely one-sided. Clearly, loyalty did not prevent Hitler's repeated switch from one bureaucratic agency to another. His grant of new rights to Ley in October 1934, which was previously discussed neither with the Ministry of Economic Affairs nor with the Ministry of Employment, shows that the dictator was in principle prepared to exchange policies he had chosen for those offered by other bureaus when this suited him.⁶ However, while the inverse case – the switch of a bureaucratic agency to a different demander of economic programs – never occurred, this need not have been due to any feelings of loyalty on the side of the heads of the bureaus. The following chapter shows that loyalty is, in fact, not a necessary argument in the explanation of the behavior of the Third Reich's bureaucratic agencies.

3.2. The parallel process

Above, it has been suggested that Hitler was the only demander of political support rendered to him in the form of economic programs, having, in other words, a monopsony. In fact, no leader of any bureaucratic agency examined here ever considered to offer his support to anybody but him. Even for a totalitarian dictator, such a strong position was unusual. In Italy, for example, during the whole of Mussolini's reign the king and the fascist grand council

functioned as alternative focal points for the loyalty of the subjects. What is more, they became effective as such in 1943 when Badoglio deposed the dictator and led Italy out of her alliance with Germany. Thus, the German case evidently needs explaining.

Leaving for the moment Wintrobe's loyalty-hypothesis aside, it is obvious that one problem which potential dissidents in every dictatorship face is that of collective action (cf. Olson, 1965). One need not think of a mass movement whose emergence can be prevented by any dictator with a reasonably efficient police force, but just of actors from within the regime (Tullock, 1987, p. 396), that is in the German case, of the heads of the bureaucratic agencies. Since Hitler's removal from office would have constituted a public good, the usual free-riding-problems would have arisen even if all bureaus had been equally interested in the dictator's overthrow. If, however, the head of one agency would have had a particular interest in ousting Hitler, he would have needed to offer something to the others in order to persuade them to cooperate. Here, he would have had only one option: he would have had to promise them to grant them at least as many property rights as they could obtain from Hitler. Quite apart from the problem of making such a promise credible, there were few incentives for the other bureaucratic agencies to accept such an offer which would, moreover, have been fraught with considerably risk. Thus, the fact that collective action with the aim of deposing the dictator was difficult to bring about goes a long way in explaining why Hitler's position was so strong.

Still, the argument is no sufficient explanation. After all, it is valid for all hierarchies which lack institutionalized procedures for filling the leading position, that is, for most dictatorships, too, which are obviously not immune to coups. However, if Hitler's strategy in the parallel process is taken into account, it becomes possible to explain his exceptionally strong position. Two aspects of his strategy were of special importance:

⁶ Other examples are Hitler's switch from Schacht to Göring in 1936/37 and his switch from Göring to Speer in 1941/42.

1. Hitler's propaganda-oriented view of politics made it difficult for him to admit to wrong decisions, including decisions in the area of personnel policy (Kershaw, 1998, p. 532). In consequence he tended not openly to degrade the heads of bureaus who lost his favor (Ernst Röhm, whom he had murdered in July 1934, being an obvious exception to the rule), but to allow them to continue appropriating the rents connected with the station they had reached within the regime (Weiß, 1993, p. 71). Ley, for example, whose original ambitious plans for the Labor Front were soon discarded, remained leader of the DAF and had the chance to develop other concepts for social and economic policies which he could try to sell to his Führer.⁷ The establishment of Göring's Office for the Implementation of the Four-Year-Plan in 1936 – designed to further German autarky – precipitated Schacht's fall from power, but not his dismissal. He left the Ministry of Economic Affairs on his own account. Darré lost practically all his original influence on agricultural policy when his devious permanent secretary Herbert Backe became a creature of Göring, being enticed by a high post in the Office for the Implementation of the Four-Year-Plan. Still, Darré could continue to style himself Reich Farmers' Leader and head the Reich Sustenance Corporation (Broszat, 1983, p. 301; Lehmann, 1993, p. 6; Corni, 1990, p. 247). Thus, actors who were beaten by their rivals lost only part of the property rights they had acquired at some earlier point in time in the process of exchange: they lost the rights which defined their territories, but not those which allowed them to appropriate rents at the expense of some third party. The fact that they could retain these rights reduced the incentives to invest into the establishment of an alternative demander for the political concepts they had developed.

⁷ The Labor Front developed into a mega-organization engaged in spreading Nazi propaganda among workers, brightening up workrooms, organizing professional contests among firms, and providing vacation trips and homes for employees (Frese, 1991). It also developed more directly economic interests, using the property of the trade unions which it had expropriated to establish the Volkswagen-works in Wolfsburg (Mommsen and Grieger, 1996, p. 33).

2. Hitler prevented any attempt to replace the constitution of the Weimar Republic, which had de facto, if not de jure, been repealed in spring 1933, by a new national socialist constitution. During the initial years of Nazi power it was primarily the Minister of the Interior who tried to create a highly centralized state by implementing such a reform. However, by the time of the Röhm purge at the latest, Hitler seems to have realized that new political institutions would not only strengthen the traditional central bureaucratic apparatus, but would also circumscribe his own arbitrary power (Broszat, 1983, p. 119). Among the consequences of his decision to terminate a “Reich Reform” was one which he probably did not foresee: He thereby impeded the emergence and efficiency of institutions which could have prevented the bureaus from appropriating politically relevant property rights without his explicit consent. This, too, reduced incentives to make an effort in order to oust Hitler.

Both strategies reduced the probability that an alternative demander of programs for economic policies would enter the market. Because the existence of a rival potential dictator would have been a necessary condition for the bureaus to be able to renege on the contracts they had concluded with Hitler, it is possible to explain the fact that no head of any bureaucratic agency ever considered violating a contract without assuming that the actors were linked by feelings of loyalty. Loyalty may, of course, have existed, but it is not a necessary argument.

Hitler's strategies, particularly his tacit acceptance of the non-authorized appropriation of property rights, had direct consequences for how the actors on the other side of the market behaved in the competitive parallel process, too. When the bureaus tried to gain an advantage over their rivals, this was the option they were most likely to choose. Which methods they employed in this context can be demonstrated using the activities of the Reich Sustenance Corporation as a case in kind. The RNS did not only aim at controlling agriculture, but also the trade in food. Here, it got into a dispute with the Ministry of Economic Affairs concerning control over firms which were trading in imported groceries and

which were organized in the Reich Association of Retailers in Colonial Goods (Rekofei). In May 1934, Schmitt had made membership in the Rekofoei obligatory, and by July of that year about 130 000 firms had joined the association (BArch, R 3101/9043, p. 59). On July 8, a meeting was held in Bitterfeld in present-day Sachsen-Anhalt where a local functionary of the RNS declared that “he was not in the least interested in where retailers in groceries were to be organized. Since April 1, 1934, every grocer trading in the Reich Sustenance Corporation’s products, including tropical fruits in their processed forms, was automatically a member of the Reich Sustenance Corporation anyway. Registration was purely a formality. He was completely unable to understand why a special association for retailers in food existed at all. The Rekofoei would be dissolved just like the association of wholesale traders in food, that was dead certain” (BArch, R 3101/9043, p. 51). This tone was harmless as compared to the one adopted by a leading RNS-functionary on a meeting in Berlin, who declared to representatives of the Rekofoei: “There are still concentration camps in Germany, and I will see that these gentlemen will spend some weeks of holiday there” (BArch, R 3101/9043, p. 49). Occasionally the Reich Sustenance Corporation was helped by the police and local authorities in forcing the members of the Rekofoei into registering (BArch, R 3101/9043, p. 59); otherwise it relied on threats of exorbitant fines and prison sentences which were published in the press (BArch, R 3101/9043, p. 188). Schmitt proved unable to put a stop to this development, having to be content with a memorandum which the Minister of Justice compiled for him and which advocated the dual membership of certain business branches in both the Reich Sustenance Corporation and the obligatory organizations of the Ministry of Economic Affairs (BArch, R 3101/9043, p. 174).

After the Nazis had consolidated their power, the bureaucratic agencies chose less ruthless methods but did not change their aims. The Labor Front’s attempt to establish an exchange market for real estate agents which was to be controlled by its own functionaries was typical. The Reich Economy Chamber

(Reichswirtschaftskammer), a sub-organization of the Ministry of Economic Affairs, claimed in 1936 that “exchanging estate agents’ commissions was a purely economic activity which exclusively falls into the competence of the Organization of Commerce and Industry” (BArch, R 3101/10312, p. 44). The DAF, however, played the anti-Jewish card. “In Frankfurt on the Main the struggle between Arian and non-Arian estate agents is particularly fierce”, it maintained. “Even today large transactions are almost exclusively concluded by Jewish agents. Consequently, Arian agents have begun to wish for more joint operations among themselves. [...] Naturally, only Arian estate agents were to be admitted to these joint transactions” (BArch, R 3101/10312, p. 46).

As the Ministry of Economic Affairs did not choose to go against the anti-Semitism propagated by the Labor Front, it had to accept its rival’s intrusions, having to be content with placing a representative of the Organization of Commerce and Industry in the controlling board of the new exchange market (BArch, R 3101/10312, p. 49). Simultaneous events in Saxony show that the Labor Front’s care about the economic well being of “Arian” estate agents was nothing but a pretext. In Dresden, the DAF obstructed the activities of the local organization of estate agents, advancing the archaic argument that they were responsible for “turning German soil into a commodity” (BArch, R 3101/10312, p. 7). Ley’s organization aimed exclusively at pushing back the influence of the Ministry of Economic Affairs, that is, at extending its own territory.

The bureaus who acted in this way obviously hoped that the property rights which they appropriated would be confirmed by Hitler at some later date. As one official put it in 1934: “[...] one who works correctly towards the Führer along his lines and towards his aims will in future as previously have the finest reward of one day suddenly attaining the legal confirmation of his work” (Kershaw, 1998, p. 529). For the reasons discussed above, this would enable the agencies to continue to appropriate their rents even if they lost their actual power to some rival. Because it was well known that Hitler’s choice between competing bureaus depended often on who was most successful in pushing aside rivals and

in usurping property rights (Mommesen, 1991, p. 408; Weiß, 1993, p. 75), the activities described above have to be seen in the context of the parallel process. In fact, they constituted the most important strategy bureaucratic agencies employed in order to defeat their competitors.

As the examination of these strategies shows, bureaus had one option which they chose largely to ignore: They were obviously relatively uninterested in adapting their policy supply to the dictator's demand. At first, this comes as a surprise. The model introduced in section 2 predicts, for example, that after the proclamation of the Four-Year-Plan Schacht would have nothing more urgent to do than to develop even more radical plans for autarky than Göring, thereby trying to regain Hitler's favor. Nothing like that actually happened. Darré, too, did not react to his fall from power by increasing his efforts in competition, rather immersing himself into his ever more absurd blood-and-soil-ideology. Meanwhile, under Backe, the regime's agricultural policy gave increasing attention to efficiency and productivity. In the next chapter the question is answered why bureaus whose offer Hitler spurned did not, as predicted by the model, try to adapt their policies to the dictator's demand.

4. Conclusion: model and reality

How does Wintrobe's idea of bureau competition in Nazi Germany stand up in comparison to what can be gleaned from the sources? Contrasting the model constructed along his lines in section 2 with political processes which actually happened in the Third Reich gives a mixed impression: while the premises of the model find their counterparts in history, the conclusions which can be derived from them do not seem to agree with what the sources show. Briefly, parallels and differences between model and actual history can be summarized like this:

1. As assumed in the model, there was a political market in Nazi Germany on whose sides Hitler and the bureaus faced each other.
2. The bureaus were really exchanging political support in the form of programs and concepts for economic policies for property rights which allowed them to appropriate rents.

So far, the basic structure of the model mirrors actual history with sufficient accuracy. Still, it predicts that the bureaus would compete by investing into the search for new possibilities to satisfy Hitler's demand. In other words: It leads one to expect that the programs devised by the agencies were increasingly geared to the dictator's wishes. Instead, the sources show that

1. in the parallel process, the acquisition of information about the demander's wishes was less important than the non-authorized appropriation of property rights, and that
2. product competition was relatively unimportant; that is, programs for economic policies were not adapted to Hitler's demand.

Also, contrary to Wintrobe's assumptions, feelings of loyalty do not seem to have played an important role in ensuring that the actors conformed to the contracts they concluded. As a matter of fact, the hypothesis that the strategies Hitler chose in the parallel process were sufficient in order to bind the heads of the competing bureaus to their obligations leads to an explanation of why the

predictions of the model differ from actual history. For example, Hitler's tendency to allow bureaus who were beaten in competition to continue appropriating rents did not only reduce incentives to plot his overthrow, but also to invest in the search for information about his wishes regarding economic policies, and to develop corresponding programs. This aspect of Hitler's strategy influenced the intensity of the bureaus' engagement in the parallel process. Even more important was the other aspect, that is, the fact that he tended to back agencies who had usurped property rights with particular ruthlessness. In this way, Hitler did not only reduce incentives to search for ways to satisfy his demand regarding economic policies, but directed the efforts of the bureaus into a completely different direction. Their competition continued to function as a discovery procedure, but what they discovered under the conditions created by Hitler's dictatorship were new ways to usurp politically relevant property rights. As shown above, these ways reached from tacitly appropriating such rights to threatening to send persons affected by the bureaus' activities into the concentration camps.

Thus, Hitler's strategy distorted bureau competition in a several ways. It did not eliminate it: in the last resort, the bureaus aimed at appropriating rents, but in order to do so, they needed at least temporarily to acquire political property rights of both types discussed above, that is, not only rights which allowed them to appropriate resources at the expense of some third party, but also rights which defined their territory. While the third party might be simultaneously exploited by several bureaus, the rights which defined the territory could be exercised only by one agency at a time. Therefore, the bureaus were still competing with each other. However, through his choice of strategy Hitler caused the competitive conflicts between the bureaucratic agencies to be resolved not at the expense of each other, but at the expense of the population who was the victim of the rent seeking of an increasing number of bureaus. Through his choice of strategy, he also destroyed the incentives which otherwise would have induced the bureaus to adapt the schemes they put forward to his

wishes. Thus, ironically, it was Hitler himself who prevented bureau competition from having the effects he desired.

By now, it is possible to answer the question of why the predictions of the model differ from actual history. Competitive markets do not only require some mechanism – be it institutions or loyalty – which protects property rights, safeguards their transfer between the actors, and ensures compliance with contracts. Competitive markets also require rules which assign losses to the losing actors and which prevent the participants from acquiring the scarce goods in a non-contractual way. Such institutions were either destroyed by Hitler – for example when he refused to withdraw rents from bureaus who were beaten by their competitors – or undermined in their effectiveness – as when he allowed the bureaus to appropriate the property rights they were competing for without his explicit consent. In sum: because in Nazi Germany an institutional framework for bureau competition did not exist, Wintrobe's hypothesis is only partly tenable. The bureaus analyzed here did indeed compete with each other. However, their heads were neither “intensely loyal” nor did they behave in a fashion which can be called entrepreneurial in any meaningful sense of the word.

References

- Barkai, Avraham (1990). *Nazi Economics: Ideology, Theory, and Policy*, Oxford, New York, Munich: Berg.
- Blaich, Fritz (1971). *Wirtschaftspolitik und Wirtschaftsverfassung im Dritten Reich*, *Aus Politik und Zeitgeschichte* B8, 3-18.
- Boelcke, Willi Alfred (1983). *Die deutsche Wirtschaft 1930-1945: Interna des Reichswirtschaftsministeriums*, Düsseldorf: Droste.
- Breton, Albert and Ronald Wintrobe (1982). *The Logic of Bureaucratic Conduct: An Economic Analysis of Competition, Exchange, and Efficiency in Private and Public Organizations*, Cambridge, London, New York: Cambridge University Press.
- Broszat, Martin (1983). *The Hitler State: The Foundation and Development of the Internal Structure of the Third Reich*, London, New York: Longman.
- Bruns, Paul (1937). *Vom Wesen und der Bedeutung der Deutschen Arbeitsfront: Ein Beitrag zu ihrer Würdigung als Wegbereiterin einer neuen deutschen Sozialordnung*, Leipzig: Joh. Moltzen.
- Corni, Gustavo (1989). Richard Walther Darré - Der 'Blut-und-Boden'-Ideologe, in: Ronald Smelder/Rainer Zitelmann (eds.), *Die braune Elite: 22 biographische Skizzen*, Darmstadt: Wissenschaftliche Buchgesellschaft, 15-27.
- Corni, Gustavo (1990). *Hitler and the Peasants: Agrarian Policy of the Third Reich, 1930-1939*, New York, Oxford, Munich: Berg.
- Downs, Anthony (1965). *Non-Market Decision making: A Theory of Bureaucracy*, *American Economic Review: Papers and Proceedings* 55, 439-446.
- Esenwein-Rothe, Ingeborg (1965). *Die Wirtschaftsverbände von 1933 bis 1945* (Schriften des Vereins für Socialpolitik, NF 37, , Berlin: Duncker & Humblot.

- Feldman, Gerald D. (2001). Die Allianz und die deutsche Versicherungswirtschaft im Nationalsozialismus 1933 - 1945, München: Beck.
- Frese, Matthias (1991). Betriebspolitik im "Dritten Reich": Deutsche Arbeitsfront, Unternehmer und Staatsbürokratie in der westdeutschen Großindustrie 1933-1939 (Forschungen zur Regionalgeschichte 2, ed. by Karl Teppe), Paderborn: Schöningh.
- Grundmann, Friedrich (1979). Agrarpolitik im "Dritten Reich" (Historische Perspektiven 14, ed. by Bernd Martin/Hans-Jürgen Puhle/Wolfgang Schieder et al.), Hamburg: Hoffmann & Campe.
- Hayek, Friedrich August von (1978). Competition as a Discovery Procedure, in: *ibid.*, New Studies in Philosophy, Politics, Economy and the History of Ideas, London: Routledge & Kegan, 179-190.
- Hayek, Friedrich August von (1982). Law, Legislation and Liberty: A new statement of the liberal principles of justice and political economy, vol. 1: Rules and Order, London: Routledge.
- Herbst, Ludolf (1993). Walther Funk - Vom Journalisten zum Reichwirtschaftsminister, in: Ronald Smelser/Enrico Syring/Rainer Zitelmann (eds.), Die Braune Elite II: 21 weitere biographische Skizzen, Darmstadt: Wissenschaftliche Buchgesellschaft, 91-102.
- Hopmann, Erich (1967). Wettbewerb als Norm der Wettbewerbspolitik, *ORDO - Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft* 18, 77-94.
- Hüttenberger, Peter (1976). Nationalsozialistische Polykratie, *Geschichte und Gesellschaft* 2, 417-442.
- Kershaw, Ian (1998). Hitler, vol. 1: 1889-1936: Hubris, New York, London: W.W. Norton & Co.
- Lehmann, Joachim (1993). Herbert Backe - Technokrat und Agrarideologe, in: Ronald Smelser/Enrico Syring/Rainer Zitelmann (eds.), Die Braune Elite II: 21 weitere biographische Skizzen, Darmstadt: Wissenschaftliche Buchgesellschaft, 1-12.

- Löhlhoffel, Dieter von (1965). Die Umwandlung der Gewerkschaften in eine nationalsozialistische Zwangsorganisation, in: Ingeborg Esenwein-Rothe (ed.), Die Wirtschaftsverbände von 1933 bis 1945, Berlin: Duncker & Humblot, 145-184.
- Mommsen, Hans (1976/2001). Ausnahmezustand als Herrschaftstechnik des NS-Regimes, in: *ibid.*, Von Weimar nach Auschwitz: Zur Geschichte Deutschlands in der Weltkriegsepoche, München: Ullstein, 248-267.
- Mommsen, Hans (1991). Nationalsozialismus als vorgetäuschte Modernisierung, in: *ibid.*, Der Nationalsozialismus und die deutsche Gesellschaft: Ausgewählte Aufsätze. Zum 60. Geburtstag herausgegeben von Lutz Niethammer und Bernd Weisbrod, Reinbek bei Hamburg: Rowohlt, 405-427.
- Mommsen, Hans and Manfred Grieger (1996). Das Volkswagenwerk und seine Arbeiter im Dritten Reich, Düsseldorf: Econ.
- Niskanen, William A. (1971/94). Bureaucracy and Representative Government, in: *ibid.*, Bureaucracy and Public Economics, Aldershot: Elgar, 3-230.
- Olson, Mancur (1965). The Logic of Collective Action: Public Goods and the Theory of Groups, Cambridge/Mass., London: Harvard University Press.
- Reichsorganisationsleiter der NSDAP, ed. (1937). Organisationsbuch der NSDAP. 3. impr., München: Franz Eher Nachf.
- Schoenbaum, David (1968/80). Die braune Revolution: Eine Sozialgeschichte des Dritten Reiches, München: dtv.
- Schumpeter, Joseph A. (1943/94). Capitalism, Socialism and Democracy, London, New York: Routledge.
- Schweitzer, Arthur (1964). Big Business in the Third Reich, London: Eyre & Spottiswoode.
- Smelser, Ronald (1988). Robert Ley: Hitler's Labor Front Leader, Oxford, New York, Hamburg: Berg.
- Streit, Manfred E. (2000). Theorie der Wirtschaftspolitik. 5. impr., Düsseldorf: Werner.

- Thamer, Hans-Ulrich (1994). *Verführung und Gewalt: Deutschland 1933-1945* (Siedler Deutsche Geschichte). 2. impr., Berlin: Siedler.
- Tullock, Gordon (1987). Autocracy, in: Gerard Radnitzky/Peter Bernholz (eds.), *Economic Imperialism: The Economic Approach Applied Outside the Field of Economics*, New York: Paragon House, 365-381.
- Weber, Max (1978). *Economy and Society: An Outline of Interpretative Sociology*, vol. 1, Berkeley, Los Angeles, London: University of California Press.
- Weiß, Hermann (1993). Der "schwache" Diktator: Hitler und der Führerstaat, in: Wolfgang Benz/Hans Buchheim/Hans Mommsen (eds.), *Der Nationalsozialismus: Studien zur Ideologie und Herrschaft*, Frankfurt: Fischer, 64-77.
- Wintrobe, Ronald (1990). The Tinpote and the Totalitarian: An Economic Theory of Dictatorship, *American Political Science Review* 84, 3, 849-872.
- Wintrobe, Ronald (1997). Modern Bureaucratic Theory, in: Dennis C. Mueller (ed.), *Perspectives on Public Choice: A Handbook*, Cambridge: Cambridge University Press, 429-454.
- Wintrobe, Ronald (1998). *The Political Economy of Dictatorship*, Cambridge: Cambridge University Press.

LONDON SCHOOL OF ECONOMICS
ECONOMIC HISTORY DEPARTMENT WORKING PAPERS

(from 2002 onwards) For a full list of titles visit our webpage at

<http://www.lse.ac.uk/>

2002

- WP67 Precocious British Industrialization: A General Equilibrium
 Perspective
 N. F. R. Crafts and C. Knick Harley
- WP68 Social Insurance Regimes: crises and ‘reform’ in the Argentine and
 Brazil, since c. 1900
 Colin M. Lewis and Peter Lloyd-Sherlock
- WP69 Can profitable arbitrage opportunities in the raw cotton market explain
 Britain’s continued preference for mule spinning?
 Timothy Leunig

2003

- WP70 The Decline and Fall of the European Film Industry: Sunk Costs,
 Market Size and Market Structure, 1890-1927
 Gerben Bakker
- WP71 The globalisation of codfish and wool: Spanish-English-North
 American triangular trade in the early modern period
 Regina Grafe
- WP72 Piece rates and learning: understanding work and production in the
 New England textile industry a century ago
 Timothy Leunig
- WP73 Workers and ‘Subalterns’. A comparative study of labour in Africa,
 Asia and Latin America
 Colin M. Lewis (editor)
- WP74 Was the Bundesbank’s credibility undermined during the process of
 German reunification?
 Matthias Morys

- WP75 Steam as a General Purpose Technology: A Growth Accounting Perspective
Nicholas F. R. Crafts
- WP76 Fact or Fiction? Re-examination of Chinese Premodern Population Statistics
Kent G. Deng
- WP77 Autarkic Policy and Efficiency in Spanish Industrial Sector. An Estimation of the Domestic Resource Cost in 1958.
Elena Martínez Ruiz
- WP78 The Post-War Rise of World Trade: Does the Bretton Woods System Deserve Credit?
Andrew G. Terborgh
- WP79 Quantifying the Contribution of Technological Change to Economic Growth in Different Eras: A Review of the Evidence
Nicholas F. R. Crafts
- WP80 Bureau Competition and Economic Policies in Nazi Germany, 1933-39
Oliver Volckart