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Author(s): A. O. Ritschl

Source: *The Economic History Review*, New Series, Vol. 54, No. 2 (May, 2001), pp. 324-345

Published by: [Wiley](#) on behalf of the [Economic History Society](#)

Stable URL: <http://www.jstor.org/stable/3091909>

Accessed: 02/05/2013 11:01

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*Nazi economic imperialism and the exploitation of the small: evidence from Germany's secret foreign exchange balances, 1938–1940*¹

By A. O. RITSCHL

Germany played a major part in the disintegration of international finance and trade during the 1930s. Pressed by chronic current account deficits and driven by an ideology that aimed to establish hegemony over Europe, Nazi Germany channelled its foreign trade and financial relations into a rigid, system of bilateral trade and clearing agreements. Contemporary observers as well as later scholarly research have claimed that during the 1930s Germany successfully geared this system towards the economic exploitation of its trading partners.² Hirschman pointed out that Germany was often the largest trading partner of the smaller European countries and generalized this into a theory of monopoly power in international trade.³ Later, Child analysed the bilateral clearing system and claimed that Germany abused these arrangements in order to extract both financial and real resources from its smaller trading partners.⁴ These older debates generated an orthodoxy that persisted for decades and that is still reflected in more recent studies.⁵

An alternative perspective that has only recently gained recognition was developed by Neal who observed that the terms of trade implicit in Germany's trading arrangements were not necessarily biased towards German advantage. The evidence found by Neal seemed to square well with a political perspective developed earlier by Milward who had argued that by investing resources in order to build up its informal economic empire during the 1930s, Germany sacrificed short-term economic advantage.⁶ More recently, Kitson argued from inspection of the structure of German foreign trade before the war that Germany sacrificed terms of

¹ While I was at Universitat Pompeu Fabra, Barcelona, work on this article received generous financial support from the Spanish Ministry of Education's DGICYT programme, project PB94-1101, which is gratefully acknowledged. I also thank Steve Broadberry, Nick Crafts, Larry Neal, and the late Adam Klug for helpful comments.

² For contemporary writing on the German foreign exchange system, see, e.g., Einzig, *Bloodless invasion*; Ellis, *Exchange control*.

³ Hirschman, *National power*, ch. 1.

⁴ Child, *Exchange control*.

⁵ See, e.g., Schröder, *Deutschland und die Vereinigten Staaten*; Wendt, *Economic appeasement*; and Grenzebach, *Informal empire*.

⁶ See Neal, 'Clearing agreements'; Milward, 'Reichsmark bloc'; and the criticism of Wendt, 'Südosteuropa'.

trade advantages for political influence, an argument that has been adopted also by Feinstein, Temin, and Toniolo in their textbook account of the European economy between the wars.⁷

What the existing literature has in common, though, is a lack of quantitative evidence sufficient to establish one point or another. As the Nazi administration kept the essential data on the balance of payments secret from 1936 on, only the foreign trade statistics are available from published sources for the late 1930s. However, a rich database on the other components of the balance of payments has survived in the archives, and only very small portions have been published in later statistical work.⁸ This article aims to employ that archival material to fill the gap and provide a more quantitative re-examination of the exploitation hypothesis.

The focus is primarily on the unpublished payments and foreign exchange balances from the records of Germany's ministry of commerce which survived in West Germany's national archive. These files include the aggregate balances of payments and of foreign exchange from 1936 to 1941 and a set of bilateral foreign exchange accounts with no less than 35 countries for the period from 1938 to 1940.⁹ This is precisely the time span for which the published sources provide only foreign trade statistics. The additional element covered by the unpublished material includes, first, the missing components of the balance of payments, such as transfers and capital movements, and second, the balances of foreign exchange outlays and receipts by country, broken down by balance-of-payments categories and transactions on clearing account compared with convertible foreign exchange. Analysis of these data makes it possible to obtain a rich picture of the trade and payments flows of Nazi Germany before the Second World War.

Examination of these and complementary sources on German foreign trade and exchange policies just before the outbreak of the Second World War lends support to the more recent contributions to the debate mentioned above. The results suggest that foreign trade policy alone was not sufficient for Germany to establish the exploitation of the small. As a rule, exploitation appears to have begun only after the military occupation of a given country, but then on a massive scale.

The remainder of this article is structured as follows. Section I introduces the conflicting basic hypotheses and measurement concepts. Section II provides the summary data on foreign exchange balances for 1938-40 and calculates structural balance of payments deficits. Section III surveys the cross-country evidence on Germany's balance of payments deficits as broken down by convertible cash and clearing account balances. By comparing net resource transfers on current account with cash transfers,

⁷ See M. Kitson, 'The move to autarky' (Dept. of Applied Economics, Univ. of Cambridge, working paper no. 9201, 1992); Kitson and Solomou, 'Bilateralism'; Feinstein et al., *European economy*.

⁸ The most notable of these is the volume of historical statistics edited by the Bundesbank, *Geld- und Bankwesen*, which includes valuable data on the blocked mark accounts.

⁹ German Federal Archives, R7/3068, R7/3629. An evaluation of the balances of payments is Ritschl, 'Zahlungsbilanz'.

an indication is obtained of the extent to which the system of bilateralized trade worked as an exploitation device. Section IV turns to the dependence of the smaller countries of central Europe on foreign trade with Germany. It is argued that most of this trade resulted from the loss of Russia as their main trading partner after the communist revolution. Section V considers the regional patterns of Germany's international trade. It turns out that Germany's eastward trade offensive, which played such a prominent role in contemporary propaganda, is hard to detect in the data. In Section VI the commodity structure of German wartime trade is examined briefly. Section VII complements this with an intertemporal perspective to argue that German autarky policy in the 1930s was largely a selective retreat from financial relations with the western powers. Section VIII concludes.

I

Three traditional views appear to have dominated the discussion on Nazi foreign trade policies. Most likely, none of these hypotheses has been put forward in the literature in the simplified fashion in which it is presented here. Nevertheless it seems that even the abridged theses to be sketched here cover a considerable part of what has been conventional wisdom on Nazi economic imperialism.¹⁰

The first hypothesis maintains that bilateralism in German foreign trade policies served mostly as a device for exploiting smaller and weaker trade partners. The second suggests that in the course of a policy of economic penetration, Germany systematically reoriented its trade towards east central and south-eastern Europe. Under the heading of 'autarky policy', the third hypothesis cites Germany's import substitution policies in the areas of fuel, rubber, and textiles as examples of a general withdrawal of Germany from its foreign trade relations. This article will attempt to reconsider and evaluate these hypotheses in the light of the records now available, supplemented occasionally by other foreign trade and national account data.

A conceptual difficulty in approaching the problem lies in the choice of appropriate indicators. Child makes ample use of estimates of payment surpluses and deficits accruing to Germany, both on clearing account and in hard currency transactions. This is the main indicator used in section II.

As a yardstick for the measurement of financial exploitation, this article follows Child in assuming that one obvious indicator of German 'strength' would be the net inflow of convertible cash reserves from a supposedly 'weak' country with which clearing accounts existed. In that case, Germany would have managed to attract cash reserves which in turn were needed to purchase scarce commodities from 'strong' countries that successfully refused to engage in trade on clearing account or even

¹⁰ See, e.g., Einzig, *Bloodless invasion*; Ellis, *Exchange control*. The traditional paradigm is restated most clearly in Grenzebach, *Informal empire*.

threatened to impose unilateral clearing on Germany in retaliation for its default on debt service.

Likewise, exploitation in real terms will be examined in the light of Germany's ability to attract real resource transfers through the system of clearing accounts. In contrast to the case of cash surpluses, the structural indicator of strength on the part of Germany will now be a deficit. As clearing accounts established a system of trade credit, sustained deficits could be interpreted as a resource drain to Germany.

The concept used by Hirschman related to measures of market structure as an indicator of monopoly power. Hirschman focused his attention on dependence and preference in foreign trade as the main indicator of market structure; this concept will be employed and its implications re-examined further below.

II

Germany's aggregate balance of foreign exchange for 1938-41 is given in table 1. The accounts provide a breakdown of the various sources and uses of foreign exchange. Despite declining export revenues, surpluses persisted in commodity trade (I), whereas there were structural deficits in services (II).¹¹ Following the accounting system then in use, interest payments were not included in services but are stated separately (III). The deficits in interest payments reflect only that portion of Germany's debt service that was effectively transferred, whether on clearing account or in convertible foreign exchange. Table 2 shows the net inflow of foreign exchange on current account.

The compensating balance position is formed by net inflows of foreign exchange on credit account and changes in reserves. In the case of Nazi Germany, neither of these figures can be employed without qualification. In particular, the category 'Other capital flows' includes considerable foreign exchange revenues from sales of captured foreign assets. In 1938-9, the main entries were proceeds from trade in Austrian and Czechoslovak gold reserves, whereas in 1940 the position included similar capital drains from France.¹² Also, the net flows of foreign currency in cash, shown in table 2, still conceal information, as they include transactions in reichsmarks that left reserves unchanged. For the years 1938 to 1940, more detailed foreign exchange accounts are available from which the actual net balance of foreign exchange may be computed. Subtracting payments in reichsmarks and inflows from sales of captured assets, one arrives at the structural deficit in foreign exchange; its size varied between 0.3 and 1.1 billion RM per year (table 3).

To the initiated, tables 2 and 3 read almost like a chronicle of the main ruptures of Nazi foreign trade policies before Germany's fatal attack

¹¹ German statistics valued exports free on board (fob) and imports including cost, insurance, and freight (cif), thus underestimating the trade balance and overestimating the service balance.

¹² Details in Ritschl, 'Zahlungsbilanz'.

Table 1. *The German foreign exchange balance, 1938-1941 (RM million)*

	1938			1939			1940			1941		
	<i>Credit</i>	<i>Debit</i>	<i>Balance</i>	<i>Credit</i>	<i>Debit</i>	<i>Balance</i>	<i>Credit</i>	<i>Debit</i>	<i>Balance</i>	<i>Credit</i>	<i>Debit</i>	<i>Balance</i>
I Trade	5,198	4,543	+655	5,134	3,647	+1,487	4,558	4,435	+123	5,866	6,128	-262
II Services												
A Cost, insurance, freight	234	960	-726	168	851	-683	54	689	-635	50	984	-934
B Transit trade	455	415	+40	300	270	+30	85	74	+11	114	99	+15
C Travel	80	133	-53	52	84	-32	10	45	-35	10	195	-185
D Other services												
Patents, licences	33	72	-39	30	64	-34	25	40	-15	30	38	-8
Film	6	5	+1	5	4	+1	5	4	+1	9	7	+2
Royalties, pensions, private transfers	—	55	-55	—	106	-106	—	152	-152	—	409	-409
Insurance	56	80	-24	48	69	-21	25	38	-13	29	35	-6
German post office	42	45	-3	36	19	+17	38	22	+16	69	36	+33
Migrant workers	3	19	-16	2	10	-8	1	17	-16	—	15	-15
Political payments	20	60	-40	20	82	-62	20	228	-208	20	1,722	-1,702
Other	38	108	-70	32	129	-97	34	204	-170	74	361	-287
Total II	967	1,952	-985	693	1,688	-995	297	1,513	-1,216	405	3,901	-3,496
III Interest	30	255	-225	20	217	-197	10	135	-125	10	93	-83
IV Capital												
Credit repayment												
Buybacks of scrips and bonds	—	137	-137	—	164	-164	—	195	-195	—	96	-96
New debts	9	—	+9	19	—	+19	9	—	+9	—	—	—
Bequests	45	4	+41	40	8	+32	30	5	+25	30	3	+27
Migration	31	2	+29	46	3	+43	39	3	+36	42	3	+39
Direct investment	—	36	-36	—	40	-40	—	123	-123	—	239	-239
'Other'	1,000	82	+918	351	393	-42	1,505	646	+859	2,138	347	+1,791
Total IV	1,085	261	+824	456	608	-152	1,583	972	+611	2,210	688	+1,522
Total I-IV	7,280	7,011	+269	6,303	6,160	+143	6,448	7,055	-607	8,491	10,810	-2,319
of which												
Cash			+371			+165			+11			-22
Clearing			-102			-22			-618			-2,297

Source: German Federal Archives, R7/3068.

Table 2. *Net foreign exchange accruing on current account, 1938-1941 (RM million)*

	1938	1939	1940	1941
a Unadjusted balance (Table 1, I + II + III)	-555	+295	-1,218	-3,793
less				
b 'Political' transfers	-40	-62	-208	-1,702
c Other transfers remaining	-18	-17	-18	-18
Foreign exchange accruing (+) on current account	-497	+374	-992	-2,073

Notes: row a: Unadjusted balance is sum of net results of I, II, and III in tab. 1. Still inclusive of transfers; row b: 'Political' payments entry as shown in the records. Does not yet include all transfers received; row c: Grants and private transfers.

Source: see tab. 1.

Table 3. *Balance of payment surpluses in cash transactions, 1938-1941 (RM million)*

	1938	1939	1940	1941
I Recorded cash surplus in foreign exchange balance	371	165	11	-22
less				
II Incoming (+) 'free RM'	309	182		-24
gives				
III Addition (+) to reserves	+62	-17		+2
less				
IV Proceeds from selling spoils etc.	1,000	321	1,505	1,127
gives				
V Actual BOP (foreign exchange balance) surplus	-938	338		-1,125

Notes: row I: from table 1. Includes cash payments in foreign exchange and in reichsmarks; row II: international cash payments in reichsmarks; row III: net foreign exchange income; row IV: 1938: mainly proceeds from Austrian reserves, 1939: mainly proceeds from Czech reserves, 1940: mainly proceeds from French reserves; row V: net foreign exchange income excluding sales of foreign reserves.

Sources: for row II and row IV, see tab. 1.

on Russia from mid-1941 onwards.¹³ During the first two years of Nazi rule, Germany was relatively successful in attracting fresh credit, despite repeated extensions of the 1931 standstill agreement on its short-term debt and the de facto default of 1933/4 on its long-term credit.¹⁴ One reason for this may have been Germany's selective repayment of debt, which discriminated against (mostly American) long-term debt in favour

¹³ Petzima, *Autarkiepolitik*, and Teichert, *Autarkie*, are standard references. See also the treatment in James, *German slump*, ch. 10.

¹⁴ The historical account is given, e.g., by James, *German slump*, ch. 10, and by Schuker, *'Reparations' to Germany*. Klug, *Buybacks*, dates the beginning of default as early as 1931, which may be a bit early.

of continuing service on (mostly British) short-term trade credits.¹⁵ As a consequence, Germany's default was only a partial one, and short-term credits such as those negotiated in its clearing arrangements were still in good standing (table 4).

Table 4. *German clearing debt, 1934-1944* (RM million)

	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944
Stock	322	433	349	244	314	335	953	5,001	11,698	20,987	29,908
Flow	322	111	-84	-105	70	21	618	4,048	6,697	9,289	8,921

Sources: Deutsche Bundesbank, ed., *Deutsches Geld- und Bankwesen*, p. 41; German Federal Archives, R7/3636.

Indeed, as table 4 shows, much of the German deficit during the first years accrued on clearing account. This is probably the historical root of the exploitation hypothesis, as it was argued by Child and others that the clearing procedure was accepted only by 'weak' trading partners who could not prevent a real resource transfer to Nazi Germany.¹⁶ The validity of this hypothesis seems questionable for the early 1930s, when massive unemployment throughout Europe rendered the opportunity cost of additional exports to Germany very low. Lending to Germany on clearing account suddenly halted around 1935/6, precisely when many of these economies started to pick up. This was reflected within Germany by a severe foreign exchange crisis and political infighting over the priorities in the use of scarce foreign exchange. Generally, this crisis is seen as having triggered the four-year plan for intensified war preparation.¹⁷

The subsequent years were marked by lack of any credit extensions to Germany, whereas in 1938 and 1939 the deficit was overcome by strong sales of Austrian and Czech reserves. Temporarily, the Anschluss of Austria in 1938 relieved Nazi Germany of much of its resource scarcity, as Austria had been relatively rich in foreign reserves and assets. This helped the Germans to overcome their foreign exchange shortage for more than a year. Economically speaking, the annexation of Austria marked the beginning of Germany's policy of achieving economic growth on the extensive margin through military aggression.

III

Data on the regional distribution of foreign exchange surpluses and deficits are available from 1938 both on clearing account and in cash.¹⁸ The first column of table 5 provides an overview of net inflows of foreign cash reserves by countries and regions in 1938. In that year the Reichsbank avoided insolvency only by selling off 1 billion RM net worth of Austrian foreign assets and reserves.

¹⁵ This is the hypothesis of Schuker, '*Reparations*' to Germany; and also of Wendt, *Economic appeasement*.

¹⁶ Child, *Exchange control*; and notably Einzig, *Bloodless invasion*, and Ellis, *Exchange control*.

¹⁷ The seminal work on this is Petzima, *Autarkiepolitik*.

¹⁸ German Federal Archives, R 7/3068, 3921.

Group I of table 5 includes the Anglo-Saxon countries along with those British colonies available from the sample. With regard to the United States and Great Britain alone, net outflows of hard currency totalled 384 million RM in 1938; the deficit vis-à-vis-group I as a whole amounted to 0.5 billion RM. The second group comprises the countries of western and northern Europe which were later occupied by Nazi Germany; the deficit here is 170 million RM. Italy and the neutral states of Europe, on the one hand, and the countries of the Danube and the Balkans, on the other, are included in groups III and IV, respectively. A fifth group comprises Argentina, Brazil, and Chile, and a sixth includes Turkey, Iran, and the Far East.

As an indicator of German 'strength' table 5 uses the net inflow of convertible foreign exchange into Germany from a supposedly 'weak' country with which clearing accounts existed. In that case, Germany would attract cash reserves which were needed to purchase scarce commodities from 'strong' countries that successfully refused to trade on clearing account or even threatened to impose unilateral clearing. Looking at the figures for 1938 in this way, the striking result is that within Europe, only trade with Sweden yielded notable net revenues to Germany,¹⁹ whereas the only surpluses to be noted overseas were with China and Japan. Germany thus appears to have been in the position of a rather 'weak' trading partner with regard to almost all countries in the sample.

The second column of table 5 repeats the exercise, this time on clearing account. Here, a deficit would be an indicator of 'strength', revealing Germany's ability to attract resources from abroad without really paying.²⁰ Such deficits did indeed exist with respect to most European countries of the sample; only four cases show 'wrong' signs on the clearing account balance. However, this impression must be qualified when these results are compared with cash reserve balances. As a rule, large German deficits on clearing account seemed to be associated with similarly high deficits in cash.²¹

This first attempt at structuring the evidence thus reveals ambiguous results. In this last peacetime year, Germany was not equally successful in imposing economic dominance on its trading partners within the clearing system. As a rule, clearing deficits were accepted by the creditor country only when backed by comparable cash outflows to the country in question. The extent to which the deviations from this rule can be explained is investigated below. The largest deficits in hard currency derived from trade with the victors of the First World War, for whose deliveries Germany had to pay in cash. In 1939, Germany's overall

¹⁹ On this and the particular conditions of German trade with Scandinavia in general, see Wittmann, *Handelsbeziehungen*; Milward, *Fascist economy*.

²⁰ This is the concept underlying the analysis of Child, *Exchange control*.

²¹ The exceptions to this rule are Italy, Hungary, Iran, and Brazil, as well as Finland (with smaller amounts involved). Here, the combination of clearing account deficits and cash surpluses that can be observed in several cases would imply a particular 'weakness' on the part of the country concerned. By the way, the converse situation is also given in two cases, namely, Turkey and Romania.

Table 5. *Cash and clearing surpluses by countries (RM million)*

	1938		1939		1940		1941	1944
	Cash	Clearing	Cash	Clearing	Cash	Clearing	Clearing	Clearing (cumulative)
Group I								
US	-202.7	+3.7 ^a	-16.6	+11.0	-13.1	+0.7		
Britain	-185.2	—	-45.2	—	—	—		
India	-29.0	—	+27.5	—	—	—		
Canada	-35.2	—	-16.6	—	—	—		
Australia	-7.1	—	+6.7	—	—	—		
S. Africa	-0.2	—	+42.8	+0.7	—	—		
Egypt	-9.6	—	+1.9	—	—	—		
	-469.0	+3.7	+0.5	+11.7	-13.1			
Group II								
France	-25.8	—	-7.9	—	+1,386.3	-55.1	-756.7 ^b	-8,532.2 ^b
Netherlands	-72.8	-34.8	-47.4	+44.7	-77.2	-407.3	-830.5	-5,989.6
Denmark	+5.0	+6.1	+4.9	+14.0	-9.3	-213.6	-213.6	-1,421.2
Norway	-3.9	-0.8	+16.6	+3.9	-7.6	+4.0	+46.4	+21.5
Belgium/Luxembourg	-72.8	—	-58.4	—	-46.5	-131.9	-534.5	-4,976.2
	-170.3	-29.5	-92.2	+62.6	+1,246.0	-803.9	-2,288.7	-20,888.7
Group III								
Switzerland	-27.8	-18.4	-23.1	+12.0	-45.2	-26.1		
Italy	-2.0	-25.7	-7.8	-51.4	-18.7	+67.8	-220.7	-147.3
Finland	+2.4	-1.2	+3.9	+0.6	-2.2	+6.6	-94.3	+31.9
Sweden	+15.1	+1.4	+13.0	+38.1	+10.6	+8.2		
	-12.1	-43.9	-14.0	-0.7	-55.5	+56.5		
Group IV								
Yugoslavia	-13.2	-12.6	-8.0	+5.5	-24.0	+40.5	+10.2	-10.5
Serbia							-52.4	-553.1
Hungary	+1.6	-19.1	-5.5	-20.4	-24.3	+50.4	-192.9	-803.7
Romania	-2.1	+12.1	-8.7	-42.3	-32.7	+9.4	-304.4	-1,126.4
Croatia								-1,051.6
Albania								-2.3
	-13.7	-19.6	-22.2	-57.2	-81.0	+100.3	-487.1	-3,547.6

Table 5. *Continued*

	1938		1939		1940		1941 Clearing	1944 Clearing (cumulative)
	Cash	Clearing	Cash	Clearing	Cash	Clearing		
Group IVa								
Slovakia					-5.4	-55.9	-111.5 ^b	-631.7 ^b
Bulgaria					-10.7	+14.9	-171.2	-758.2
Greece					-1.1	-4.9	-53.2	+261.9
					-17.2	-45.9	-335.9	-1,128.0
Group V								
Argentina		-20.6	+2.4	-1.2	-2.0	+14.6		
Brazil	+4.5	-12.4	-5.8	+30.0	-7.7	+5.9		
Chile	-24.0	+0.1	-15.7	-7.3	+0.9	+1.8		
	-39.6	-32.9	-19.1	+21.5	-8.8	+22.3		
Group VI								
Turkey	-2.1	+26.0	-0.9	+27.5	-4.5	-20.0		
Iran	+4.5	-16.0	+5.4	-12.6	+0.1	+25.4		
China	+17.6	—	+10.2	—	-7.6	—		
Manchuria	-28.9	+8.0	-4.8	+10.3	+0.3	+4.5		
Japan	+107.6	—	+61.1	—	-4.1	—		
	+98.7	+18.0	+71.0	+25.2	-15.8	+9.9		
Group VII								
Poland								-4,712.7
Estonia					+4.7			+0.0
Latvia					+0.9			-2.3
Lithuania					+3.7			+292.8
Ukraine					-173.1			+204.0
USSR/Ostland ^c								-3.6
Czechia								-4,221.1

Notes: ^aRM.—Special accounts'.

^bIncluding non-official clearing account deficits.

Clearing position, 31 Dec. 1944. Group 'EEC' (France, Netherlands, Belgium/Luxembourg, Denmark, Norway, Italy) -21,045.0; Group 'East' (Groups IV, IVa) -8,897.4.

Real reitchmark value of clearing position plus occupation cost, 31 March 1944: Group 'EEC' -63,820.0; Group 'East' -12,955.0.

Sources: Clearing: German Federal Archives. R 7/3068; real value of clearing plus occupation cost: Buchheim, 'Länder', p. 123.

foreign exchange balance again shows structural deficits. It was only by sales of 321 million RM of foreign assets that the balance could be restored—and, due to the failure to capture all of Czechoslovakia's gold reserves, smaller amounts were available for sale than in 1938.

In cross-country comparison of cash reserve flows, most of the structures of 1938 appear to have persisted in 1939, albeit with changing shares, as shown by the entries for 1939 in table 5. In Europe, all the Scandinavian countries became net importers on a cash basis and thus created net foreign exchange income for Germany. The countries of the Danube basin continued to be a region of net outflows of German foreign exchange reserves. Trade with Asia again created surpluses, whereas, partly due to the blockade after the beginning of the war in September 1939, Germany's deficit with Latin America was considerably smaller than before.

Marked changes, however, occurred in the figures relating to France and to the Anglo-Saxon countries. The deficit with regard to France diminished to some 30 per cent of its value in 1938, whereas for the Anglo-Saxon countries it disappeared almost entirely. Even taking into account that this trade was disrupted after Germany's attack on Poland in September 1939, this phenomenon of selective disengagement remains remarkable.²²

Looking at the clearing account balances for 1939, a marked structural shift emerges. The countries of group I which were later conquered by Germany, as well as the Asian and Latin American countries in the sample, all showed German clearing surpluses, and so did trade with the neutral states of Europe in group III. On the other hand, Italy and Hungary had to accept German clearing deficits again, whereas Yugoslavia reaped German surpluses.²³ Note also the high German clearing deficit with Romania, which in 1938 was seen as a rather 'strong' trading partner but now fell back into the opposite role, being tied to Germany by the trade agreement of 23 March 1939.²⁴

If we look again at cash and clearing account transactions simultaneously, it appears that in 1939, the situation of 1938 was reversed in many cases. Some of the particularly 'weak' countries of 1938, i.e., Italy, Hungary, and Iran, remained in unfavourable positions, characterized by low cash revenues from and large credit extensions to Germany. Brazil now had German clearing surpluses and cash deficits, and hence was an extraordinarily 'strong' country. This is also true for the Netherlands, Switzerland, Yugoslavia, and, as before, Turkey. An example of the converse transition is given by Romania.

The general impression is again ambiguous. In continental Europe, Germany had clearing account deficits with only three countries but reaped surpluses in hard currency trade only from Scandinavia, having

²² On the technique and ideology of selective politics vis-à-vis Great Britain and the US, see Wendt, *Economic appeasement*, Schröder, *Deutschland*.

²³ See Ránki, *Economy*, ch. 10, on the particular weakness of Hungary vis-à-vis Germany after 1936.

²⁴ On this see Pearton, *Romanian state*.

to supply foreign exchange cash to all other European countries. Germany thus appeared to be a rather 'weak' country with respect to its trade in continental Europe, although it was able to reduce substantially its foreign exchange deficits vis-à-vis the Anglo-Saxon world. Germany's disengagement from its financial links with the victors of the First World War is the most noteworthy change in these data in 1939.

For 1940, conventional wisdom would predict massive changes in the regional distribution of Germany's payment flows.²⁵ On the one hand, Germany's short-lived rise to continental hegemony may have had effects on its dominance over the neutral countries and those of south-eastern Europe. On the other hand, there may have been structural changes in trade with the now occupied countries of western and northern Europe, and it might be asked what was the net effect on the regional distribution of Germany's foreign trade. Judging from the cash balances, no such deep structural ruptures can be discerned, whether for the neutral countries, for those of the Danube basin, or for Italy. The only visible effect is an overall increase in deficits. Likewise, there seems to have been no dramatic effect on the Benelux states or on Norway and Denmark, all of which were by then under military occupation.

The dominant change was introduced by the inflow of almost 1.4 billion RM in foreign exchange from France. In the bilateral balance of foreign exchange with that country, a corresponding amount is given under the heading 'Other capital transactions'; the same amount reappears in Germany's aggregate foreign exchange balance of 1940. This is also the position where, in the balances of 1938 and 1939, the proceeds from selling off captured Austrian and Czechoslovakian reserves had been included. As Germany's foreign exchange balance for 1940 closed with a net surplus of only 11 million RM in cash, the entire amount of these new spoils must have been spent in the same year.

In contrast to cash flows, marked structural changes can be found in the clearing accounts for 1940. With Greece and Slovakia as the only exceptions, all states of southern and south-eastern Europe now exhibited German clearing account surpluses, which in the cases of Italy and Hungary were about large enough to make good the cumulative deficits of the two preceding years.²⁶ The apparent losers on clearing account were the Benelux states. A remarkable clearing deficit existed vis-à-vis the USSR as well. Contrary to expectation, the weaker countries of the neutral zone and of southern and south-eastern Europe continued to be in a 'strong' bargaining position, characterized both by net foreign exchange revenues and by net credit extensions from Germany, as table 5 shows. Some losers of previous years even compensated for their previous losses. Germany's rise to military and economic hegemony thus entailed very different consequences for the occupied

²⁵ Such is the line of reasoning, e.g., in Teichert, *Autarkie*, ch. V.

²⁶ In the meetings of Handelspolitischer Ausschuss, Germany's inter-ministerial trade policy committee, the clearing surpluses of Italy and Hungary often played a role, being identified as a problem that should be negotiated. See HPA, protocols of 11 March and 7 Sept. 1939, of 8 Jan. and 12 Feb. 1940, Federal Archives, 09.01, no. 68939.

countries of western Europe and the states of central and south-eastern Europe which for the moment remained free of German troops. This leads to the first conclusion: the more recent views on the foreign trade policies of Nazi Germany developed by Neal and others seem to find support in the foreign exchange balances. The clearing system in itself proved insufficient for exploiting the economies of smaller partners in trade. Only after the military occupation of a given country (or at least, a credible threat to it, as for instance in the case of Slovakia), does exploitation in the sense of a steadily growing foreign exchange deficit become clearly visible.

There is additional evidence to substantiate this reasoning. If the statement is to hold true in general, observations for subsequent years should repeat the same pattern. In particular, one would expect high German deficits to have built up vis-à-vis all countries of south-eastern Europe from 1941 on, when Germany invaded the Balkans and Greece before starting its attack on Soviet Russia. This indeed seems to be so. No disaggregated foreign exchange accounts were available for 1941. But a look at Germany's clearing account deficits vis-à-vis the occupied countries and its Axis allies in 1941 shows that almost all of the defeated and satellite states had to pay large contributions on clearing account.²⁷ The Danubian region alone contributed some 0.8 billion RM in 1941 (table 5).

In concluding this section, one may briefly glance at the total debt accrued by the end of 1944 when clearing account statistics break off (see last column of table 5). In the light of the dimensions that become visible here, the exploitation issue of the prewar period seems wholly insignificant. But it also becomes apparent why the clearing account system came to be known as a device to exhaust the resources of Germany's junior partners and victims in the Nazi Grosswirtschaftsraum, or 'greater economic sphere', as political euphemism had it. What could not be found in the prewar figures now grew into dimensions beyond imagination.²⁸ The same holds for occupation costs in general, given in the notes to table 5. In addition to clearing, these data include occupation costs imposed on the countries by the respective occupation governments, burdens that were often far higher than resource transfers on clearing. These figures were collected and converted into reichsmarks by the Germans during the war, adjusting for the general overvaluation of the reichsmark and using black market prices.²⁹

²⁷ Federal Archives, R7/3636, fo. 41. See also Buchheim, 'Länder'.

²⁸ There still remains the question of whether or not the exploitation strategy pursued was in all cases efficient. A case study for fascist Croatia is Sundhaussen, *Grossraum*. Still the most thorough investigation into the principal conflicts between Nazi short-term occupation policies and their long-run imperialist goals is Milward, *New order*.

²⁹ The data are documented and discussed in Buchheim, 'Länder'.

IV

A second indicator of the impact of national power politics on foreign trade is the dependence of small countries on foreign trade with Germany, dependence that in many cases was considerable. The first row in table 6 shows the share of Greater Germany in the foreign trade of three such countries, Romania, Bulgaria, and Greece, in 1938.

At first sight, it is tempting to interpret the evidence shown in table 6 in accordance with conventional wisdom. For example, the Bulgarian case could be considered as evidence of an extreme degree of dependence created by the system of bilateralized trade.³⁰ However, this approach appears to be misleading for two reasons. First, all of south-eastern Europe had lost its trade with Russia and been forced to redirect trade to countries in central and western Europe. Second, comparable degrees of dependence already existed before the First World War. This latter effect becomes apparent when the corresponding evidence for 1913 is examined.

Table 6. *Trade dependence on Germany in intertemporal comparison*

Percentage shares in imports (M) and exports (X) of	Bulgaria		Romania		Greece	
	M	X	M	X	M	X
(a) Share in total trade						
Greater Germany, 1938	52.0	58.9	34.3	19.3	28.8	38.5
Germany and Czechoslovakia, 1938	57.9	63.5	46.5	27.6		
Germany and Habsburg Monarchy, 1913	43.2	19.9	63.7	22.1	23.6	21.0
(b) Share in non-Russian trade						
Germany and Habsburg Monarchy, 1913	50.5	24.8	65.1	22.2	29.4	21.6
Germany and Czechoslovakia, 1938	57.9	63.5	47.0	27.6	29.6	38.6

Source: Mitchell, *European historical statistics*.

To render these figures comparable with those of 1938, territorial changes have to be taken into account. After the annexation of 1938, Austria was included in German statistics as part of Greater Germany, whereas in 1913 it had been the centrepiece of the Habsburg empire, which also included Hungary and Czechoslovakia. The tables from which the figures are taken³¹ do not include Hungary among the main trading partners of any of the countries of the present sample in 1938. Hence there remains a weighting error when trade with Czechoslovakia is added to the dependence ratios of 1938 in order to capture trade with comparable regions. Inspection of these data nevertheless shows that results depend on how the standard of reference is set. What appears to be the impact of a giant German trade offensive in isolated comparison looks far less impressive when a suitable intertemporal perspective is adopted and the effects of prewar trade with Russia are eliminated. This leads to

³⁰ On the following, see also Grenzebach, *Informal empire*, p. 223, and the debate between Milward, 'Reichsmark bloc', and Wendt, 'Südosteuropa'.

³¹ Mitchell, *European historical statistics*.

the second conclusion: that, judging from comparison with prewar figures, the extension of Nazi Germany's trade with the countries of south-eastern Europe appears to a large extent merely as a return to the position of dominance that the Habsburg monarchy and imperial Germany jointly had in the Balkans before the First World War. Additional dependence effects were created by Germany's filling of the gap left by Russia's isolation from east European markets under communist rule.

This result may be interpreted in different ways. It could be concluded, for instance, that a similar system of power politics already applied in the prewar period.³² Care should be taken not to overemphasize this point, as other factors, including locational advantages, may have played a role also. However, the fact that trade dependence on Germany-cum-Austria was already massive before the First World War cannot be ignored either. Another interpretation would stress the loss of power-political equilibrium in eastern Europe as a result of the defeat of tsarist Russia in the First World War and the subsequent political and economic impotence of the USSR until well into the 1930s. Although this view helps to explain why filling the vacuum was so easy for fascist Germany, it ignores the rapidly growing military and economic strength of the USSR on the eve of the war. Indeed, the perception of the growing threat presented by the massing of Soviet troops near its borders appears to have brought about Romania's decision to create close ties with Nazi Germany in 1939.³³

In any case, the evidence shows that there is a precedent for dependencies in foreign trade in south-eastern Europe. Thus, the economic penetration of that region by German trade was not simply a particular characteristic of Nazi policies, but a more complex phenomenon, in which the collapse of central European trade with Russia played a pivotal role.

V

Reversing the focus of the previous section, we now turn to the role that central and south-east Europe played in the Nazi economy. The idea that there should be a role for Mitteleuropa in future German trade had been commonplace among advocates of a German retreat from world markets since the turn of the century. During the great depression, the agenda was revitalized, although with limited success.³⁴ It later played a major part in Nazi economic propaganda. How successful was this doctrine economically when put into political practice? The search for an answer to this question starts by examining the regional distribution of Germany's foreign trade on the eve of the Second World War. The (now

³² This would be in line with the still controversial reinterpretation of German imperialism by Fischer, *Griff nach der Weltmacht*.

³³ See on this in detail Pearton, *Romanian state*.

³⁴ See Teichert, *Autarkie*, ch. 2.

Table 7. *German foreign exchange revenues and expenditures by country, 1938 (RM million)*

		Group I		Group II		
		C	D	C	D	
US		388.9	537.9	France	252.4	278.2
Britain		517.0	702.2	Netherlands	569.8	677.4
India		137.5	166.5	Denmark	218.8	207.7
Canada		29.2	64.4	Norway	146.1	150.8
Australia		22.1	29.2	Belgium/Luxembourg	262.8	335.6
S. Africa		91.8	92.0			
Egypt		51.8	61.4			
		<u>1,238.3</u>	<u>1,653.6</u>		<u>1,449.9</u>	<u>1,649.7</u>
		Group III		Group IV		
		C	D	C	D	
Switzerland		236.9	282.9	Yugoslavia	153.6	179.4
Italy		372.4	400.1	Hungary	165.6	183.1
Finland		86.4	85.2	Romania	170.1	160.1
Sweden		294.3	227.8			
		<u>990.0</u>	<u>996.0</u>		<u>489.3</u>	<u>522.6</u>
		Group V		Group VI		
		C	D	C	D	
Argentina		183.0	223.7	Turkey	176.0	152.1
Brazil		205.7	213.6	Iran	38.4	49.9
Chile		73.1	97.0	China	105.7	88.1
		<u>461.8</u>	<u>534.3</u>	Manchuria	53.7	74.3
				Japan	156.6	48.9
					<u>530.3</u>	<u>413.3</u>

Note: In the column headings, C stands for credit and D for debit.

Source: see tab. 5.

regionally aggregated) foreign exchange balances reveal a regional pattern of foreign exchange flows (table 7).

For 1938, there is a clear dominance of the Anglo-Saxon world and western Europe, which, however, diminished in 1939 through the reduction of Germany's deficits vis-à-vis the western powers. In the data for 1940 in table 5, the same effect was reflected in the large clearing account deficits in respect of western Europe and the very low deficits or even surpluses in central and eastern Europe. Looking again at the cumulative figures for 1944 given in table 5, this impression is reconfirmed: the deficit with respect to France alone was almost as large as the whole deficit vis-à-vis eastern and south-eastern Europe, and of the total clearing debt of more than 30 billion RM, about two-thirds was with the countries that later formed the European Community.

Although no regional data on German wartime trade after 1940 are accessible, such material as is available for 1940 does seem to support

Table 8. *The structure of German foreign trade, 1928-1960 (%)*

(a) Commodity structure: share of								
	Agriculture		Raw materials		Semi-finished		Finished	
	M	X	M	X	M	X	M	X
1928	40.9	6.4	28.3	12.2	17.9	12.2	12.9	69.2
1938	39.5	1.2	32.9	9.5	18.8	8.4	7.9	80.8
1940	47.2	2.5	21.0	14.8	21.2	9.3	9.7	73.4
1943	40.0	6.8	13.5	13.1	13.1	13.0	32.4	66.9
1950	44.1	2.3	29.6	14.0	13.7	18.8	12.6	64.9
1960	26.3	2.3	21.7	4.6	18.9	10.4	32.2	82.4

(b) Country structure: share of EEC					
	in European trade		in total trade		Total 100* (X-M)
	M	X	M	X	X + M
1928	34.1	32.5	17.3	24.4	-7.4
1938	26.4	32.7	14.4	22.8	-1.8
1940	29.6	28.3	27.6	26.9	-1.5
1950	47.0	48.3	25.5	36.4	-13.6
1960	55.9	48.9	32.4	32.9	

Note: totals for 1928 and 1950 do not include Saar district. In column headings, M stands for imports and X for exports.

Sources: *Statistisches Handbuch von Deutschland* (1949); *Statistisches Jahrbuch* (1962)

the hypothesis that Germany's war economy became more westward oriented: the share of western Europe in trade across German borders increased after 1938 instead of decreasing. But the trade statistics underlying table 8 reflect real resource transfers only indirectly. If the clearing account balances of table 5 and the evidence on real occupation costs in the same table are considered instead of trade statistics, the share of western Europe is far higher than indicated by trade figures even in 1940. All this leads to a third conclusion, confirming a hypothesis of Milward.³⁵ The eastward move of Germany's economic interests under the Nazi 'new order' is merely a chimera. In spite of all ideological commitment to the contrary, and in spite of the eastbound thrust of the Nazi war effort, the German war economy was in fact westward oriented.

VI

Turning to the commodity structure, intuition would imply that, in line with the Malthusian doctrines prevalent in Germany at the time, the Nazis used the occupied countries mainly to extract foodstuffs, natural resources, and raw materials. A structure of extreme specialization would be expected, which would also be consistent with Germany's previous trade history, as even before the Second World War, its imports consisted

³⁵ Milward, *War, economy, and society*, ch. 5, confirmed by Buchheim, 'Länder', p. 119.

chiefly of primary goods. As table 8 shows, initially such a pattern is indeed visible: up to 1940, the Nazi economy pushed the traditional specialization pattern of the German economy to the extreme.

However, later in the war, this tendency was reversed dramatically, and imports of finished goods became dominant in 1943. Thus, Germany's import structure 'de-specialized' itself during the war. This is a remarkable phenomenon which has hitherto been neglected. Even under the auspices of Nazi dominance over Europe, the German trade structure under the 'new order' somehow anticipated the later tendency towards intra-industrial trade within Europe, which reappeared in West Germany's import accounts only during the mid-1950s. Not until 1960 did the share of finished commodities in German imports recover to the level of 1943 (table 8).

It should be noted that no such anticipation of future structures was visible in German exports. Rather, they exhibited a deviation from a long-term trend that prevailed before the war and re-emerged later. However, surprising tendencies are visible even in the export data. Whereas the export structure of 1950 was similar to that of 1928, striking similarities seem to exist between the commodity structure of German exports in 1960 and in 1938. It is tempting to interpret this as a similar reconstruction gap, in which the trade data for 1950 appear like a relapse into outdated patterns that prevailed during the inter-war years and that indicated the potential for future reconstruction. This somewhat startling evidence corroborates the data on regional specialization and leads us to a fourth conclusion: the German orientation towards intra-industrial trade within western Europe appears to have its origins in the Second World War. Both the regional and commodity structures of trade flows during the war anticipated trade patterns that became prevalent within the European Community in the 1960s.

VII

There remains the problem of determining the extent and motivations of Germany's disengagement from foreign trade under the regime of autarky policy. Intertemporal comparison shows that very strong terms of trade effects persisted. A terms of trade index calculated from the German trade statistics shows an increase of 31 per cent over the period from 1928 to 1938. Germany's imports consisted mainly of foodstuffs and raw materials, finished producers' and capital goods being its prime export commodity. Germany thus benefited from the spectacular collapse in the relative price of agrarian products and bulk commodities that manifested itself before and during the great depression, mainly to the detriment of US and British trade with Germany.

Another equally marked effect results from Germany's policies of retaining parity with gold while blocking convertibility, which led to an artificial rise in nominal exchange rates. The country operated a highly sophisticated system of export promotion to compensate for the effect on export prices, and the extent to which these subsidies are reflected in the data is not

Table 9. *Nominal and real trade volumes, 1938 and 1928 (RM million)*

Nominal imports	1938	6,051.7	Nominal exports	1938	5,619.1
	1928	14,001.3		1928	12,275.6
Rate of change		-56.8%	Rate of change		-54.2%
		Prices of 1928			
Real imports	1938	11,973.3	Real exports	1938	8,491.9
	1928	14,001.3		1928	12,275.6
Rate of change		-14.5%	Rate of change		-30.8%
Implicit deflator of imports 1938		50.5	Implicit deflator of exports 1938		66.2

Source: Mitchell, *European historical statistics*.

entirely clear.³⁶ Data are shown in table 9. In nominal values, there was a high trade deficit in 1928. By 1938, these imbalances had disappeared almost entirely, and nominal trade values were drastically lower than in the 1920s. On a constant price basis, however, Germany's high trade deficits of the 1920s re-emerged again in the mid-1930s when similar levels of capacity utilization were reached. This evidence alone suggests that shortage of foreign exchange must have been the major restriction shaping the German foreign exchange balance in the prewar years.

There is also a regional aspect to substantiate this. Comparing the trade figures of 1938 with those of 1928, the share of the western powers in German imports is seen to have declined considerably (and it has been shown above that there was another sharp reduction in 1939). Again, the effect of this on real trade flows is potentially obscured by terms-of-trade effects. German trade statistics make it possible to obtain data at constant 1928 prices for individual countries by major items traded, which in this case represent between 60 and 70 per cent of the respective trade volume. In table 10, the results for this estimation of trade volume by country are shown for German trade with the US, Britain, and France. The real figures obtained for 1938 show that the much-celebrated autarky drive of the Nazi economy almost evaporates: once the dramatic reduction in Germany's trade with its most important creditors is controlled for, the decline in German foreign trade between 1928 and 1938 diminishes from almost 15 per cent to a mere 2.5 per cent. This is summarized in a fifth conclusion: German autarky policies in the 1930s were to a large extent a process of selective disengagement from trade with the US, Great Britain, and France. Imports from the rest of the world remained basically unchanged in comparison with their

³⁶ This point was raised by Kindleberger, 'Terms of trade', and is recurrent in the analysis of Neal, 'Clearing agreements'. For evidence of trade diversion within the reichsmark bloc in a gravity model, see Eichengreen and Irwin, 'Trade blocs'.

Table 10. *Disengagement of Germany from trade with western powers, 1928-1938 (RM million/RM million of 1928)*

(a) By country						
Imports	From US		From Britain		From France	
	Nominal	Deflated	Nominal	Deflated	Nominal	Deflated
1928	2,062.2	2,062.2	893.8	893.8	740.8	740.8
1938	404.6	965.8	282.8	619.5	143.7	346.1
% change	-80.4	-53.2	-68.4	-30.7	-80.6	-53.3

(b) Effect on trade total				
Imports	Total		Minus US, Britain, France	
	Nominal	Deflated	Nominal	Deflated
1928	14,001.3	14,001.3	10,304.5	10,304.5
1938	6,051.7	11,973.3	5,220.6	10,041.9
% change	-56.8	-14.5	-49.3	-2.5

Source: *Statistisches Jahrbuch*, 1930, 1941-2.

pre-depression peak.³⁷ Still, however, the ratio of imports to national product was lower in 1938 than in 1928.³⁸

As a consequence, it seems that much of the prominent eastward move of German trade policies may be attributed to a composition effect. Hence it is mostly the consequences of Germany's default on debt for its trade with the major western countries which explain German autarky policies, rather than a deliberate programme of economic war preparation and the economic penetration of eastern Europe, as the older literature often had it. This result is further corroborated by the work of historians on German trade relations with Britain and the US during the 1930s. This line of research has pointed to the varying degree of success with which the Germans kept re-negotiating their debt obligations, often, but not always, offering to pay more if they were allowed to export more.³⁹

VIII

Evidence on Nazi economic imperialism and the exploitation of the small lends new support to an unpopular conclusion. Taken by themselves, the clearing system and Germany's market power in European foreign trade do

³⁷ This result would be even more pronounced if the British Commonwealth were included. Most notable in this regard is the change in German trade with India, which went down in real terms by at least 27%, while trade with Canada and South Africa appears to have increased slightly.

³⁸ For the trade total, the decline is from about 18% to 12%, which seems more or less in line with evidence for Britain or the US. If, however, only imports from the rest of the world (excluding the US, Britain, and France) are taken into account there is still a decline, from 13.5% to 9.6% of GNP.

³⁹ For trade with the US, see Schröder, *Deutschland und die Vereinigten Staaten*, and Schuker, 'Reparations' to Germany. On Britain, see Wendt, *Economic appeasement*. For a related but slightly different view of the German debt problem see Klug, *Buybacks*.

not seem to have been sufficient to exploit that country's smaller trade partners. Examining Germany's secret bilateral foreign exchange accounts as broken down by clearing accounts and cash, it becomes evident that flows of real resources or convertible currency seldom fit the expected pattern of exploitation. Marked exploitation effects themselves materialized only after the military occupation by German troops of the country concerned.

The dependence of the small countries of south-eastern Europe on trade with Germany, which played a prominent role in the exploitation debate, seems to have had a precedent in international trade before the First World War. An appropriate measure of exploitation in this case would therefore have to discriminate between economic interconnectedness in general and the particular dependence to be attributed to power political pressure. Thus far, much of Germany's position on the Balkans in 1938 appears to have been similar to the dominant position that imperial Germany and the Austro-Hungarian empire had in south-eastern Europe before the First World War.

Despite strong ideological emphasis by the Nazis, however, the general eastward movement of Germany's economic interests seems on the whole to have been unsuccessful. Already before the war, the evidence for such an eastward orientation is shaky, and in wartime the German economy attracted resources from western Europe rather than from eastern or south-eastern Europe. Thus, the secular shift from classical foreign trade structures to the pattern of intra-industrial trade occurred in Nazi Germany as well, in spite of all ideological commitment to the contrary. Nor was there a general disengagement of Germany from its international economic relations. Rather, the reduction in Germany's imports between 1928 and 1938 can be viewed mainly as a partial dissociation from the Anglo-Saxon world, which was largely motivated by the need to save on foreign exchange under the continuing threat of retaliation against the German default on debt.

The evidence collected here seems to suggest that the autarky policy of Nazi Germany may not be readily interpreted as a general withdrawal from international trade in preparation for war. What it shows, instead, is a drive for partial disengagement from Germany's dominant creditor countries, along with the attempt to build up import-substitution industries in the fields of maximum dependence. As was noted above, this strategy almost failed with regard to balance of payment deficits, and the central bank was bailed out of insolvency only by the spoils of Germany's military expansion, then beginning. There is evidence, moreover, of another typical defect of forced import substitution policies, that is, weakened export performance despite massive subsidies. Indeed, there is much in the policies of Nazi Germany that resembles the import substitution policies practised later in other parts of the world. Although designed to overcome chronic dependence on foreign capital inflows, such policies have often resulted in the typical malfunctions which are already apparent in this case.

University of Zurich

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