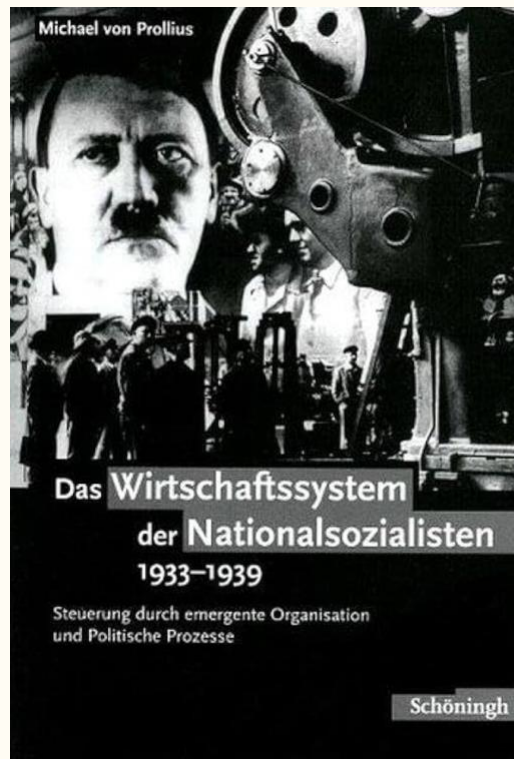


# **The Nazi Economic System 1933-1939: Control Through Emergent Organization and Political Processes**



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## One-Sentence Summary

This groundbreaking interdisciplinary study provides a new theoretical framework for understanding how the Nazi economic system achieved remarkable efficiency despite its apparent chaos, arguing that it operated through "emergent organization and political processes" rather than traditional planning or market mechanisms.

## About This Book

### Publication Details:

- **Author:** Michael von Prollius
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### Genesis and Methodology:

This study addresses one of history's most remarkable transformations in economic governance: how the Nazi economic system managed to achieve extraordinary results despite appearing chaotic and contradictory. The author develops an innovative analytical framework based on modern management theory and systems thinking to explain this apparent paradox.

### Author's Note:

The dissertation draws from impulses and insights gained from studies in History, Economic History, and Business Administration. This is particularly true for insights that Prof. Georg Schreyögg, then holder of the chair for Organization and Leadership, conveyed about organizational culture, emergence, systems theory, and organization in six demanding lectures. I was already interested in ordoliberal economics and ordoliberalism at that time and had begun engaging with classical liberal authors such as F.A. Hayek, W. Röpke, W. Eucken, and L. von Mises.

# The Nazi Economic System 1933-1939: Control Through Emergent Organization and Political Processes

## A Structural Analysis of Economic Governance in the Third Reich

### Introduction

This study addresses.

The central question guiding this investigation is: **How did the Nationalsozialisten manage to develop from a localized crisis situation into comprehensive economic control, and ultimately transform the economic system so effectively that it supported massive rearmament and preparation for war?**

## I. The Interpretive Challenge

### The Fundamental Paradox:

The Nazi economic system presents researchers with seemingly irreconcilable contradictions:

- **Apparent Structurelessness vs. Systematic Results:** The system appeared to lack coherent organization yet achieved remarkable coordination in crisis management and rearmament
- **Improvisation vs. Effectiveness:** Ad-hoc measures and constant reorganization somehow produced efficient economic mobilization
- **Competing Organizations vs. Unified Direction:** Multiple rival institutions managed to coordinate toward common goals despite constant internal conflicts

### Previous Interpretations Proved Inadequate:

Traditional categorizations failed to capture the essential character of the system:

- **"Totalitarian Monopoly Capitalism"** (Neumann): Overemphasized capitalist continuity
- **"Command Economy"**: Ignored market mechanisms that continued operating
- **"Dual State"** (Fraenkel): Focused on legal rather than economic organization
- **"Defense Economy"** (Volkman): Captured goals but not operational mechanisms

## II. Theoretical Framework: Systems Theory and Management Analysis

### Methodological Innovation:

The study applies a **Systems Theory approach** combined with **modern Management Theory** to analyze the Nazi economic system as a complex organizational challenge. This framework examines:

**Elements, Interdependencies, and Processes** as the three fundamental components of any system, focusing particularly on how the Nationalsozialisten organized and reorganized these system components.

### The Five Management Functions:

1. **Planning**
2. **Organization**
3. **Personnel**
4. **Leadership**
5. **Control**

**Key Discovery:** The analysis reveals the **primacy of Organization over Planning** as the defining characteristic of Nazi economic governance.

## III. The "Culture of War" as Foundation

### Organizational Culture Analysis:

Using Edgar Schein's **Three-Level Model**, the study identifies the Nazi "Organisationskultur" as a fundamental transformation based on "Kultur des Krieges" (Culture of War):

### Basic Assumptions (Hidden Level):

- **Racism:** Racial struggle as organizing principle of society
- **Imperialism:** Lebensraum ideology driving expansion

- **Social Darwinism:** "Survival of the fittest" as social law

#### **Norms and Standards (Partially Visible Level):**

- **Führer Principle:** Replacing democratic procedures with hierarchical command
- **Belief in Omnipotence:** Conviction that will alone could overcome economic constraints
- **War as Organizing Guideline:** All activities oriented toward military conflict

#### **Symbolic Characteristics (Visible Level):**

- **Integration through Paramilitarism:** Uniforms, parades, military-style organization
- **Replacement of Civil Society:** Party organizations controlling all social sectors

This cultural transformation was **non-economic** in character, prioritizing military-imperial objectives over economic efficiency or prosperity.

## **IV. Emergent Organization as Primary Steering Function**

#### **Central Theoretical Innovation:**

The study identifies "**emergente Organisation**" as the Nazi system's primary operational principle. Unlike planned organization or market coordination, emergent organization combines:

**Institutional Dimension (Organization-en):** Creation of controllable subsystems through new mass organizations:

- **Reichsnährstand (RNS):** Comprehensive control of agricultural sector
- **Deutsche Arbeitsfront (DAF):** Replacement of trade unions and employer associations
- **Vierjahresplan:** Centralized coordination of rearmament economy

**Instrumental Dimension (Organizing):** Continuous reorganization of rules, processes, and relationships:

- Revolutionary transformation of legal framework
- Replacement of market mechanisms with command structures

- Ad-hoc interventions based on immediate political needs

### Characteristics of Emergent Organization:

- **Unregulated and Unplanned:** Responses emerged from immediate circumstances rather than systematic design
- **Unlimited and Uninhibited:** No institutional constraints on organizational innovation
- **Pragmatic Primary Function:** Organization served as the main tool for achieving Nazi objectives

## V. Political Processes as Coordination Mechanism

### Beyond Traditional Decision-Making:

The study reveals "**Politische Prozesse**" as the dominant coordination principle, operating through:

**Power Competition:** Decisions emerged from struggles between competing Nazi organizations rather than technical analysis or institutional procedures.

**Coalition Building:** Temporary alliances between different power centers determined policy outcomes.

**Personal Networks:** Individual relationships and loyalties often proved more decisive than formal authority.

**Crisis Exploitation:** Major changes typically occurred during crises when normal procedures broke down.

### Structural Elements of Political Processes:

**Players:** Decision-makers including organization leaders, general commissioners, staff members, informants, and members of the power elite.

**Individual Goals:** System-conditioned objectives (hierarchical position), personally motivated aims, or game-history dependent targets (reciprocal deals, unconditional loyalty to Hitler).

**Game Process:** Convolution rather than linear development due to limited rational behavior and contradictory objectives.

**Rules:** Participation requirements, procedural regulations, secret rules, and rules for losers.

**Strategies:** Bluffing, threats, promises, accomplished facts, and strategic timing.

## VI. Case Study: Göring's Rise to "Economic Dictator"

### Emergent Strategy in Action:

Hermann Göring's elevation to economic supremacy through the Four-Year Plan illustrates both emergent organization and Political Processes:

**Phase 1 - Crisis Exploitation:** The 1936 foreign exchange and raw materials crisis provided opportunity for expanded authority.

**Phase 2 - Coalition Building:** Göring skillfully allied with industrial interests while marginalizing Economics Minister Schacht.

**Phase 3 - Institutional Creation:** The Four-Year Plan organization emerged from these political maneuvers rather than systematic planning.

**Phase 4 - Power Consolidation:** Göring's position became self-reinforcing as success attracted more resources and authority.

This case demonstrates how **strategic emergence** operated: strategies developed through "muddling through" rather than deliberate planning, with successful tactics being retained and unsuccessful ones abandoned.

## VII. Market Processes vs. Political Processes

### Dual Operating System:

The Nazi economic system operated through tension between two coordination mechanisms:

#### Market Processes (Inherited Coordination):

- Continued to generate information about supply, demand, and resource allocation
- Created persistent problems for Nazi planners through economic feedback effects
- Forced continuous adjustments and new interventions

#### Political Processes (Nazi Innovation):

- Determined major resource allocation through power competition

- Subordinated economic logic to political and ideological objectives
- Created the decision-making pattern that characterized the system

**The Emergenz-Model:** The interaction of organizational culture, Political Processes, emergent organization, and market feedback created a unique pattern of system development that was neither planned nor chaotic but followed specifically Nazi patterns.

## VIII. Systematic Analysis of Major Organizations

### Reichsnährstand (Reich Food Estate):

- Emerged as comprehensive cartel controlling entire food sector
- Initially successful in agricultural coordination but gradually marginalized by competing war-focused organizations
- Demonstrated the principle of creating "controllable subsystems"

### Deutsche Arbeitsfront (German Labor Front):

- Replaced independent labor unions and employer associations
- Extended control beyond work to leisure, housing, and social services
- Exemplified Nazi strategy of total sector control through single organizations

### Vierjahresplan (Four-Year Plan):

- Began as crisis response but evolved into comprehensive economic control system
- Subordinated traditional ministries and business associations
- Showed transformation from emergency measure to permanent power structure

### Wehrmacht Organizations:

- Air force under Göring became vehicle for broader economic control
- Military branches competed for resources and authority
- Demonstrated how rearmament priorities drove organizational development

## IX. The Transformation Process (1933-1939)

### Emergent Organization Without Plan:



**1933-1934:** Initial takeover through existing institutions (Reichswirtschaftsministerium under Schacht) combined with creation of new organizations (RNS, DAF).

**1934-1936:** Intensification of control through expanding interventions and growing organizational rivalry.

**1936-1939:** Göring's rise to dominance through Four-Year Plan, marginalization of traditional institutions, explosion of competing jurisdictions.

**Key Pattern:** The system developed through **evolutionary phases** (gradual change in industrial economy) and **revolutionary phases** (dramatic restructuring through new organizations like the Four-Year Plan).

**Result by 1939:** A **organized NS-economy** characterized by:

- Rivalizing party economy with Four-Year Plan as leading organization
- Controllable subsectors through "imperial" organizations
- Hierarchical structures replacing market coordination
- Tendency toward command economy with progressive loss of freedom

## X. Evaluation: The "Emergenz-Wirtschaft"

### System Characteristics:

The study proposes "**Emergenz-Wirtschaft**" as the appropriate term for the Nazi economic system, characterized by:

**Dynamic System:** Constantly changing power relationships and organizational structures

**Specific System:** Unique organizational culture and coordination mechanisms

**Networked System:** Complex interdependencies that could not be reduced to simple cause-and-effect relationships

**Regulatory System:** Continuous adaptation and reorganization rather than stable equilibrium

### Strengths:

- Extraordinary flexibility in crisis response
- Rapid mobilization of resources for priority objectives
- Innovation in organizational forms and coordination mechanisms

### Weaknesses:

- Persistent inefficiencies from organizational competition
- Inherent instability requiring continuous crisis and expansion
- Subordination of economic rationality to political objectives
- Unsustainable dependence on conquest and exploitation

## XI. Historical Significance and Implications

### Contribution to Understanding Authoritarianism:

The study demonstrates that the Nazi system created a distinctive form of economic organization that was:

- **Neither planned nor spontaneous** but emergent
- **Neither purely capitalist nor socialist** but a hybrid form
- **Neither efficient nor chaotic** but dynamically adaptive

**The "Road to Serfdom":** The analysis confirms Hayek's warning that economic control leads to political control, showing how organization can become a tool of domination.

**Methodological Innovation:** The application of management theory to historical analysis provides new tools for understanding complex organizational transformations.

## XII. Broader Theoretical Implications

### Reconciling Structure and Action:

The Emergenz-Model successfully integrates:

- **Structural factors** (organizational culture, institutional frameworks)
- **Individual agency** (Political Processes, emergent strategies)
- **Environmental pressures** (market processes, crisis situations)

### Understanding "Unintended Order":

The study shows how complex systems can develop coherent patterns without central planning through the interaction of:

- Intentional actions pursuing specific goals
- Unplanned consequences of those actions

- Environmental feedback and adaptation
- Competitive selection of successful strategies

## XIII. Critical Assessment

### Methodological Strengths:

- Integration of multiple disciplinary perspectives
- Systematic application of organizational theory to historical material
- Comprehensive empirical grounding in primary sources
- Development of new analytical frameworks

### Analytical Contributions:

- Resolution of apparent contradictions in Nazi economic performance
- Identification of Political Processes as coordination mechanism
- Conceptualization of emergent organization as management strategy
- Integration of cultural, political, and economic factors

### Limitations:

- Focus on 1933-1939 excludes wartime developments and monetary politics
- Emphasis on organizational dynamics may underestimate structural constraints
- Limited comparative analysis with other authoritarian systems

## XIV. Conclusion: A New Model for Economic Organization

### Core Argument:

The Nazi economic system achieved its effectiveness not through superior planning or market efficiency, but through **emergent organization and Political Processes** that created a uniquely adaptive but ultimately unsustainable form of economic coordination.

### Key Insights:

1. **Organization, not Planning**, served as the primary management function
2. **Political Processes** rather than bureaucratic or market mechanisms coordinated economic decisions

3. **Emergent development** rather than systematic design characterized system evolution
4. **Cultural transformation** provided the ideological framework for economic reorganization

### **Broader Significance:**

This analysis provides a new framework for understanding how authoritarian regimes can achieve short-term economic effectiveness while creating long-term instability. The patterns identified—emergent organization, Political Processes, cultural transformation—offer insights relevant to analyzing other cases of authoritarian economic governance.

The study demonstrates that **freedom and efficiency** are not always compatible in the short term, but that systems based on **organization rather than spontaneous order** ultimately face inherent limitations that make them unsustainable in the long term.

## About This Abstract Series

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## About the Author

Michael von Prollius is a German historian, economist, and author specializing in the intersection of ideas, institutions, and historical development. He holds degrees in history and economics and has conducted extensive research spanning ancient history, economic thought, political philosophy, and contemporary policy analysis.

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