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Organization of War Economies (Germany)

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This article examines the transformation from a peace- to wartime economy in the German Empire. It also discusses the core problems connected with a war economy, and analyses the reversion to a peacetime economy after the end of the war.

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Introduction

In an essay on wartime economy, published in the *Archiv für Sozialwissenschaft und Sozialpolitik*, the economist [Franz Eulenburg \(1867-1943\)](#) tried to define what constitutes a wartime economy. His main argument was that a wartime economy does not follow its own unique law. Instead, it is merely a “very specifically modified form of general national economy,” which has been seriously affected, directly or indirectly, by war and the tasks which a wartime economy has to fulfill.^[1] While in peacetime, civilian demand is a matter of top priority, in times of war the state demands maximum military force. It is impossible to draw a clear line between peace- and wartime economies and there

were varying phases of transition between the two for the German Empire during World War I.

This transition process had two main components: on the one hand, a monetary process and on the other, concerning goods and commodities. Both elements needed to align in order to divert the national product to funding a war. Only if both investments and private consumption were cut dramatically, could the military gain access to resources which would adequately fuel the war it wished to wage. This twofold redirecting of the national product to public consumption was accomplished in two ways: either by financing the war in a way which siphoned off buying power from private households and companies, or through financial incentives and direct state intervention which gradually transformed the peacetime economy to one more suitable for war. The following text examines the second aspect of the transformation process:^[2] beginning with the economic mobilization, followed by the core problems connected with a wartime economy, and ending with economic demobilization and the reversion to a peacetime economy.^[3]

Economic mobilization

The German Empire's economic preparation for the war stood in remarkable contrast to its military armament. Military experts and politicians did believe that a strong economy would be an important factor in maintaining an effective and efficient army.^[4] However, they expected the war to be short and only vaguely anticipated the momentum it would gain. It seemed unnecessary to mobilize the economy for a long war, considering the major economic and social consequences involved. Thus, preparation was mainly limited to stockpiling weapons and ammunition, organizing guaranteed production in state-run army workshops and entering into agreements with private arms manufacturers. Before the war began, laws to safeguard provisions for the armed forces and the civilian population had already come into effect or would be activated in the event of military armament.^[5] Once the war began, economic mobilization, which later proved inadequate, took place in three stages.^[6]

In the first phase, which began in August 1914, the task was to ensure a smooth military mobilization and begin army operations without delay. To this end, based on old Prussian state of emergency regulations and the War Laws of August 1914 transport or export of goods urgently needed in wartime were prohibited, it became easier to import food and maximum price limits were established for some items. Yet, the war lasted longer than originally anticipated, army requirements were much greater than expected and the Allied sea blockade increasingly cut off the German Empire from world trade. The result was a raw materials and food supply crisis which demanded a much greater diversion of the economy to the war effort.

A second phase began in autumn 1914 and saw a more rapid transformation from a peacetime to a wartime economy. On the one hand, this was a result of financial incentives available to private companies. Numerous companies began producing goods for the military as army procurement was a lucrative business and other business was not coming in. On the other hand, direct state

intervention helped the transformation process along. But, even into 1916, state intervention was still limited to the two areas which were experiencing the greatest shortages: the supply of raw materials for the arms industry (in particular the ammunition industry) and of provisions and foodstuffs for the population.

After 1916, in a third stage, the so called Hindenburg Program changed the German Empire's approach to armament. Until 1916, the [Prussian War Ministry](#) had tried to use existing resources as sensibly and economically as possible. However, explosives production fell short and slowed the whole armaments process. Therefore, the War Ministry wanted ammunition and weapons production to move at the same pace. This triggered strong protests from the [armaments industry](#) which accused the Ministry of placing too much emphasis on weapon quality and consequently reducing their profits. The leaders of industry managed to push through their demand for production rather than price policies. Under the supervision of the Third Supreme Military Command, armament was expanded regardless of costs and industry was drawn into the war effort far more than before.^[7]

Problems of a War Economy

The three-stage mobilization for war changed the face of the German Empire's economy. With this change, two fundamental and complex developments arose: the readjustment of the relationship between state and industry and the restructuring of production.

Relationship between the State and Industry

War meant adjusting the relationship between the state and industry. Production remained in private ownership, but the state increasingly supervised raw materials and manpower, production and sales, and prices and wages. Both entered into a hitherto inconceivably close relationship. The proportion of public spending in relation to the national product as reflected in the state expenditure statistics: this rose from just under 17 percent (1914) to over 70 percent (1917).^[8]

In order to gain greater influence over the economy, the state needed new institutions as well as more personnel. The reorganization of the wartime economy was largely the military's doing, though assistance did come from industry experts with much needed leadership and management skills. Forward-thinking industrialists predicted a major shortage of raw materials immediately after the war started. Therefore, on the initiative of the industrialist [Walther Rathenau \(1867-1922\)](#) and his advisor [Wichard von Moellendorff \(1881-1937\)](#), a section responsible for raw materials was set up in the Prussian War Ministry. The Raw Materials Section (*Kriegsrohstoffabteilung*) was to procure important raw materials, by requisition if necessary, and distribute them according to the priorities of the wartime economy. As the military authorities were not in a position to undertake such a task, the department in charge of raw materials set up a number of war corporations (*Kriegsgesellschaften*). These were privately owned companies, often stock corporations, operating under state supervision and organizing the consumers of raw materials. These corporations, which numbered approximately

200 by the end of the war, covered a multitude of branches of industry and initiated a new form of cooperation between state and industry, bringing together self-administration, the influence of privately run industry and state control. Because the war corporations had a private interest in the services involved in the wartime economy, they worked quite efficiently although they admittedly favored larger companies over small ones and easily evaded state control.^[9] Many people wished that these corporations would continue operating after the war as a so called *Gemeinwirtschaft*, an economy that is run for the benefit of national community.

The Hindenburg Program of 1916 which was designed to increase armament production on a long term basis further intensified the military-oriented nature of the economy. The unrealistically ambitious program could only be implemented if and when the wartime economic management system was reorganized and the instruments of industrial management were refined. The War Office (*Kriegsamt*) was created in 1916 to fulfill this task and centralize all experts and departments pertaining to armament. Under the leadership of General Wilhelm Groener (1867-1939) until summer 1917, it officially remained a part of the Prussian War Ministry but in fact worked independently. Despite its size and focus, not even the War Office succeeded in managing the arms industry efficiently and centrally.^[10]

With the help of the new institutions such as the war corporations and the War Office, the state expanded its intervention in the wartime economy. Involvement was greatest in the areas in which a branch of state armament industry was to be set up. Thus, the War Office not only continued to procure and requisition all raw materials needed for war, it also tried specifically to expand the capacities of the armament industry and optimize production by subsidizing the building of new factories, controlling investments and closing down small companies. State intervention played a more indirect role regarding import controls and the management of scarce resources. Allocating urgently needed raw materials, with the occasional threat of requisitioning, served as effective leverage when coordinating activities of private enterprise and extending state control of prices and profits.^[11]

Restructuring of Production

State regulation together with market forces primarily aimed to restructure production in order to manufacture a maximum amount of weapons and ammunition. This put civilian industry and agriculture at a disadvantage and led to shortages in raw materials and in the work force. Consequently, the index of non-military industrial production fell during the war by almost half, from 100 (1913) to fifty-seven (1918) and most of all in 1914 (to eighty-three) and 1915 (to sixty-seven).^[12] The conversion from a peacetime to a wartime economy changed supply and demand, had an adverse effect on markets, destroyed domestic and international economic relations, shifted weights and profits within industry, overburdened the [transport system](#) and caused a shortage of [labor](#). In the last year of the war, 45 percent of employees worked in “war industry,” 35 percent were involved in military and non-military branches of industry and only 20 percent worked in “peacetime

industry.”^[13]

As was mentioned above, adapting industry to wartime production caused shortages in two areas. First, raw materials were in short supply due to problems connected with production and transportation. In addition, the Allies' economic warfare hampered the import of saltpeter, cotton and various non-ferrous metals. Second, personnel were scarce. In the first few weeks and months after war broke out, the economic turbulence set in motion by military armament caused the number of people out of work to jump dramatically from 2.7 percent in July 1914 to 22.7 percent in September of the same year. After the initial “war shock” had passed, unemployment decreased to the point where the army and civilian industry were competing for skilled personnel.^[14]

Three different steps were taken to alleviate the manpower shortages: postponing military service, bringing labor relations under state control and recruiting additional workers. When mobilization began, the military did not consider the needs of industry, not even those of the armaments industry. Up until 1915, the military called about 4.4 million men to serve, a figure which rose to over 7.7 million by the beginning of 1918. Many of these were highly skilled industrial workers. Some of those conscripted workers soon had to be released back into the armaments industry where they were urgently needed. By 1916, 1.2 million workers were exempted, 740,000 of whom were listed as fit for military service. In 1918, 1.3 million of a total of 2.2 million workers were listed as fit for military service.^[15]

Labor relations between workers, unions and the state shifted as skilled workers were funneled into the armaments industry. State dictates were often softened with conciliations to the unions and the needs of the workers. This was clearly demonstrated in the Auxiliary Service Law of December 1916. For all men between the ages of seventeen and sixty, “civilian” service in factories or administrative offices took priority over active military service. Though the law restricted the free choice regarding the place of employment, it made provisions for corporate regulations, above all joint committees to represent the interests of workers, employees and management. This enhanced the status of the unions, won their approval and integrated them into the war efforts of the German Empire.^[16]

Although millions of men were called to serve in the army, the industry workforce only dwindled by 10 percent.^[17] The armaments industry attracted workers from other branches of industry, partly through higher wages and partly through state regulations. The more mass and assembly line production developed, the more companies were able to increase production without the need for more workers. As a result the number of people employed in the “war industries” rose by 44 percent and dropped by 40 percent in the “peace industries.” In addition, varying numbers of [prisoners of war](#) and foreign workers were conscripted.^[18] Later on, [women](#) and young people were signed up for work. The number of working women rose during the war by around 17 percent and by just under 46 percent in industry.^[19] There was, however, no mass mobilization of women who had not worked before. Most of the women who worked through the war had already been employed in domestic

service or agriculture. Thus, the proportion of employed women only rose moderately and the increase in numbers certainly matched the pre-war trends.^[20]

All in all, the difficulties of the wartime economy resulted were constantly increasing. The First World War destroyed a good third of the nation's wealth and led to a drop in industrial production of approximately 40 percent by 1918. Many of the detrimental economic consequences of war were obscured by inflation. More gravely, inflation concealed the fact that war had led to the redistribution of income and wealth and consequently altered the social fabric of the German Empire.^[21]

Economic Demobilization

Preparation for demobilization began in the last two years of the war. The looming problems connected with reverting back to a peacetime economy were perfectly clear. What was not clear was the role the state should play and, in particular, if the controlled economy should be abolished or used as a basis for a new economic system. The latter option was not carried through. So demobilization became a separate phase (*Übergangswirtschaft*) between a war and a peace economy.^[22]

As the war ended without the anticipated victory for Germany and there was not enough time to put previously prepared arrangements into practice, demobilization was largely improvised. After their experience during the wartime economy, industrial leaders and union representatives did not trust civilian and military authorities to bring about a smooth transition to a peacetime economy. They urged the Council of People's Commissars (*Rat der Volksbeauftragten*) to establish the Demobilization Office (*Reichsamt für wirtschaftliche Demobilmachung*) under the leadership of Joseph Koeth (1870-1936). He was known to be a pragmatic troubleshooter who was able to handle the demobilization and would not use it as an opportunity to restructure the economic system in a socialistic way.^[23]

The most important task of this new governmental office was the reintegration of former soldiers into non-military work and life. The dissolution, or in some cases self-dissolution, of military units and the large numbers of soldiers returning from the war caused unemployment to rise rapidly. In January 1919, when unemployment was at its peak, 1.1 million men and 380,000 women looking for work were registered with employment offices. A plan of action was created with four approaches to reduce unemployment and defuse the resultant social tension: first of all, better methods of job liaising and placement; second, increased number of jobs available by limiting an employee to eight working hours; more jobs in emergency services, with state and local authorities and in industry; third, freeing up existing jobs on a large scale for returning soldiers. This put women and young people who had found work in industry during the war at a distinct disadvantage; finally, benefits payments, in particular unemployment assistance for those who were initially unable to find work.^[24]

The Demobilization Office's policy amounted to a pragmatic solving of problems and a fast reduction

or abolition of wartime regulations. 1919 turned out to be the critical phase regarding economic demobilization. Because armaments production had stopped from one day to the next, coal and other raw materials were still scarce and transport capacity shrank. Industrial production dropped drastically to only 37 percent of the pre-war level. [25]

Conclusion

It is almost impossible to ascertain which problems of the post-war period were a direct result of the war and which were part of longer term changes which the war had either accelerated or slowed down. One thing is certain: the war shifted the emphasis of the global economy, influenced world trade, reduced Europe's share in the world economy, made international cooperation more difficult (creating new areas of conflict such as the issue of reparations), intensified the tendency towards protectionism and increased reservations regarding the division of labor between different countries. All this led to structural imbalances in the global economy and made for a complicated economic adjustment process. [26]

The First World War not only altered world economic structures, but also had varying effects on the individual national economies which grew more slowly during the interwar years than before the war. The states in Europe which had remained neutral during the Great War were best off. Between 1913 and 1929 their growth rates ranged on average between 1.9 and 3.6 percent. With the exception of Great Britain, the winners of the war followed with growth rates between 1.4 and 1.9 percent.

Germany and Austria who had lost the war came last with 1.2 and 0.3 percent respectively. [27] As Franz Eulenburg so aptly said, their economies in particular had "suffered serious effects of war," thus turning a wartime economy into a "form of national economic suicide." [28]

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Notes

1. ↑ Eulenburg, Franz: Zur Theorie der Kriegswirtschaft, in Archiv für Sozialwissenschaft und Sozialpolitik, 43 (1916), pp. 349-396 and p. 350.
2. ↑ For the first aspect cf. Ullmann, Hans-Peter: Financing Global War, in: Winter, Jay et al. (eds.): The Cambridge History of the First World War, vol. 2. Cambridge 2014, pp. 408-433.

3. ↑ This article is based on Ullmann, Hans-Peter: Kriegswirtschaft, in: Hirschfeld, Gerhard/Krumeich, Gerd/Renz, Irina (eds.): Enzyklopädie Erster Weltkrieg. Paderborn 2004, pp. 220-232 and Ullmann, Hans-Peter: Das Deutsche Kaiserreich, Frankfurt 2009, pp. 236ff. For basic comparisons cf. Hardach, Gerd: The First World War 1914-1918, Harmondsworth 1987; Broadberry, Stephen/Harrison, Mark (eds.): The Economics of World War I, Cambridge 2005.
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10. ↑ Feldman, Army, Industry and Labor 1966, pp. 190ff.
11. ↑ Ibid.
12. ↑ Ritschl, Albrecht: The Pity of Peace: Germany's Economy at War 1914-1918 and Beyond, in: Broadberry/Harrison, Economics 2005, pp. 41-76, p. 46.
13. ↑ Kocka, Jürgen: Klassengesellschaft im Krieg. Deutsche Sozialgeschichte 1914-1918, Göttingen 1973, pp. 12f.
14. ↑ Feldman, Army, Industry and Labor 1966, pp. 63ff., 197ff.
15. ↑ Ibid., p. 73; Ferguson, Niall: Der falsche Krieg. Der Erste Weltkrieg und das 20. Jahrhundert, Stuttgart 1999, p. 260.
16. ↑ Feldman, Army, Industry and Labor 1966, pp. 197ff.
17. ↑ Kocka, Klassengesellschaft 1973, pp. 12f.
18. ↑ Hinz, Uta: Gefangen im Großen Krieg. Kriegsgefangenschaft in Deutschland 1914-1921, Essen 2006, pp. 248ff.
19. ↑ Kocka, Klassengesellschaft 1973, pp. 12f.
20. ↑ Daniel, Ute: Arbeiterfrauen in der Kriegsgesellschaft. Beruf, Familie und Politik im Ersten Weltkrieg, Göttingen 1989, pp. 36ff.
21. ↑ Feldman, Gerald D.: The Great Disorder. Politics, Economics and Society in the German Inflation 1914-1924, Oxford 1997, pp. 25ff.
22. ↑ Zunkel, Rudolf: Industrie und Staatssozialismus. Der Kampf um die Wirtschaftsordnung in Deutschland 1914-1918, Düsseldorf 1974; Ehlert, wirtschaftliche Zentralbehörde 1982, pp. 53ff.

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28. † Feldman, The Great Disorder 1997, p. 55.

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