
Gold, Debt and the Quest for Monetary Order: The Nazi Campaign to Integrate Europe in 1940

Forum: Visions of European Integration Across the Twentieth Century

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This article explores Nazi visions for a new monetary order in 1940 and compares these plans with European monetary integration after 1945. It shows how Nazi experts identified the same core monetary challenges facing Europe as Allied planners did during and after the Second World War, above all challenges stemming from the Great Depression and associated with the gold standard, international debts, capital scarcity and bilateral treaties. This comparison suggests a certain logic was inherent to reconstructing European monetary relations after the depression, insofar as few viable alternatives seemed open – either in 1940 or after 1945 – to some form of multilateral payment system that was divorced from gold, yet that still fixed Europe’s currencies to one another. Ultimately, it argues that 1940 marks an important step in a longer process in which Europe moved away from territorial currencies toward a monetary union, and in doing so expanded the framework of fiat currency beyond national markets to encompass the continent.

On 25 July 1940, before an assembly of German and foreign press representatives in Berlin, Reichsbank Director and Economics Minister Walther Funk announced plans to integrate Western Europe under Nazi rule. The Funk Plan marked the Nazis’ most concerted attempt to design a monetary order that would bind together Europe’s currencies under German hegemony, turn the reichsmark into a global medium of exchange and create an economic space to compete with the United States, the British Empire and the Soviet Union. The plan stimulated intense reflection in Britain and America about the future of Europe, and it was in turn the outcome of a heated debate among German officials, industrialists and bankers about how to organise Europe economically, a debate sparked by the Wehrmacht’s conquest of Norway, Denmark, Belgium, the Netherlands and France in 1940. During the late spring and

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early summer a number of competing integration proposals emerged from Berlin, with ideas ranging from a common currency and customs union to a European central bank and a multilateral clearing centre. With his official announcement Funk hoped to quell internal disagreements and present a definitive vision for a new monetary order to the Third Reich's conquered subjects.¹

Germany never implemented Funk's plans in anything like their entirety. Following Operation Barbarossa, Nazi leaders abandoned their integration ideas and instead imposed economic arrangements on the defeated countries on an ad hoc basis, exporting inflation, coercively importing foreign labour and expropriating assets.² As a result, scholars of the Third Reich have often seen 1940 as a euphoric planning frenzy that had little bearing on the rest of the war or post-war developments.³ Likewise, the conventional narratives about European integration or the construction of monetary order after 1945 largely avoid reference to Nazi schemes as an antecedent.⁴ Yet from the German standpoint, 1940 was arguably the most intense period of integration planning before the West German government began crafting a response to the Schuman Plan in 1950. And with increasing frequency, some historians now argue that European integration has an important 'prehistory that includes the Third Reich'.⁵

Indeed, 1940 belongs as a unilateral and failed but still illuminating step in Europe's quest to move away from territorial currencies and build a regional monetary order to replace the gold standard. From the 1870s to 1914 the states of Western Europe

¹ Walter Lipgens, ed., *Documents on the History of European Integration* (New York: De Gruyter, 1985), doc. 6.

² Adam Tooze, *Wages of Destruction: the Making and Breaking of the Nazi War Economy* (New York: Penguin Press, 2006); Hein Klemann and Sergei Kudryashov, *Occupied Economies: an Economic History of Nazi-Occupied Europe, 1939–1945* (New York: Berg, 2012); Gotz Aly, *Hitler's Beneficiaries: Plunder, Racial War, and the Nazi Welfare State* (Frankfurt a.M.: Fischer Verlag, 2005).

³ Ludolf Herbst, *Der Totale Krieg und die Ordnung der Wirtschaft: Die Kriegswirtschaft im Spannungsfeld von Politik, Ideologie und Propaganda* (Stuttgart: Deutsche Verlags-Anstalt, 1982), 127–43; Michael Burleigh, *The Third Reich: A New History* (New York: Hill and Wang, 2000), 422–31; Harold James, 'Post-War German Currency Plans', in Christoph Buchheim, Michael Hutter and Harold James, eds., *Zerrissene Zwischenkriegszeit: wirtschaftshistorische Beiträge. Knut Borchardt zum 65. Geburtstag* (Baden-Baden: Nomos, 1994), 205–18.

⁴ Desmond Dinan, *Ever Closer Union: An Introduction to European Integration* (Boulder: Lynne Rienner, 2010); John Gillingham, *European Integration, 1950–2003. Superstate or New Market Economy?* (New York: Cambridge University Press, 2003); Wolfram Kaiser, Brigitte Leucht and Morten Rasmussen, eds., *The History of the European Union: Origins of a Trans- and Supranational Polity, 1950–72* (New York: Routledge, 2009); Ben Steil, *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order* (Princeton: Princeton University Press, 2013); Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System* (Princeton: Princeton University Press, 2008). An exception is Robert Skidelsky, *John Maynard Keynes 1883–1946: Economist, Philosopher, Statesman* (New York: Penguin Books, 2003), 669–78.

⁵ Quotation from Thomas Sandkühler, 'Europa und der Nationalsozialismus. Ideologie, Währungspolitik, Massengewalt', *Zeithistorische Forschungen/Studies in Contemporary History*, 9 (2012), 428–41, here 433; See also Thomas Sandkühler, ed., *Deutsche Hegemonialpolitik gegenüber Westeuropa, 1920–1960* (Göttingen: Wallstein, 2002); Mark Mazower, *Dark Continent: Europe's Twentieth Century* (New York: Vintage Books, 1998), 150–1; Mark Mazower, *Hitler's Empire: Nazi Rule in Occupied Europe* (New York: Penguin, 2008), 102–36, 570–2; Hans-Erich Volkmann, 'Zur Europäischen Dimension nationalsozialistischer Wirtschaftspolitik', in Hans-Erich Volkmann, ed., *Ökonomie und Expansion: Grundzüge der NS-Wirtschaftspolitik* (Munich: Oldenbourg Verlag, 2003), 19–44.

maintained national currencies tied to one another through the medium of gold. Gold was the physical material on which the goldmark, the pound and the franc were based. Gold instilled confidence in the paper notes that increasingly entered the marketplace. And gold created a framework to regulate trade, debt and investment between the sovereign states of Europe.⁶ After the First World War Europeans tried to resurrect this system, and in fact distinct, territorial currencies connected to gold became more popular than ever during the 1920s.⁷ But the Great Depression, the Second World War and the monetary turbulence of the 1970s destroyed the gold standard and revealed how vulnerable national currencies could be to global forces. As a consequence, during this turbulent half century the idea that value inhered in a precious metal like gold crumbled, as did the notion that a single framework could automatically regulate the relationship of one currency to another.⁸ In their place a new idea arose from a variety of social, political and intellectual milieus that European states should move away from territorial currencies toward a monetary union, and in doing so expand the framework of fiat currency beyond their national markets to encompass the continent.

In the conventional genealogy this quest for a new European monetary order dates back to 1941, when John Maynard Keynes and Harry Dexter White drafted plans for a system to replace the gold standard. The search continued over the coming decades in the Bretton Woods conference of 1944, the European Payment Union of 1950, the European Monetary Agreement of 1955, the transition to currency convertibility in 1959 and, finally, following the collapse of Bretton Woods, in the campaign to fix Europe's now fiat currencies to one another in a world of floating exchange rates.⁹ At the heart of this debate was the question of how to link together politically independent, national monetary systems in such a way that stabilised trade and investment flows but avoided the rigidities of the gold standard and gave sufficient space for domestic fiscal and monetary policy.

Yet in many ways this quest for monetary order began not in London, New Hampshire or Brussels, but in Berlin in 1940. Indeed, Nazi discussions illustrate how Europe's rejection of the gold standard and its road to a new type of monetary integration was not just a reaction to the Second World War but also a response to the Great Depression.¹⁰ More specifically, the discussions in 1940 suggest that a

⁶ Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939* (New York: Oxford University Press, 1995); Giulio M. Gallarotti, *The Anatomy of an International Monetary Regime: The Classical Gold Standard, 1880–1914* (New York: Oxford University Press, 1995).

⁷ Eric Helleiner, *The Making of National Money: Territorial Currencies in Historical Perspective* (Ithaca: Cornell University Press, 2003), 140–62.

⁸ Eichengreen, *Globalizing Capital*; Jeffrey Frieden, *Global Capitalism: Its Fall and Rise in the Twentieth Century* (New York: W.W. Norton, 2006).

⁹ Kenneth Dyson, *Elusive Union: The Process of Economic and Monetary Union in Europe* (New York: Longman, 1994); Eichengreen, *Globalizing Capital*; Steil, *Bretton Woods*; Helleiner takes a different view, tracing the origins to American money doctors in Latin America during the interwar years. Eric Helleiner, *Forgotten Foundations of Bretton Woods: International Development and the Making of the Postwar Order* (Ithaca: Cornell University Press, 2014).

¹⁰ As Alan Milward suggested thirty years ago, 'Western Europe was reconstructed, not from the destructive consequences of the Second World War only, but from those of the catastrophic economic

certain logic was inherent to reconstructing European monetary relations in the wake of the depression, insofar as few viable alternatives seemed open – either in 1940 or after 1945 – to some form of multilateral payment system that was divorced from gold, yet that still fixed Europe's currencies to one another. In striking contrast to integration after 1945 – a contested negotiation between sovereign states¹¹ – 1940 was a moment of policy openness in which a thoroughly revisionist regime had the chance as well as the power to refashion Europe's monetary system as it saw fit. Nazi planners had nearly free rein to imagine their *ideal* monetary order tailored to German desires. That they identified similar problems and proposed similar solutions as post-war planners suggests Europe faced underlying structural issues that could only be overcome through a limited array of policy choices. Examining 1940, in other words, can give context to the options open to European leaders after the Second World War and help us understand the limits that circumscribed those options.

In 1940 the architects of Nazi integration plans came from the Economics Ministry and the Reichsbank, two institutions whose expertise had been moulded by the currency turbulence of the depression. The other institutions that might have taken the lead in integration planning – Joachim von Ribbentrop's Foreign Office or Schwerin von Krosigk's Treasury Ministry – were pushed aside by Hermann Göring, who Hitler charged with orchestrating Germany's post-war economic vision, and whose portfolio of powers included the Economics Ministry and the Reichsbank.¹² Both administrations solicited input from the social groups they worked most closely with – exporters and heavy industry for the Economics Ministry; bankers and monetary theorists for the Reichsbank – and their plans reflected these conversations.¹³

In the process of working through complaints and hopes from a range of interest groups, the Economics Ministry and the Reichsbank anticipated many of the problems and technical solutions that would animate European monetary debates after 1945. First, and most generally, planners in both 1940 and after 1945 sought

collapse of 1929–1932'. Alan Milward, *The Reconstruction of Western Europe, 1945–1951* (Berkeley, CA: University of California Press, 1984), 463; see also Robert Boyce, *The Great Interwar Crisis and the Collapse of Globalization* (London: Palgrave MacMillan, 2009); Alessandro Roselli, *Money and Trade Wars in Interwar Europe* (New York: Palgrave MacMillan, 2014).

¹¹ Andrew Moravcsik, *The Choice For Europe: Social Purpose and State Power from Messina to Maastricht* (Ithaca: Cornell University Press, 1998); Alan Milward, *The European Rescue of the Nation-State* (New York: Routledge, 2000); Walter Lipgens, *A History of European Integration: The Formation of the European Unity Movement*, Vol. I (Oxford: Oxford University Press, 1982).

¹² Ribbentrop's experts wanted to integrate Western Europe in one fell swoop immediately after the end of hostilities, but the other planning authorities rejected this shock approach. Surprisingly, Krosigk hardly figured in these debates; only occasionally did he enter in the conversation to advance a gradualist approach. On the power struggle between Göring and Ribbentrop see Auswärtiges Amt, *Documents on German Foreign Policy (DGFP)*, (Washington: U.S. Government Printing Office, 1949–64), Vol. X, doc. 103, 115 and doc. 142, 170; Marc Buggeln, 'Währungspläne für den europäischen Grossraum', in Sandkühler, ed., *Deutsche Hegemonialpolitik*, 41–76, here 50–1; On Krosigk's noteworthy absence see the integration forum, 'Um ein neues Europa: Die Stellung der deutschen Exportwirtschaft', with essays from all the major players, though not him, in *Die Deutsche Volkswirtschaft*, 10/9 (1940).

¹³ Buggeln, 'Währungspläne'; Marc Buggeln, 'Europa-Bank oder Dollar-Freihandel?' in Sandkühler, ed., *Deutsche Hegemonialpolitik*, 127–44.

to reduce the transaction costs associated with cross border trade and investment by stabilising currencies. Second, in both moments the spaghetti bowl of bilateral treaties that governed European trade proved to be a, if not *the*, major obstacle to reconstruction. Third, both in 1940 and after 1945 integration experts believed Europe's capital scarcity as well as its payment and debt imbalances prevented a return to multilateral trade and could only be solved with outside assistance. Finally, in both moments policy makers believed Europe needed to replace gold as a standard of value with something less rigid, and move toward an international fiat system. In approaching these questions, moreover, rifts that would become familiar after 1945 developed among the various groups engaged in monetary planning during 1940. Should monetary policy be the purview of government ministries or the central bank? Should Europe pursue an interventionist, anti-cyclical economic policy or merely aim for currency stability? Should the burden of correcting trade and payment imbalances be placed on the deficit or surplus countries or managed by a supranational institution?

If Nazi experts identified many of the underlying structural issues and technical solutions, they nevertheless advanced a very different final vision for a new monetary order than the one advocated by Keynes: an embedded hierarchy in contrast to the embedded liberalism actually implemented after 1945.¹⁴ They wanted to place the supranational process of monetary integration in the service of a hyper-nationalist and racist ideology.

The End of Gold and the New Regime of Bilateralism

The Great Depression spawned a new regime of monetary and trade bilateralism that grew to encompass much of Europe, and it is here that the search for a new European monetary order in many ways begins. For the depression shattered the gold standard, ended the relatively smooth flow of goods and investment across European borders and created the capital scarcity, price differentials and debt imbalances that would hamstring Europe until the 1950s. Germany lay at the heart of this tragedy. Massively reliant on imported capital from the United States since the Dawes Plan in 1924, Germany began experiencing capital flight as early as 1928, which accelerated with the global downturn in 1929 and again following bank crises in 1931. At the same time as capital streamed out of Germany, global trade collapsed, severely damaging Germany's export-oriented economy. Between 1929 and 1933 German exports fell by half as global demand declined and Germany's traditional trade partners, above all the United States and United Kingdom, raised tariffs, abandoned the gold standard and devalued their currencies.

Capital flight and the collapse in trade caused Germany and other European states to create a new trade and investment regime that persisted until well after the Second World War. For one, this new regime did away with gold. Germany's central bank,

¹⁴ John Gerard Ruggie, 'International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order', *International Organization*, 36, 2 (1982), 379–415; Helleiner, *Bretton Woods*, 7.

the Reichsbank, haemorrhaged gold between 1929 and 1934 as it struggled to meet the demands of foreign creditors to withdraw capital, and after 1932 as it strained to finance Germany's growing trade deficit. In 1931 the Reichsbank implemented currency controls to halt the outflow of gold and foreign currency. While Germany remained on the gold standard symbolically, these measures effectively closed the gold window and suspended repayment on the huge international debt Germany had accrued since the 1920s, some 8 billion RM. After 1933 Hitler's new central banker, Hjalmar Schacht, expanded capital controls through the New Plan by establishing supervisory agencies that tightly monitored foreign currency transactions and foreign trade. By the middle of the 1930s German gold reserves had nearly evaporated and the Reichsbank had assumed near total control over the cross-border movement of gold and debt.¹⁵

Second, the depression prompted European states to make bilateral agreements the new foundation for economic relations with their neighbours. While bilateral clearing was first proposed by Austria in 1931, under the Nazis Germany began implementing these on a widespread basis.¹⁶ Through clearing agreements government officials directly negotiated with partner countries to regulate the price, volume and delivery date of exports and imports. These arrangements obviated the need to exchange hard currency or gold between states, they gave government officials control over the value of a currency and they theoretically, if not in practice, required trade between partner countries to balance over the long term. By 1939 nearly every continental European country engaged in some form of bilateral treaty or currency control.¹⁷

Third, the depression, capital controls and bilateral agreements generated massive price misalignments between European states. While some countries like the United Kingdom formally left gold and devalued their currencies, others did not. Germany symbolically retained its link to gold and consequently maintained a high price for the reichsmark, but compensated for this cost to its exporters by subsidizing them through complicated debt buy-back mechanisms. The clearing agreements, furthermore, led to many different types of reichsmarks – askimarks, sperrmarks, registermarks and reisemarks, among others – that had varying exchange rates depending on the country or the product in question. As a result of these policies, by the end of the 1930s

¹⁵ Albrecht Ritschl, *Deutschlands Krise und Konjunktur 1924–1934* (Berlin: Akademie Verlag, 2002); Harold James, *The End of Globalization: Lessons from the Great Depression* (Cambridge: Harvard University Press, 2001), 51–63; Howard Ellis, *Exchange Control in Central Europe* (Cambridge: Harvard University Press, 1941), 158–89, figures from 170 and 177; Liaquat Ahamed, *The Lords of Finance: The Bankers who Broke the World* (New York: Penguin Books, 2009), 393–421; Charles Kindleberger, *The World in Depression, 1929–1939* (Berkeley: UC Press, 1986), 153; Tooze, *Wages*, chs. 3, 4 and 5; Michael Ebi, *Export um jeden Preis. Die Deutsche Exportförderung von 1932–1938* (Stuttgart: Franz Steiner Verlag, 2004).

¹⁶ Roselli, *Trade Wars*, 120.

¹⁷ Ellis, *Exchange Control*, 261, 290–372; Ralf Banken, 'Das nationalsozialistische Devisenrecht als Steuerungs- und Diskriminierungsinstrument 1933–1945', in Johannes Bahr and Ralf Banken, eds., *Wirtschaftssteuerung durch Recht im Nationalsozialismus* (Frankfurt a.M.: Vittorio Klostermann, 2006), 121–236; The Nazis also used capital controls to dispossess emigrating Jews of their assets. Martin Dean, *Robbing the Jews: The Confiscation of Jewish Property in the Holocaust, 1933–1945* (New York: Cambridge University Press, 2008).

Germany's domestic price level was much higher than its European neighbours, 40 to 50 percent higher according to Reichsbank estimates.¹⁸

By the end of the 1930s Europe's trading and monetary relationships had evolved into a barter system, in which exchange happened on a near one-to-one basis. These agreements solved certain problems but only at the expense of generating new challenges. The bilateral treaties were cumbersome, the byzantine regulations imposing serious costs and creating major problems in the flow of information and goods across borders.¹⁹ Intra-European trade stagnated during the 1930s as the continent and the world fragmented into distinct currency zones – the sterling bloc, the dollar bloc, the franc bloc and the reichsmark bloc.²⁰

The Economics Ministry and European Integration

Nazi planning for the monetary future of Europe thus took place not only in the context of its military victories but also against the backdrop of the continent's new regime of bilateralism, currency controls, gold scarcity and price differentials. Indeed, Nazi leaders thought conquest gave them the pretext to change this regime, and as German divisions swept across northern France Hermann Göring charged his deputy Walther Funk with ending 'the economic Balkanization of Europe'. In late May and early June 1940 Funk commissioned experts in his two administrations – the Economics Ministry and the Reichsbank – to design plans to integrate Western Europe under German hegemony. Over the coming months these two groups would wrestle over Europe's future monetary order.²¹

In the Economics Ministry Funk placed Gustav Schlotterer in charge of integration planning. Schlotterer was a news editor who after 1933 became the economic advisor to the Nazi administration in Hamburg, where he organised the campaign to expropriate property from emigrating Jews. After 1935 he brought this experience to the Economics Ministry, where he managed the foreign trade department and expanded the campaign to confiscate Jewish wealth.²²

During the summer of 1940 Schlotterer began collecting opinions from a range of German business leaders on how to organise a future European market and how to identify the biggest hurdles to reviving intra-European exchange and

¹⁸ 'Die Möglichkeit einer allgemeinen Währungsangleichung nach dem Kriege', 30 Mar. 1940, Bundesarchiv Berlin (BAB), 2501, 6433; Roselli, *Trade Wars*, 105–37.

¹⁹ Karl Ritter's memo on bilateralism in *DGFP*, Vol. V, doc. 511, 17 Aug. 1936; Stephen G. Gross, *Export Empire: German Soft Power in Southeastern Europe* (Cambridge: Cambridge University Press, 2015).

²⁰ Eichengreen, *Golden Fetters*, 337–55; Harold James, *The Nazi Dictatorship and the Deutsche Bank* (New York: Cambridge University Press, 2004), 187. See also R. Spreng, 'Vereinfachung der Devisenbewirtschaftung', *Bank-Archiv: Zeitschrift für Bank- und Börsenwesen*, 39 (1939), 537.

²¹ Buggeln, 'Währungspläne', 50–51; *DGFP* Vol. X, doc. 103 and doc. 142; Alan Milward, *The New Order and the French Economy* (Oxford: Clarendon Press, 1970), 46–7; quotation from Göring in Reich Chancellery Memorandum 'Organization of the German Economy', 9 July 1940, doc. 3, in Lipgens, *Documents*, 57.

²² Frank Bajohr: 'Aryanisation' in *Hamburg: The Economic Exclusion of Jews and the Confiscation of their Property in Nazi Germany* (New York: Berghahn Books, 2001); Buggeln, 'Währungspläne', 51.

investment.²³ Among Germany's export-oriented, less concentrated industrial circles two concerns quickly emerged. First, there was consistent criticism of the bilateral treaties for restricting access to foreign markets and imports. Although most export representatives realised they could not jettison bilateralism overnight, none saw the existing framework as ideal. As the Ruhr trade committee reported, in the post-war economy 'we must, above all, strive for a reduction of import and export limitations. . . . We must try to simplify the entire tariff and customs system . . . even more urgently needed is the creation of a unified customs scheme for Europe as a whole.'²⁴ According to the trade committee in Düsseldorf, the bilateral system needed deconstructing, even if gradually: 'on the other side of these controls firms must have free room to engage in foreign trade'.²⁵

Second, German exporters desperately wanted to avoid the currency turmoil of the 1930s. At the very least, they wanted to make the reichsmark the 'leading currency unit' for Europe, around which the others were oriented.²⁶ Some went further, calling for European countries to actually bind their currencies together. The trade committee for North Bavaria, a region of small, artisanal manufacturers specialising in ceramics and light mechanical equipment, explained how, 'it would be essential that the currencies of the various European countries be placed in a fixed relationship to one another, so the economy can calculate with firm numbers. It would greatly alleviate daily work if a unified currency could be introduced in Europe.'²⁷ In criticising currency volatility and bilateralism, German exporters identified problems that would burden European trade until the 1950s.

To a certain extent, the ideas of heavy industry overlapped with those of small exporters, above all in their desire to end bilateralism.²⁸ Yet in contrast to light industrial exporters, heavy industry focused much more on gaining preferential access for their goods and using cartels and state planning to influence price levels in Western Europe. Many German industrialists had been protesting against most-favoured nation trade accords since the late 1920s, viewing them as a tool of Anglo-American economic influence.²⁹ Military conquest now offered the chance to overturn this framework to Germany's advantage. For instance, in 1940 IG Farben, Germany's largest chemical company, wanted to dismantle the tariff and quota systems in Western Europe to ensure special treatment for German chemical products and boost their post-war competitive position vis-à-vis American firms.³⁰ Coal producers

²³ The initial queries went out on 22 July 1940. Reichstelle für Aussenhandel, Response of Foreign Trade Office for Lower Rhine, 10 Aug. 1940, BAB, R9, 122, 3/3.

²⁴ Response from North Westphalia and Ruhr, 16 Aug. 1940, BAB, R9, 122 3/3.

²⁵ Response from Lower Rhine / Düsseldorf, 10 Aug. 1940, BAB, R9, 122 3/3.

²⁶ Response from Saxony, 16 Aug. 1940, BAB, R9, 122 3/3.

²⁷ Response from North Bavaria, 16 Aug. 1940, BAB, R9, 122 3/3.

²⁸ Herbst, *Totale Krieg*, 145; Wei Li, *Deutsche Pläne zur europäische wirtschaftlichen Neuordnung 1939–1945* (Hamburg: Verlag Dr. Kovac, 2007), 75–114.

²⁹ Carl Freytag, *Deutschlands 'Drang nach Südosten': Der Mitteleuropäische Wirtschaftstag und der 'Ergänzungsraum Südosteuropa' 1931–1945* (Vienna: Vienna University Press, 2012).

³⁰ Peter Hayes, *Industry and Ideology: IG Farben in the Nazi Era* (Cambridge: Cambridge University Press, 1987), 266–73; von Schnitzler and Dr. Krueger, 'Concerning the "New Order" Planning for the

went even further, demanding Germany unite the coal producing regions in Belgium, the Netherlands, Luxembourg and northern France into a single customs union.³¹ Accompanying these demands were calls from heavy industry to control European prices and force them up by both extending German cartel networks westwards and bringing coordinated planning to the region. Such ideas for intra-European cartelisation date back to the 1920s, when Germany, France, Belgium and Luxembourg established an international steel cartel to regulate production and trade. While this framework broke down during the depression, it served as a model heavy industry hoped to revamp in a new form in the context of Germany's military preponderance.³² Coal producers wanted to incorporate Western European mines into the powerful Rhine-Westphalian Coal Syndicate and increase local prices to match the high price levels of the Ruhr. The Reichs Group Industry – an association of Germany's most concentrated industrial producers – likewise hoped to use cartels to control prices and coordinate industrial planning in France, Belgium, the Netherlands and Denmark.³³

For the Economics Ministry the complaints about bilateralism and currency volatility, and the suggestions for fixed currencies, price adjustments and cartels came as no surprise. In June and July Schlotterer had compiled his own internal assessments of Europe's economic problems, and his advisors came to similar conclusions: one major goal 'must be the removal of the clearing accounts!' In the future, German agencies could no longer afford to 'monitor each individual commercial transaction' with foreign countries, as was currently the case.³⁴

Ending bilateralism and influencing foreign price levels became major goals for the Economics Ministry's integration exposés, the most wide-ranging of which were authored by Herbert Martini. Martini was a career bureaucrat who had risen to become director of the Ministry's banking department.³⁵ Martini sketched out three potential currency systems for a Europe under German domination: a single currency,

Chemical Field in Relation to the Possible Formation of a European Economic Sphere', 3 Aug. 1940, in *Nuremberg Military Tribunals*, Vol. VII (Washington, DC: US Government Printing Office, 1953), 1451–62.

³¹ 'Schreiben des Rheinisch-Westfälischen Kohlensyndikats an Reichswirtschaftsminister Funk', 3 Sept. 1940, doc. 118 in Reinhard Opitz, ed., *Europastrategien des deutschen Kapitals 1900–1945* (Bonn: Pahl-Rugenstein, 1994), 766–9.

³² On cartels see John Gillingham, *Coal, Steel, and the Rebirth of Europe, 1945–1955. The Germans and French from Ruhr Conflict to Economic Community* (Cambridge UK: Cambridge University Press, 1991) and Dieter Ziegler, 'A Regulated Market Economy? New Perspectives on the Nature of the Economic Order of the Third Reich' in Hartmuff Berghoff, ed., *Business in the Age of Extremes* (New York: Cambridge University Press, 2013), 139–52.

³³ 'Aus einem Tätigkeitsbericht des Hauptgeschäftsführers der Reichsgruppe Industrie, Karl Guth', 15 July 1940, doc. 105, in Opitz, *Europastrategien*, 702–3; Wilhelm Zangen's (of RGI) response to Gustav Schlotterer, 3 Oct. 1940, doc. 620 in J. Noakes and G. Pridham, eds., *Nazism 1919–1945. Volume 3: Foreign Policy, War and Racial Extermination. A Documentary Reader* (Exeter: University of Exeter Press, 1988), 894–8; 'Aus einer streng vertraulichen Aktennotiz des Geschäftsführers der Wirtschaftsgruppe Feinmechanik/Optik, Karl Albrecht', 19 June 1940, doc. 98 in Opitz, *Europastrategien*, 684–5.

³⁴ Quotation from 'Punkte für die Satzung der Bank für europäischen Zahlungsausgleich', 3 July 1940, BAB, Reichsbank R250I, 6428.

³⁵ Buggeln, 'Währungspläne', 55, fn 45.

a currency union and a loose federation of currencies. The former would mean extending the reichsmark as the only usable currency across Western Europe and erecting a single customs barrier around the European market. For Martini the only advantages to this were its simplicity; the disadvantages were legion. Most importantly, abolishing the currencies of Western Europe would require such grave intervention into the incorporated countries that it could only be done with compulsion and would violate their 'national self-consciousness' in an unproductive manner. On the other end of the spectrum, Martini outlined a loose monetary federation where each state would retain its own currency, capital controls, price levels, tariffs and quotas. For Martini this had the advantage of not requiring force to implement and serving as a cautious first step towards more thorough integration. Yet here too, in his mind, the disadvantages outweighed the benefits. A loose federation would do nothing to end bilateralism and would allow countries to disengage from the integration process too easily.³⁶

Martini thus settled on the middle path, a currency union. Each state would retain its own currency, which would be valid only within that country's borders. But all currencies would be tied to the reichsmark and, importantly, firms and banks could spend and accept reichsmarks in any union countries. Germany would extend its own capital controls across Europe, guide the monetary and price policies of the occupied countries through a new European Bank or by placing German officials in other central banks and replace bilateral trade with a multilateral clearing centre.³⁷

Multilateral clearing was Martini's most important innovation, and in crucial ways it anticipated the European Payments Union of 1950. Under the bilateral system European countries had to balance their trade deficits and surpluses with each other individually, leading to coordination problems. Through multilateral clearing, each country would only 'need to balance its payment deficits or surpluses with the currency union area as a whole', giving countries more flexibility. Each country would also purchase stock in a new European Central Bank, which could use these funds to help smooth out trade deficits or debt imbalances as they emerged between the individual countries. Martini admitted this framework might be complicated, particularly the possibility of having two currencies in a single country. Yet he believed this was the best way to end bilateralism and tie Europe's currencies to one another while retaining German control over the system.³⁸

Schlotterer, it seems, liked Martini's proposals for a multilateral system.³⁹ He hoped that ending rigid bilateral controls would allow Berlin to implement a European

³⁶ 'Währungsfragen im europäischen Grossraum' from Martini, likely late June or early July, BAB, R2501, 6428, 24; Report from Albert Pietzsch, President of Reichswirtschaftskammer, 'Zur Frage der Ordnung des europäischen Wirtschaftsraums', 24 July 1940, doc. 108 in Wolfgang Schumann and Ludwig Nestler, eds., *Weltherrschaft im Visier* (Berlin: Deutscher Verlag der Wissenschaften, 1975), 268–70.

³⁷ 'Währungsfragen im europäischen Grossraum', BAB, R2501, 6428.

³⁸ 'Währungsfragen im europäischen Grossraum', BAB, R2501, 6428. See also Reichsbank's comments on Martini's proposals in 'Währungsfrage im Europäischen Grosswirtschaftsraum', 6 July 1940, *Ibid.*

³⁹ 'Aus der Niederschrift einer Besprechung im RWM über "Fragen der wirtschaftlichen Neugestaltung Europas"', 15 July 1940, doc. 107 in Schumann and Nestler, *Weltherrschaft*, 266–7.

industrial policy.⁴⁰ Here he agreed with heavy industry on the need to manage prices and production in, and mitigate competition from, the occupied territories. As he remarked later that autumn, ‘the production costs that obtain in Germany must be decisive. . . . In the end, others must orient themselves to our price level.’⁴¹ Through Martini’s multilateral system Schlotterer wanted to extend German cartels into the occupied countries, export German capital into Western Europe to gain control of local firms and dictate a ‘rational division of labour’ for the continent – or rather, a division of labour that favoured Germany – by controlling prices and the allocation of raw materials and credit.⁴² According to Schlotterer’s state secretary in the Economics Ministry, such economic guidance would eliminate ‘business cycles and crises in the traditional sense’, and ensure German mastery over the continent.⁴³

The Reichsbank and European Integration

Elsewhere in Berlin, officials in the Reichsbank were drawing up their own plans to impose a new monetary order on Europe, and they did so in conversation with a different group of elites: German bankers and monetary theorists.⁴⁴ In 1937 Hitler had made the Reichsbank formally subservient to him, and in January 1939 he purged the Reichsbank leadership after it protested against his inflationary financing of rearmament. But though the Reichsbank lost influence in the Nazi polycracy, it retained critical expertise in the field of monetary policy and used this to jealously guard its shrinking portfolio of powers. To replace Schacht Hitler appointed Funk as President and Emil Puhl – a career bureaucrat and Nazi Party member since 1934 – as Vice President. Puhl had circulated through the Reichsbank’s local branches before coming to Berlin in 1929 to work on foreign currency. Since 1933 he had specialised in foreign payment and credit. In 1940 Puhl took the lead in integration planning in the

⁴⁰ ‘Karl Albrecht: Gustav Schlotterer’s views on the “New Order in Europe”’, 19 July 1940, doc. 4 in Lippens, *Documents*, 59–60; ‘Aus einer streng vertraulichen Aktennotiz des Geschäftsführers der Wirtschaftsgruppe Feinmechanik/Optik, Karl Albrecht’, 19 June 1940, doc. 98 in Opitz, *Europastrategien*, 684–5; see also Li, *Deutsche Pläne*, 54.

⁴¹ Quotation from Schlotterer to RGI Sitzung, 3 Oct. 1940, BAB, R8122, 125. See also report of meeting between Puhl and Schlotterer, 2 July 1940, BAB, 2501, 7017; ‘Aus der Niederschrift einer Besprechung im Reichswirtschaftsministerium’ 15 July 1940, doc. 107 in Schumann and Nestler, 266–7; Roselli, *Trade Wars*, 180–4.

⁴² ‘Karl Albrecht: Gustav Schlotterer’s views on the “New Order in Europe”’, 19 July 1940, Lippens, *Documents*, doc. 4; ‘Aus der Niederschrift über eine Sitzung der Reichsgruppe Industrie zum Thema “Neu Ordnung im europäischen Wirtschaftsraum”’, 4 Sept. 1940, doc. 120, in Opitz, *Europastrategien*, 771–6; ‘Bericht über eine Besprechung in der Hauptabteilung II des RWM’, 30 July 1940, doc. 110, and ‘Albert Pietzsch, Zur Frage der Ordnung des europäischen Wirtschaftsraums’, 24 July 1940, doc. 108 in Schumann and Nestler, *Weltherrschaft*, 271–3, 268–70.

⁴³ Friedrich Landfried, ‘Das deutsche Wirtschaftspotential: eine der stärksten Grundlagen der künftigen europäischen Zusammenarbeit’, *Die Deutsche Volkswirtschaft*, 30, 1940, 936–40.

⁴⁴ On the exchange of ideas between the Reichsbank and the banking community see, for instance, the memo authored by the Deutschen Institut für Bankwissenschaft und Bankwesen, ‘Zur Deutschen Aussenwirtschafts- und Währungspolitik nach dem Kriege’, 9 Sept. 1940, BAB, 2501, 7017.

Reichsbank, working with an internal think tank called the Economic Department.⁴⁵ On certain points, such as the problem of bilateralism, Puhl and his colleagues agreed with Schlotterer. Over the long haul, they argued, bilateralism ‘could not possibly form the basis of a permanent peacetime economic arrangement’.⁴⁶ But in contrast to the Economics Ministry and heavy industry, Reichsbank officials believed Germany’s foreign debt, its capital scarcity and its need to replace gold as the foundation for a monetary regime should take centre stage in post-war planning, *not* efforts to impose a European-wide industrial and price policy.

One of the Reichsbank’s main concerns were the debts Germany owed to other states. Though bilateral treaties were designed to limit trade deficits and payment debts, Berlin found many ways to circumvent these restrictions and by 1940 the Reichsbank owed massive sums to its trade partners in Western Europe – roughly 770 million RM – sums which it froze and made inaccessible to foreign firms or governments.⁴⁷ Schlotterer welcomed these debts as leverage to force Europe into Germany’s economic orbit.⁴⁸ The Reichsbank, by contrast, saw the clearing debts as an unsustainable problem, and by 1940 ‘resolving the debt question’ became an important precondition for creating a stable post-war monetary order. Reichsbank officials identified a ‘widespread, almost morbid fear of large clearing credits’, which they worried would undermine commercial relations after the war. Many in the banking community agreed, fearing debtor countries like Germany would have a difficult time transitioning back to a freer model of exchange.⁴⁹ In the absence of coercion, for example, Dutch or Belgian firms would be reluctant to export to the Third Reich, and their government officials reluctant to authorise exports, unless they knew they would be reimbursed in a useable currency not a frozen clearing account.⁵⁰ Not only would Germany owe money to its European trade partners at the end of the war, it would still owe large sums to the United States for the Dawes and Young loans. Other countries in German-controlled Europe, too, would have their own debts to the United States. Indeed, on the continent only Sweden and Holland were net creditors.⁵¹

Germany’s foreign debt problems were exacerbated by capital scarcity. In September 1940 Schlotterer called on German banks to export capital and acquire shares and influence over French, Dutch and Belgian enterprises. But as Hermann

⁴⁵ Karl Erich Born, *International Banking in the 19th and 20th Centuries* (New York: St. Martin’s Press, 1983), 287–90; Eckhard Wandel, *Das deutsche Bankwesen im Dritten Reich (1933–1945)* (Frankfurt a.M.: Institut für bankhistorische Forschung e.V., 1983).

⁴⁶ ‘Währungsfrage im Europäischen Grosswirtschaftsraum’, 6 July 1940, BAB, R2501, 6428.

⁴⁷ Klemann and Kudryashov, *Occupied Economies*, 210; Albrecht Ritschl, ‘Nazi Economic Imperialism and the Exploitation of the Small: Evidence from Germany’s Secret Foreign Exchange Balances, 1938–40’, *Economic History Review*, 54 (2001), 224–45.

⁴⁸ Tooze, *Wages*, 387.

⁴⁹ Otto Plfeiderer, ‘Die Feuerprobe der Währungssysteme’, *Bank-Archiv: Zeitschrift für Bank- und Börsenwesen*, 39 (1939), 481–5.

⁵⁰ ‘Der Zahlungsverkehr im europäischen Grosswirtschaftsraum’, 20 July 1940, BAB, R2501, 6428.

⁵¹ Reichsbank Memo ‘Probleme der äusseren Währungspolitik nach Beendigung des Krieges’, 20 June 1940, doc. 98 in Opitz, *Europastrategien*, 685–90.

Josef Abs – director of the Deutsche Bank and a member of the Reichsbank advisory board – pointed out in a public response to Schlotterer, Germany had little capital to export since its own currency reserves were low and since rearmament was absorbing the bulk of private funds. Abs thought demand for housing, infrastructure and the rebuilding of consumer industries after the war would place even greater strains on Germany's capital market. Without outside assistance or reparations, German would only find the capital to export by 'curbing [its] own consumption' and exporting to Europe to accumulate hard currency.⁵² Developments after 1945 would prove Abs right.

For the banking community Germany's clearing debts and capital scarcity were a major obstacle to the creation of a multilateral clearing system. The Nazi leadership would never tolerate a reduction in German consumption.⁵³ German debts would remain – or grow larger – as the war continued, eliminating any chance to achieve the rough balance necessary for a multilateral system. For observers outside of Germany these debts proved the very insincerity of the Nazi integration plans. As the war persisted German clearing debts reached astronomical heights – by 1944 just under 15 billion reichsmarks – representing real assets Germany directly expropriated from the occupied countries of Europe.⁵⁴ What is more, the Reichsbank itself estimated Germany would still need to run a 3 to 4 billion reichsmarks import deficit to buy raw materials from abroad after the war while it transitioned from military to export production, meaning Germany's foreign debts would continue to grow. Puhl and his advisers thought Germany could only solve this paradox through an outside injection of hard currency. They demanded reparations from Britain and France to create a reserve fund of 17 billion reichsmarks in gold and foreign currency, part of which they would use to reduce Germany's foreign debts. The Third Reich, in other words, could only create the preconditions for multilateral clearing by taking funds from its conquered victims.⁵⁵

Gold was deeply interrelated with these issues of capital scarcity and debt, since exporting gold was one way to finance foreign obligations. Yet in 1940 this option was not open to Germany. The Nazi seizure of power, Hitler's foreign policy gambles and his violation of Jewish property had driven gold out of Europe and into the United States at a tremendous rate: by 1939 the United States held over two-thirds of the world's gold. The German Reichsbank, meanwhile, earned the notorious distinction of having the least reserves of any major central bank. This one-way traffic of precious metal into the United States led a range of commentators

⁵² Eberhard Czichon, *Deutsche Bank. Macht, Politik, Faschismus, Krieg und Bundesrepublik* (Cologne: Papy Rossa Verlag, 2001), 136–42; Hermann Josef Abs, 'Aktive Kapitalpolitik', Presentation to the Deutschen Instituts für Bankwissenschaft und Bankwesen, 25 Oct. 1940, doc. 124, Opitz, *Europastrategien*, 794; Herbst, *totale Krieg*, 143–4; Tooze, *Wages*, 390–1.

⁵³ Briefwechsel zwischen Funk und Göring betr. Kontinental- und Grossraumwirtschaft, 6–17 Aug. 1940, document 114 in Opitz, *Europastrategien*, 755–8.

⁵⁴ James, 'Currency Plans'; Klemann and Kudryashov, *Occupied Economies*, 210.

⁵⁵ 'Probleme der äusseren Währungspolitik nach Beendigung des Krieges', 20 June 1940, BAB, R2501, 7015; See also 'Währungs- und Kreditpolitische Forderungen der Deutschen Reichsbank für einen Friedenvertrag mit Frankreich', 13 July 1940, doc. 104 in Opitz, *Europastrategien*, 699–702.

from the banking community in Germany and elsewhere to conclude that, 'in the circumstances obtaining to-day, the restoration of the automatic international gold standard is impossible'.⁵⁶

German planners thought the military victories of 1940 offered a chance to build a new monetary order on a different medium of international exchange: the reichsmark. Puhl himself took charge of justifying the reichsmark as a global currency, trying to instil confidence in it despite Germany's frighteningly low gold reserves through a confusing array of monetary theories. In a radio broadcast in English, for example, Puhl drew on the quantity theory of money, arguing that stability came not when a country had gold but when the 'circulation of the medium of exchange stands in a sound relationship with the quantity of goods produced'.⁵⁷ Puhl later appealed to a labour theory of money by arguing currency is 'invariably a function of fruitful labour'.⁵⁸ Puhl's underlying framework was that a fiat system should be the foundation of Europe's new monetary system. 'The trust of foreign countries in a global currency', he argued, 'is based fundamentally on the awareness that this currency can obtain commercially, at all times and in an unlimited capacity, any good that is needed. . . . Today the security of the reichsmark is guaranteed more by the economic power and authority of Greater Germany than it is by gold.'⁵⁹ The subjects of Western Europe, in other words, would accept the reichsmark because the Third Reich said they should. And in 1940 Germany had the military power to back its edicts.⁶⁰

While Puhl tested out these ideas, Germany's banking community was navigating a similar debate. In contrast to German industry, bankers and financial theorists dedicated most of their attention to gold's place in a post-war monetary system. This reflected a keen German interest in theories of money dating back to 1905, when Georg Friedrich Knapp published his controversial treatise *The State Theory of Money*. There, Knapp had declared that 'money is a creature of law', and that the state gives it value as a medium of exchange. Gold, in other words, did not have special properties that made it particularly suited to be a monetary standard. Before the 1930s Knapp's ideas had not yet triumphed in Germany, and banking scholars remained divided

⁵⁶ German gold reserves in 1939 were just 150 million dollars. By contrast Britain and France's were 2 and 3 billion dollars, respectively. Christina Romer, 'What Ended the Great Depression?', *The Journal of Economic History*, 52, 4 (1992), 757–84; Paul Einzig, *World Finance, 1937–1938* (New York: Macmillan Company, 1938), 25–68; quotation from Findlay Shirras, 'The Position and Prospects of Gold', *The Economic Journal*, 50, 198/199 (1940), 207–23; *DGFP*, Vol. IX doc. 354; For public discussion of gold in Germany see Kurt Pritzkolet, 'Das Gold im Kriege' and other articles in *Bank-Archiv: Zeitschrift für Bank- und Börsenwesen*, 40 (1940), 215–8.

⁵⁷ Report on Puhl's Rundfunkvortrag in English, 3 May 1940, BAB, R2501, 6428.

⁵⁸ DAZ-Gespräch mit Vizepräsident Emil Puhl, 5 Nov. 1940, BAB, R2501, 6428.

⁵⁹ 'Zur Frage der Neuordnung der deutschen Währung nach dem Kriege unter besonderer Berücksichtigung des Goldproblems', 4 July 1940, BAB, R2501, 7015.

⁶⁰ The Reichsbank pursued a publicity campaign throughout the war to propagate the view that a currency's value is based on confidence rather than gold. See the culture films produced with help of the Reichsbank: 'Was ist Geld?'. 'Herstellung eines Kulturfilms über das Geldwesen', 18 Feb. 1942, BAB, R2501, 6428.

between Knapp's followers and those who believed money was best understood as a physical commodity.⁶¹

Yet the emergence of bilateralism in the 1930s led many to question if this precious metal had a future.⁶² In particular, theorists began asking if one could create a stable international monetary order without gold at all; or, put differently, how to extend the use of fiat money from the domestic to the international sphere. Within Germany, the weight began tipping away from commodity theories in 1940. To be sure, some tried to reconcile the gold standard with National Socialist ideology.⁶³ But far more now advocated a fiat currency to regulate exchange between states, at least within Europe. As Germany and Europe became gold-scarce, they argued, gold was losing its symbolic value and becoming just 'like any other raw material'. As Hans Herbert Hohlfeld, professor at the University of Cologne argued, there are, in any case, 'stronger foundations for a currency . . . the labour power of a great and industrial people, or furthermore, its political might'. Paralleling Puhl, he pointed out that while the Axis may not possess gold, they could use their power to guarantee the stability of the reichsmark.⁶⁴ Thus well before 1945 Germany's central bankers and banking community were building an internal consensus on the need to find a replacement for gold.

In the gold debate, reparations emerged as the panacea for Germany's numerous problems. Reichsbank officials believed an indemnity from France and Britain would allow Germany to establish a new monetary order based on the reichsmark. Germany would add reparations to its limited central bank reserves to instil confidence in what would become a hybrid currency order: a fiat system for Europe paired with a gold exchange system to settle accounts with other continental blocs. In German-controlled Europe, 'gold would obviously play no role at all', nor would it be tied to the reichsmark. With a pool of foreign currency reserves enlarged by reparations, the Reichsbank would finance German imports. In the inner circle of Europe – Denmark, Belgium, the Netherlands, Luxemburg, Norway and perhaps Slovakia – local currencies would be pegged to the reichsmark without reference to gold. Germany would encourage if not outright coerce European central banks to hold reichsmarks as reserves instead of gold, and to use these to settle trade imbalances with one another. These policies would, in effect, turn the reichsmark into Europe's reserve

⁶¹ Georg Friedrich Knapp, *Staatliche Theorie des Geldes* (Munich: Duncker & Humblot, 1921/1905); Howard Ellis, *German Monetary Theory, 1905–1933* (Cambridge, MA: Harvard University Press, 1934).

⁶² For instance, Karl Burkheiser, 'Konjunkturgestaltung, Weltwirtschaft und Währung', and Otto Pfeleiderer, 'Die Feuerprobe der Währungssysteme', in *Bank-Archiv: Zeitschrift für Bank- und Börsenwesen*, 39 (1939), 356–61 and 481–5; Hauke Janssen, *Nationalökonomie und Nationalsozialismus: die deutsche Volkswirtschaftslehre in den dreissiger Jahren* (Marburg: Metropolis-Verlag, 1998), 301–18.

⁶³ Adolf Weber, 'Ende der Goldwährung?' *Bank-Archiv: Zeitschrift für Bank- und Börsenwesen*, 40 (1940), 275–7.

⁶⁴ Quotations from H. H. Hohlfeld, 'Europa ohne Gold', *Bank-Archiv: Zeitschrift für Bank- und Börsenwesen*, 40 (1940), 277–80; see also Kurt Hunscha, 'Gold, Devisen, oder Clearing? Eine Währungspolitische Bilanz', *Bank-Archiv: Zeitschrift für Bank- und Börsenwesen*, 40 (1940), 302–4. The main unresolved issue was whether gold should have a role in international payments between continental blocs, or if even this could be replaced with an 'immaterial measure of value'. Charlotte Lorenz, 'Goldstandard und Rechnungswährung', *Die Deutsche Volkswirtschaft*, 24 (1940), 742–4.

currency.⁶⁵ Indeed, victory in Western Europe gave the Reichsbank an arrogant confidence in German unilateralism: in the New Order ‘other countries must adjust themselves to our currency, and not us to theirs’.⁶⁶

Despite Puhl’s rhetoric about dropping gold as a basis of value, however, Reichsbank officials realised they would need the metal for transactions between currency blocs. Gold, in other words, would remain a medium of exchange in the global economy. Indeed, Germany’s wartime experience underscored just how important gold remained as a method of international payment method between blocs, or to states that lay outside Germany’s zone of quasi-sovereignty. Between 1940 and 1945 Puhl and his associates used every possible and illicit measure to obtain gold, which they laundered through Switzerland to pay for raw material imports from neutral countries like Spain. The Reichsbank looted the central banks of Europe for gold and facilitated an illegal trade in stolen Jewish metal, all in the name of financing German imports from beyond the sphere of the reichsmark.⁶⁷

A Synthesis? The Funk Plan Emerges

When these varied groups brought together their ideas in 1940 they agreed on certain immediate goals: ending Europe’s bilateral regime, moving toward multilateralism and stabilising exchange rates between states. Yet despite this baseline, two opposing camps effectively solidified under Schlotterer and Puhl, camps that would anticipate policy divisions after 1945. The Economics Ministry, in conjunction with heavy industry, wanted influence over monetary policy to pursue an interventionist industrial and cartel policy that would inflate Western Europe’s prices and control the business cycle. Meanwhile, the Reichsbank and Germany’s banking circles wanted to keep monetary policy with the central bank, while dealing with international debt problems and capital scarcity and ensuring the reichsmark’s standing as a reserve currency through price stability.

In the weeks before Funk made his official announcement, these issues came to a head in a series of meetings in which each ministry tried to shape Germany’s integration plans. The Reichsbank saw Schlotterer and Martini’s proposal as a power grab by the Economics Ministry into the arena of monetary policy, where questions of administrative jurisdiction as well as monetary philosophy were at stake. Since its founding in 1876, the Reichsbank had developed a strong opinion about the need for

⁶⁵ Puhl wanted to allow value of the reichsmark to fluctuate within a band of plus or minus five percent around gold for transactions between large economic zones. Quotation from ‘Zur Frage der Neuordnung’, 4 July 1940, BAB, R2501, RB 7015. See also, ‘Probleme der äusseren Währungspolitik’, 20 June 1940, Ibid.

⁶⁶ Report of meeting between Puhl and Schlotterer, 2 July 1940, BAB, R2501, 7017.

⁶⁷ Jonathan Steinberg, *The Deutsche Bank and its Gold Transactions During the Second World War* (Munich: Beck, 1999); Gian Trepp, *Bankgeschäfte mit dem Feind: Die Bank für Internationalen Zahlungsausgleich im Zweiten Weltkrieg* (Zurich: Rotpunktverlag, 1993); Arthur Smith, *Hitler’s Gold: The Story of Nazi War Loot* (New York: Berg, 1989).

monetary governance to be centralised in a single German institution.⁶⁸ Reichsbank officials continued to express this sentiment in 1940, arguing it would be ‘totally inconsistent with the prestige of the Greater German Empire’ to establish a financial institution that superseded the Reichsbank. Currency and monetary policy, if central bank officials had their way, were to fall under the sole purview of the Reichsbank.⁶⁹

The Economics Ministry, moreover, put forward a philosophy of money that was so broad it made bankers nervous. Under monetary policy they included anything having to do with prices, wages, foreign trade, investment and even raw materials.⁷⁰ For the Reichsbank, such an expansive approach to monetary policy would not only threaten to undermine the central bank’s main mandate of ‘safeguarding the value of Germany’s currency’, it would open monetary affairs to influence from too many interest groups. Instead, the management of German money, the Reichsbank maintained, should be ‘left to an independent authority’.⁷¹

In his infamous announcement on 25 July Walther Funk negotiated the power struggle between the Economics Ministry and the Reichsbank, incorporating ideas from both parties. Drawing on the Economics Ministry, Funk expressed his intent to move Europe toward multilateralism after the war while ensuring that each nation’s exchange rates remained fixed to one another. But, as the Reichsbank recommended, Funk rejected a European-wide bank, instead giving the Reichsbank full authority over monetary coordination in any future multilateral system. He specifically intended this to weaken other central banks, as later became clear at a high level meeting that declared Germany would exercise ‘veto power’ over local central bank policy and retain an ‘unlimited opportunity for influencing foreign exchange legislation’.⁷² Funk publicly avoided the question of inflating European prices to match Germany’s level, but in private he accepted this demand of Schlotterer and heavy industry, arguing that, ‘other European countries must align themselves to the mark’. On gold Funk completely accepted Puhl’s logic, and in doing so he effectively endorsed Knapp’s philosophy of money. With so little of the precious metal in the Reichsbank, Funk wanted to use reparations to pay down Germany’s clearing debts and establish the reichsmark as dominant.⁷³ Within Europe Nazi power would make

⁶⁸ Monika Dickhaus, *Die Bundesbank im westeuropäischen Wiederaufbau: Die internationale Währungspolitik der Bundesrepublik Deutschland 1948 bis 1958* (Munich: Oldenbourg Verlag, 1996), 61–3; Peter A. Johnson, *The Government of Money: Monetarism in Germany and the United States* (Cornell: Cornell University Press, 1998), 32–8.

⁶⁹ ‘Währungsfrage im Europäischen Grosswirtschaftsraum’, 6 July 1940, BAB, 2501, 6428; ‘Probleme der äusseren Währungspolitik nach Beendigung des Krieges’, 20 June 1940, BAB, R2501, 7015.

⁷⁰ ‘Karl Albrecht: Gustav Schlotterer’s Views on the “New Order in Europe”’, 19 July 1940, doc. 4 in Lipgens, *Documents*, 59–60.

⁷¹ ‘Wem obliegt die deutsche Währungspolitik?’, 27 Sept. 1940, BAB, 2501, 6428; ‘Zur Frage der Neuordnung’, 4 July 1940, BAB, R2501, 7015.

⁷² ‘Memorandum by the Director of the Economic Policy Department’, 31 July 1940, doc. 267 in *DGFP*, Vol. X, 381.

⁷³ These points he did not publicly admit, but declared in internal discussions with Göring held several days before his public announcement. Geheimes Staatsarchiv Preussischer Kulturbesitz (GSPK), I. HA, Rep. 151 Finanzministerium, Geheimakten – I C Nr. 9401, Report on Meeting from 22 July 1940.

gold 'superfluous'. The continent would instead adopt the reichsmark as a fiat reserve currency, whose value would be 'given to it by the state' and managed by Puhl and the Reichsbank. Gold would no longer be an issue in Europe, merely 'a problem of the USA. . . . If all the gold which lies underground in America were to be placed on an island and if this island were to be submerged as a result of a natural catastrophe, the economic life of nations would still go on.'⁷⁴

Nazi Plans and Post-1945 European Integration

The debates of 1940 were messy, with many options on the table. Nevertheless, the participants identified a series of challenges and proposed a set of technical solutions that anticipated debates about European monetary order after the Second World War. In the process they moved Europeans along the long path of imagining a departure from purely national currencies to some form of continental monetary union, an idea that in the 1920s was still seen by most as an impossible goal.⁷⁵

Parallels between monetary planning in 1940 and the post-1945 era suggest that any path – authoritarian or democratic – toward European integration had to overcome certain systemic hurdles stemming from the collapse of the gold standard and the crystallisation of bilateralism in the 1930s. The underlying challenge was how to move from gold to an international fiat system, yet still link Europe's national currencies together even though they did not fall under a single, uniform political sovereign. Where national fiat currencies could rely on a sovereign authority to endow them with meaning and instil confidence in them, such a mechanism would lose potency in a regional bloc.

The allies realised Nazi experts had identified important systemic challenges and post-war planners, to a certain extent, built on the solutions proposed in 1940. Indeed, Funk's announcement stimulated intense reflection in the United Kingdom and the United States. Foreign commentators recognised that the Nazis wanted integration to serve a new racial order. Yet in the mechanics of Funk's Plan they saw much they agreed with.⁷⁶ Most famously, the British Treasury asked John Maynard Keynes to author a rebuttal. Keynes replied that, 'in my opinion about three-quarters of the passages quoted from the German broadcasts would be quite excellent if the name of Great Britain were substituted for Germany or the Axis'.⁷⁷

⁷⁴ 'Walther Funk: The Economic Organization of Europe', 25 July 1940, doc. 6 in Lipgens, ed., *Documents*, 65–71.

⁷⁵ As money doctor Edwin Kemmerer remarked in 1922, when he rejected calls for monetary union at the League of Nations: territorial currencies are 'a natural reasonable function of a sovereign state'. Helleiner, *National Money*, 145.

⁷⁶ See Cambridge economist and government consultant C. W. Guillebaud, 'Hitler's New Economic Order for Europe', *The Economic Journal*, 50, 200 (1940), 449–60. For a critical perspective, Paul Einzig, 'Hitler's New Order in Theory and Practice', *The Economic Journal*, 51, 201 (1941), 1–18.

⁷⁷ John Maynard Keynes, 'Letter to Harold Nicholson' and idem, 'Proposals to Counter the German "New Order"', in Donald Moggridge and Elizabeth Johnson, eds., *The Collected Writings of John Maynard Keynes: Vol. XXV* (Cambridge: Cambridge University Press, 1980), 1–10; Skidelsky, *Keynes*, 669–78.

According to Keynes, one of the first thinkers to map out a post-war monetary order, German officials identified the three main hurdles to economic reconstruction and integration, as well as some highly plausible solutions. First, both Nazi experts and post-war planners recognised the need to end bilateralism. Indeed, the ‘spirit of Hjalmar Schacht’ hung over policy makers throughout the 1940s. While some observers in Germany, the United Kingdom and the United States expected Europe’s future to be ‘one of government trading and controlled economies’, in all three countries influential leaders eventually came out in favour of multilateralism after the war.⁷⁸ German business and political elites strongly supported a gradual move to multilateral trading and payment.⁷⁹ Across the channel Keynes noted how bilateral exchange controls had fundamentally changed the nature of interstate commerce and investment for the worse.⁸⁰ He, like Herbert Martini of the Economics Ministry before him, wanted a multilateral clearing union where states could collectively balance their trade deficits with one another.⁸¹

Yet the road from bilateralism to multilateralism was rocky and much longer than the architects of post-war reconstruction had hoped. Between 1947 and 1950 a series of currency crises and forced devaluations undermined the hope of ending currency controls.⁸² For the first five years after the war intra-European trade remained heavily bilateral. Only with the creation of the European Payment Union (EPU) in 1950 did Europe leave bilateralism behind. The EPU was a multilateral clearing system that resembled Martini’s proposals: by gradually removing currency controls, financing payment deficits through the Bank for International Settlements (BIS) in Basel and balancing the offsetting claims that Western European countries had with one another, the EPU helped promote trade within Europe, thereby fostering a continental bloc.⁸³

Second, like Reichsbank officials in 1940, Keynes and other Western experts believed international debts and capital scarcity threatened to undermine European reconstruction and integration.⁸⁴ After the war European countries negotiated over 200 bilateral payment agreements, few of which perfectly balanced, meaning each European country was simultaneously a debtor to some countries and a creditor to others. By 1947 European foreign debts to other European countries reached nearly 1 billion dollars. Debtor countries frequently cut off imports from creditor countries to limit their debts, making Europe’s trading system ‘jolt and lurch’. Europe’s debt to the

⁷⁸ Quotation from Milward, *Reconstruction*, 320–6, 333; Steil, *Bretton Woods*, 141–3.

⁷⁹ Reinhard Neebe, *Weichenstellung für die Globalisierung: deutsche Weltmarktpolitik, Europa und Amerika in der Ära Ludwig Erhard* (Cologne: Böhlau Verlag, 2004), 99–103.

⁸⁰ Keynes, *Collected Writings Vol. XXV*, 3.

⁸¹ Keynes, *Collected Writings Vol. XXV*, 74–84; John Killick, *The United States and European Reconstruction 1945–1960* (Chicago: Fitzroy Dearborn Publishers, 1997), 23–31; Dyson, *Elusive Union*, 60–5.

⁸² Eichengreen, *Globalizing Capital*, 100–4; Barry Eichengreen, *The European Economy Since 1945: Coordinated Capitalism and Beyond* (Princeton: Princeton University Press, 2007), 77.

⁸³ In the EPU, the Bank for International Settlements assumed the role of Keynes’s International Clearing Union or Martini’s Europa-Bank. Milward, *Reconstruction*, 320–6, 333; William Diebold, *Trade and Payments in Western Europe: A Study in Economic Cooperation, 1947–1951* (New York: Harper & Brothers, 1952), 87–110; Eichengreen, *Globalizing Capital*, 104–7.

⁸⁴ Keynes, *Collected Writings, Vol. XXV*, 21.

United States was even larger: US loans to the United Kingdom and France totalled 3.75 billion dollars and 2 billion dollars respectively. German debts to the United States were roughly 700 million dollars, without including the liabilities leftover from the 1920s and 1930s or the enormous clearing debts accrued during the war.⁸⁵

In 1940 Nazi planners had proposed two solutions to Germany's international debts and capital scarcity; post-war European leaders considered and eventually pursued both of them. The first was acquiring an outside injection of capital. The Nazis had planned to do this through reparations; post-war Europe, by contrast, received its currency injection from the Marshall Plan.⁸⁶ Both cases, though, illustrate Europe's inability to recover from the debt of depression and war without outside assistance. Here some of Germany's leading experts were the same ones who had counselled Funk, namely, Herbert Martini and Hermann Josef Abs – after 1949 Chancellor Adenauer's most influential financial advisor. The point is less that Martini and Abs built on their prior experience, which is not surprising from a biographical perspective, but more that in the 1950s they identified the same issues as essential to resolve as they had in 1940. Then, Abs predicted European capital markets would be highly illiquid following the war. He was correct: through the mid 1950s high interest rates forced firms to self-finance most investment projects.⁸⁷ Both Martini and Abs wanted a continental bank to help Europe accumulate and distribute capital, and thereby build export capacity to finance international debts.⁸⁸ As in 1940, after the war Germany's central bankers vetoed any supranational bank.⁸⁹ Instead, what Abs and Martini got was a national investment bank, the Credit Bank for Reconstruction (*Kreditanstalt für Wiederaufbau*), which began operating in 1948, and which they both helped direct. This became one of the main conduits to channel Marshall Plan aid to West Germany. Once West Germany began running a trade surplus in 1952, in part thanks to investment stimulated by the Credit Bank, it paid down its foreign debts and built up central bank reserves, thus easing the process of European integration.⁹⁰

The other Nazi solution to capital and debt challenges was to simply write-off Germany's clearing debts to the rest of Europe, essentially a policy of robbery. This

⁸⁵ Diebold, *Trade and Payments* 19–27; Killick, *European Reconstruction*, 32–41, 65–77; Peter Clark, *The Last Thousand Days of the British Empire: Churchill, Roosevelt, and the Birth of the Pax Americana* (New York: Bloomsbury Press, 2008), 383–4, 399–404.

⁸⁶ Werner Abelshäuser, 'Der Kleine Marshallplan. Handelsintegration durch innereuropäische Wirtschaftshilfe 1948–1950', in Helmut Berding, ed., *Wirtschaftliche und politische Integration in Europa im 19. und 20. Jahrhundert* (Göttingen: Vandenhoeck & Ruprecht, 1984), 212–24.

⁸⁷ Gerold Ambrosius, 'Europäische Integration und wirtschaftliche Entwicklung der Bundesrepublik Deutschland in den fünfziger Jahren', in Berding, ed., *Wirtschaftliche und politische Integration*, 271–94.

⁸⁸ Buggeln, 'Europabank oder Freihandel'; Hermann Josef Abs, 'Fragen der Wirtschaftlichen Zusammenarbeit in Europa', 5 Dec. 1955, and 'Fragen zur wirtschaftlichen Einigung Europas', 14 Dec. 1956, in Hermann Josef Abs, *Zeitfragen der Geld- und Wirtschaftspolitik* (Frankfurt a.M.: Fritz Knapp Verlag, 1959), 92–101, 101–11.

⁸⁹ Neebe, *Globalisierung*, 270–6; Armin Grünbacher, *Reconstruction and Cold War in Germany: The Kreditanstalt für Wiederaufbau, 1948–1961* (Burlington, VT: Ashgate, 2004), 85; Dickhaus, *Bundesbank*, 62–3, 83–5.

⁹⁰ Grünbacher, *Kreditanstalt*, ch. 4 and 10; Heinrich Harries, *Financing the Future: KfW—the German Bank with a Public Mission* (Frankfurt a.M.: Fritz Knapp, 1998), 1–65.

aspect of the debt question resurfaced with a vengeance after 1945. According to Abs, 'without a settlement of old debts, foreign investors have no reason to revive their involvement in Germany'.⁹¹ In the London Debt Treaty of 1953, which Abs negotiated for West Germany, the victors of the Second World War pursued a comprehensive settlement for Germany's pre- and post-war foreign debts. In an ironic twist of fate, the United States permitted Germany to write down its pre-war debts to the United States and Western Europe from 30 to 14 billion deutschmarks and, astonishingly, postpone payment on its clearing debts until reunification.⁹² American and European leaders realised that resolving the foreign debt question was a precondition for economic integration. Yet this came at a high cost: European countries never gained compensation for the goods and services they lost to Germany through the wartime clearing accounts.

Third, by 1945 Keynes and other European experts believed, like Emil Puhl in 1940, that gold could no longer be the basis for a monetary system. For Germany this was a paradigm shift. As late as the mid-1930s German policy makers refused to even consider symbolically abandoning gold. The debates of 1940 dramatically changed this view and facilitated Germany's acceptance of a fiat currency system. After the war it became *de rigueur* to criticise gold: Ludwig Erhard, architect of West Germany's post-war economy, along with many business elites, rejected a return to the gold standard. As one leading industrialist put it: 'to me gold is just a metal, which like zinc or copper is dug out of mines and hence subject to the fluctuations of the market. The selection of an absolute benchmark is always merely a fiction of immutability.'⁹³

Western European and American economists came to the same view. During the war Keynes and others had criticised the United States's massive accumulation of gold for creating disequilibrium in international trade.⁹⁴ After the war economists thought Europe's shortage of hard currency, including dollars and gold, was the outgrowth of 'twenty years of dollar imbalance in world payments' that had started with the

⁹¹ Marshall Plan High Commissioner John McCloy said much the same thing to Adenauer, Hermann J. Abs, *Entscheidungen, 1949–1955: Die Entstehung des Londoner Schuldenabkommens* (Mainz–Munich: v. Hase & Koehler, 1991), 54–5.

⁹² American and British officials, including Keynes, hatched virtually the same idea for Britain, planning to write off British wartime clearing debts to its colonies like India and Egypt by 30–70 percent. Clark, *Thousand Days*, 383–4, 399–404; Adam Tooze, 'Reassessing the Moral Economy of Post-war Reconstruction: The Terms of the West German Settlement in 1952', *Past & Present*, Supplement 6 (2011), 47–70; Timothy Guinnane, 'Financial *Vergangenheitsbewältigung*: The 1953 London Debt Agreement', Center Discussion Paper no. 880, Economic Growth Center, Yale University (2004); Albrecht Ritschl, 'Transfers Small, Debt Relief Big: The Marshall Plan, Postwar Germany, and the Historical Roots of the Eurozone Debt Crisis', paper presented at the Social Science and Policy Forum, University of Pennsylvania, 2 Nov. 2012.

⁹³ Hans Fürstenberg of the Berliner Handels-Gesellschaft, quoted in Buggeln, 'Europa Bank oder Freihandel', 140; Alfred C. Mierzejewski, *Ludwig Erhard: A Biography* (Chapel Hill: University of North Carolina Press, 2004), 23.

⁹⁴ 'We could not get what we all wanted', Keynes reflected, 'except by dethroning gold and creating a system of international credits so that trade was not limited by the amount of gold available'. Keynes, *Collected Writings XXV*, 141; see also S. E. Harris, 'American Gold Policy and Allied War Economics', *Economic Journal*, 50, 198/199 (1940), 224–30; Shirras, 'Prospects of Gold'.

'gold avalanche' into the United States in the 1930s.⁹⁵ Like Nazi planners, however, post-war European leaders prized the currency stability that came with gold and saw this as a precondition for integration in other spheres.⁹⁶ Yet they struggled to find a way to tie Europe's currencies together without gold, since the continent had so little of it. Neither Nazi planners, nor Keynes nor European or American policy makers after 1945 considered moving to free-floating currencies. All settled on a middle path – a multilateral system in which Europe's currencies were fixed to one another, and only indirectly connected to gold.⁹⁷ After the war, Europe adopted a gold-dollar standard under Bretton Woods in which the dollar became the international measure of value. Yet this new role for the dollar was less because of the United States's gold stockpile and more because it was by far the world's leading industrial economy. The dollar effectively became the foundation for Europe's post-war monetary system. As a consequence, European central banks held reserves primarily in dollars not gold, and the United States became the monetary hegemon in Europe. This outcome, in other words, resembled the monetary system Puhl envisaged, with the dollar taking the place of the reichsmark as the international fiat currency whose value was based on power rather than metal.⁹⁸

Conclusion

If Nazi experts identified systemic challenges in 1940, divisions among them also prefigured post-war debates about which institutions should regulate a new monetary order once it was established – central banks or governments ministries. Or, put differently, it was a debate about whether monetary stability should take precedence over interventionist demand and price management.⁹⁹ In 1944 Keynes and Harry Dexter White, the American expert who orchestrated Washington's approach to post-war monetary order, clashed over whether any new international monetary institution would collaborate with central banks or the member states' treasuries. After the war American officials again fought with the British and Germans over how much independence Germany's new central bank system should have, and

⁹⁵ Robert Triffin, *Europe and the Money Muddle: From Bilateralism to Near-Convertibility, 1947–1956* (London: Oxford University Press, 1957), 2–22, 88–93; Boyce, *Interwar Crisis*, 210–2.

⁹⁶ In 1953 German officials criticised the Beyen Plan for a customs union because it ignored what they saw as the 'central question', namely, the issue of currency stability. Neebe, *Globalisierung*, 267–8; In 1957 the Treaty of Rome declared, in paragraphs 103–7, that 'each member shall treat its policy with regard to rates of exchange as a matter of common concern'.

⁹⁷ Keynes went the furthest in calling for a purely fiat international money – Bancor – that would be completely independent of gold. Steil, *Bretton Woods*, 129–30, 140–2.

⁹⁸ Eichengreen, *Globalizing Capital*, 91–133; Leo Panitch and Sam Gidin, *The Making of Global Capitalism: The Political Economy of American Empire* (New York: Verso Books, 2012), 67–89; Fred Block, *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present* (Berkeley: UC Press, 1977).

⁹⁹ Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (Princeton: Princeton University Press, 2001), 234–60.

where the powers of monetary policy should be located.¹⁰⁰ Ultimately, post-war leaders struck a compromise by creating what John Ruggie has called an embedded liberal order. This gave national central banks significant autonomy and equality, yet it permitted domestic monetary intervention within a regime of fixed exchange rates by maintaining extensive controls over the flow of capital.¹⁰¹

The nature of this compromise – its very liberalism – marks the fundamental difference between Nazi plans for a European monetary order and those of the allies. For while the Nazis may have identified technical challenges and solutions, their final goals differed dramatically from those of American and British planners. The Nazis wanted to embed a hierarchy in Europe, and they saw the creation of a new monetary order as way to do this. Where Keynes, White and their associates wanted an equal playing field in Europe, in 1940 Germans wanted to ensure their own special treatment throughout the continent's economies. Where the post-war allies wanted to spread the burden of adjustment between creditor and debtor nations, between surplus and deficit ones, Nazi planners placed the onus entirely on the occupied states to accommodate themselves to German price levels and import needs. Where the allies wanted to situate Europe in an open global economy, Nazi experts hoped to fortify Europe as an economic bloc and disengage it from the rest of the world. Where the architects of Bretton Woods and the EPU wanted to ensure autonomy and equality among Europe's central banks, Funk aimed to weaken the authority of other central banks and make them subservient to Germany, thereby continuing a long-standing tradition of using the Reichsbank to advance state power.¹⁰² Finally, in stark contrast to the vision of Jean Monnet and his colleagues, exploitation and race lay at the heart of Nazi integration plans. As even those removed from high level planning understood, only the 'unrestricted and superior power of the Wehrmacht' allowed the Nazis to imagine a European monetary sphere in the first place.¹⁰³ For Göring, Funk, Puhl, Schlotterer and even Martini and Abs, integration was meant to build an economic and racial hierarchy that placed Germans on the top.

¹⁰⁰ Steil, *Bretton Woods*, 153; Johnson, *Money*, 38–9.

¹⁰¹ Ruggie, 'Embedded Liberalism'.

¹⁰² Johnson, *Money*, 32–8.

¹⁰³ A German textile producer on German authority in Europe. 3 Report from Saxony, 16 Aug. 1940, BAB, R 9, 122/3.