Labor in Organized Capitalism

Nazi Domination of Labor Markets

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During the first phase of the Nazi regime, there was a distinct difference between the economic goals of the Nazi Party and the Hitler government. As a coalition of Nazis, Generals and leaders of big business, the government pursued an economic policy that produced a sixfold alteration of capitalist institutions prior to 1937. We are referring to:

1) Suppression of trade unions and restoring of the managerial prerogative of employers in industrial relations.

2) Acceptance of the principle of compulsion in the private organizations for market control, whether in form of eliminating all outsiders, or of imposing cartels upon small business and making them submissive to the cartels of big business.

3) Introduction of inducements in which government agencies, by employing direct controls, channelled favors to particular business groups that had the effect of invigorating particular institutions of capitalism.

4) Acceptance of the principle of compulsory economic groups that replaced the former voluntary trade associations.

5) Expansion of the non-capitalist institution of public investment, either because of patriotism and/or because of the disproportional rearmament boom that sprang from public investment.

6) Acceptance and intensification of specific direct controls in a few markets, through the use of which the funds and essential raw materials for rearmament were allocated by governmental decisions.

In terms of goals as well as effects, the six alterations fell into three distinct categories. Suppression of trade unions aimed at unorganized labor markets, at meekness of workers in factories, at powerlessness of laborers in the political and economic spheres. Compulsory cartels and governmental inducements aimed at and largely succeeded in restoring the capitalist institutions of profitability, and achieved effective business control over most commodity markets. Compulsory trade associations, direct controls, and public investments were modifications of capitalist institutions that arose in response to rearmament.
These modifications did not exert the same influence upon markets\textsuperscript{1}. The second and third set of the alterations gave rise to an extensive organization of the great majority of markets because of the systematic activities of either private or state agencies. The first alteration of suppressed trade unions, however, involved a rejection of the principle of self-organization and self-control of markets by laborers. The ability to act through self-chosen and self-directed economic organizations became thus the privilege of large and small business concerns. This raises the question of this paper: Why were labor markets exempted from the principle of self-organization? Did suppression of independent unions and dissolved employer associations really produce unorganized labor markets? What was the position of labor in organized capitalism?

*Unfettered Managerial Prerogative?*

The influence of trade unions exerts itself in three spheres of activity. Most obvious is the new relationship between employers and employees in labor markets. Closely related is the new type of work order that grows up in unionized plants. Finally, trade unions bring to bear their political influence upon the economic and social policies of the various governmental bodies and of other organized groups. In each of these spheres of action, German trade unions created a new form of social capitalism during the period of the Weimar Republic\textsuperscript{2}.

In order to appreciate fully the significance of the suppression of trade unions for the character of private capitalism, we will have to examine two problems. What was the role of the trade unions within plants prior to the rise of trade unions, during their period of influence in the 1920’s, and after their suppression by the Nazis? How did trade unions change the character of labor markets through collective bargaining and what did their suppression do to labor markets?

Prior to the rise of the trade union movement, the capitalist enterprise in its internal structure was organized along the lines of a patriarchal order. A twofold subordination developed in this kind of work order. The laborer not only had to submit to the technical and efficiency requirements of capitalist production. The capitalist enterpriser was the employer as well as the master who commanded obedience from his workers as an indispensable condition for employment. The combination of submission to technical and impersonal requirements of the plant and the subordination and obedience of workers to the personal commands established an economic and political managerial prerogative of employers\textsuperscript{3}.

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\textsuperscript{2} Eduard Heimann, Theorie des sozialen Kapitalismus. Tübingen 1929.

Development of trade unions, especially as they operated in the Weimar Republic, modified each kind of managerial prerogative. The employer ceased to be the only person of authority and power in the plant. Election of work councils, representing the workers of each department, created a representation of workers in enterprises. These representatives not only established a regular grievance procedure but also broke the full force of patriarchism of employers. These councils of the stewards constituted the first attempt at limiting the personal power of employers over workers whose representatives operated as a second center of authority in plants relative to social and personnel affairs of concerns.

In social affairs, the time of work, the length of the working day and week, the division between work and leisure time, was either set by law or by contract between unions and employers. Overtime payments reinforced the legal and contractual requirements for working day and week. The risk involved in work was reduced either by protective measures against accidents or by accident insurance. Speed and intensity of work was kept within limits because of the participation of stewards in setting standards and because exhaustion or other dangers to health could be minimized through the grievance procedure. The strict discipline so typical in German factories was reduced by the workers' ability to obtain a hearing before manager and steward against punitive actions of foremen.

In personnel affairs, the power of the employer to dismiss workers was reduced by the requirement of sufficient cause and notice in advance. The opportunity to discriminate on the basis of sex or creed was largely eliminated, whereas union membership was no requirement for hiring of laborers. The impact of trade unions upon the managerial prerogative was thus threefold. The personal power of the employer was somewhat restricted; a minimum of working conditions was established; many managerial decisions in industrial relations were made by employers and work councils jointly. The goal of such decisions was to satisfy both the profit interests of the employer as well as the special work, health and employment interests of workers.

Suppression of trade unions changed this situation radically. The employer's superior authority was expressly legalized in the new labor law. The basic ideas of this law were derived from the ideology of leadership and community of Karl Arnhold who was the head of an institute for vocational training of socalled "social engineers". When Albert Vögler, board chairman of the largest steel concern, came to the conviction that business concerns "had maneuvered themselves into a blind alley in the labor question"¹, Arnhold was given an opportunity to apply his ideas in some plants of the steel concern. Following Arnhold, the law on national labor maintained that the plant was a "social community" in which the employer or the production engineer was the leader and the laborers were his followers. In feudal terminology, the "leader" was given the authority to demand of his workers loyalty and the greatest possible performance. As soldiers of work, as comrades in a common task, the leader had to enjoy and deserve the confidence of the workers and respect their honor as personalities. The leader was thus to be

advised by a "confidence council". Violations of the workers’ honor by employers was to be punished by the social honor courts. A mutual confidence was expected to arise which would transform the antagonistic relationships between employer and workers into the "social harmony" prevailing between the leader and his followers.

In practice, the two institutions that were supposed to integrate the worker into the "plant community" were of minor significance and eventually fell into oblivion. The new council of confidence, put in the place of the work council, was asserted to be a better expression of the greater responsibility placed upon employers by the new law. Actually, the election of the representatives to the councils of confidence in 1935 revealed a significant opposition of workers to the leader-followership arrangement of the Nazi regime. As Bormann reported to Hitler in April of 1935, "not even 50 per cent of the labor force in many plants gave an affirmative vote" for those nominated by the Party for the Councils. In response to this unfavorable result the Nazis abolished the elections of future councils. The authority of the existing councils was administratively extended from year to year, and vacancies were filled by appointment of the trustees of labor. The confidence councils became thus instruments of the Nazi Party. The functions of the councils declined and most of them became mere ornaments when the Nazis concentrated their energies upon fulfilling the Four Year Plan.

The courts of social honor suffered a similar fate. Officially, these special courts were assigned the function to protect the social honor of either workers or employers. Out of a labor force of over 20 million, the number of cases presented in the courts was 61, 204 and 251 from 1934 to 1936. Of these cases, only 13, 128 and 156 ended with a definite penalty. Of the cases adjudicated, about three-fourths involved small business firms whose owners had violated some rules of the trustees of labor. Neither big business nor the overwhelming majority of workers were thus in any way affected by the social honor courts.

What was the significance of the new labor law for the managerial prerogative of private concerns? In all the crucial questions of setting the working time, of determining the speed and intensity of work, in defining penalties for damages, in paying for overtime work, in arranging the order of work and the conditions of the working place, employers enjoyed again the full managerial prerogative. Suppression of trade unions thus abolished the previous rights of independent labor representatives to participate in determining the plant rules. In economic matters, the old patriarchic work order of the single authority was restored.

Yet the authority of management was no longer unlimited. In regard to political reliability and indoctrination of workers, employers had to share authority with the agents of the Labor Front. Most employers cooperated with the

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1 Cf. «Streiflichter zur Geschichte der Wahlen im Dritten Reich». Vierteljahrshefte für Zeitgeschichte, 1955, p. 315.
Party in giving preference to "old fighters" when hiring additional workers, by paying wages to workers who participated in indoctrination meetings or camps, by dismissing workers who refused to respect the Nazi flag, or declined to become members of the Labor Front. Workers were dismissed without notice if they failed to raise their hand in a Heil Hitler greeting at the appropriate occasions. Employers thus respected the political prerogative of the Party in return for restoring the economic prerogative to employers in plants. The two types of authority, one based on the possession of the means of production in plants and the other on the monopolized instrumentalities of political action, thus existed side by side in practically every enterprise.

Organized Job Markets

In the Weimar Republic, the impact of trade unions and employer associations produced a structural change of labor markets. The job market became distinct from the wage market. Wage and job decisions became institutionally separated from each other. Most wage markets were primarily national in scope. Either trade unions and employer associations negotiated the wage rates, or wage rates and working week were set by the government. The industry-wide wage rates were then accepted, or became mandatory for, single employer and worker contracts.

The situation was quite different in the job market which was often local in size, limited to workers of specific occupations, and concerned only with comparing available jobs with available workers. The local job decision was usually made between single employer and laborer who agreed on the place, kind, speed, and quality of work in a particular plant. When a collective agreement was in operation, the individual worker had only to decide whether to accept or reject a given job offer by a prospective employer. It seems appropriate to analyse the situations before and after the suppression of trade unions by a comparison of the characteristics of the job markets between the two periods.

There were no supply and demand schedules in job markets since only offers of jobs and services were compared by participants. Nor were there price elasticities of demand and supply. The respective quantities of offers were influenced directly by the actions of employers and laborers in regard to particular jobs, and manipulated indirectly by unions and employer associations in reference to

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1 Among others, the large Krupp concern was one of the leaders in this cooperation with the Party. See especially the documents of the prosecution in the Krupp-Trial against the defendants Ihn and Bülow. Many of these Nazi requirements became later a part of the labor law. See for instance, Reichsarbeitsblatt, 1935, p. 310.

2 Cf. Clark Kerr, "Labor Markets: Their Character and Consequences". American Economic Review, May 1950, p. 278-291. Although the distinction between job and wage markets was derived from American experience, the separation itself had not only become generally recognized during the Weimar period but had led to specific policies, called respectively Arbeitsmarktpolitik and Tarifvertragspolitik. Cf. Ernst Berger, Arbeitsmarktpolitik, Berlin 1926.
the total market quantities. Whoever was able to influence the availability of either the number of jobs or of services enjoyed a certain degree of power in markets. This power was of two kinds. The ability to achieve a deliberate variation in the quantity of available jobs presupposed possession of absorption power. An action to increase the number of jobs indicated positive absorption power, whereas ability to reduce the number of jobs pointed towards negative absorption power. Similarly in regard to the manipulation of the quantity of available labor services. When actual or potential service offers or hours of work were reduced, the manipulator was in possession of negative suction power. A deliberate increase in the number of laborers seeking jobs revealed positive suction power.

Typically, laborers and unions sought to acquire and possess negative suction and positive absorption powers. The reverse was true for employers and their associations who usually held some degree of negative absorption and positive suction power. When organized employers and unionists faced each other, each group did enjoy some influence upon who could enter and had to leave a job market, who would be able to get and hold particular kinds of job.

During the Weimar period, two distinct policies developed in job markets. One was local in scope and was arrived at through the negotiations between work councils and single employers. The other policy embraced whole industries or even the major parts of the economy. Usually the national policies set the framework and determined the directives for the local actions. How were new institutions introduced into job markets through national policies?

There developed three significant shifts in the relative distribution of absorption and suction powers between unions and employer associations. Policies introduced immediately after the revolution bore the stamp of trade union influence; policy decisions made in the last phase of the inflation were predominantly determined by employer associations; policy decisions in the second half of the 1920’s usually involved some compromise between the two powerful groups. Did these variations in relative power express themselves in creating different types of institutions in job markets?

Immediately after the revolution, trade unions employed their absorption power in three different ways. The new government in provisional laws announced that 48 hours constituted the maximum working week, that the twelve-hour shift had to be replaced by the eight-hour shift in plants of continuous production, that closing of enterprises had to grant workers a waiting period of four or six weeks. When the French army marched into the Ruhr Valley in 1923 and demanded delivery of reparations in kind, the large concerns of that district unilaterally returned to the 12 hour shift and widely disregarded the 48 hour week. The large coal concerns increased the working day from 6 to 8.5 hours for underground workers, although a surplus of coal led soon afterwards to part time employment. When the French army had been withdrawn, the triple shift system of eight hours each was restored, but the 6 hour shift for underground workers

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1 For a discussion of local job markets in the United States, see Lloyd G. Reynolds and Joseph Shister, Job Horizons, New York 1949.
was increased to 7 hours. The 48 hour week became law in 1927 but additional hours could be added up to 10 hours for a specified number of days when such overtime was agreed upon in collective agreements, when governmental agencies gave their consent, and when the employer would pay an overtime wage of 25 per cent of the regular rate. The restrictions on closing of plants and dismissal of workers remained in force unchanged.

In all, the positive absorption power of the trade unions, aiming at an increase in the number of jobs by reducing the working day, was quite successful. Positive absorption power established the three new institutions of a 48 hour week, of three eight hour shifts, and of the conditional and delayed closing of plants. Negative absorption power of employers had only the effect of temporarily interrupting the effectiveness of these institutions. Superior positive absorption power thus functioned as the originator of three new institutions in job markets.

How important were the variations of suction power in the Weimar regime? Reemployment of 6 million soldiers and finding new jobs for 3 million armament workers in 1918 led to a law for the compulsory hiring of a certain number of disabled veterans, which was later extended to all heavily disabled persons. In addition, returning soldiers had to be hired by firms that gave them employment at August 1, 1914. When the volume of orders was insufficient rehired soldiers had to be employed part time. Yet the governmental directives on hiring and firing of workers were abolished, with the exception of disabled persons, in the last quarter of 1923. The positive suction power and the negative absorption power of the employers were combined to prevent the origin of a new institution, namely to provide a job guarantee for all former soldiers.

The alternative to compulsory assignment of jobs was a reorganization of the placement facilities and of unemployment compensation. Existing placement offices were either private or municipal in character. The number of workers seeking jobs through these offices had increased from 2 million in 1913 to 5.5 million in 1919. Such a huge task required the reorganization of the placement agencies into a comprehensive net of employment offices, able to collect all the available information on vacancies and available workers in any part of the country. Although beneficial primarily for workers, employers agreed that the placement agencies should become public offices. A compromise was achieved which culminated into a national organization of employment offices in 1922. Employers

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1 Ludwig Preller, Sozialpolitik in der Weimarer Republik, Stuttgart 1949, p. 304–310.

2 Monopsonist and absorption powers are not identical. Monopsony lowers the quantity demanded and thereby reduces price and also output. Absorption power deals only with quantities. Positive absorption power creates jobs or divides the existing jobs among more laborers. When enjoying such power, the trade union operates on the demand side of job markets. Yet employers also enjoy power on the demand side when they are able to increase the speed of workers or reduce the number of jobs by innovation. Positive and negative absorption powers are distinguished not by their position in the market but by their impact upon the specific size of the quantities demanded or supplied. This distinction between two powers on the same side of the market overcomes the well-known “independence” handicap of the schedule theory of markets.
conceded that their own placement offices should be terminated, that all vacancies had to be reported to the new employment offices, that vacancies in a plant under strike could not be filled by these offices. Trade unions succeeded in getting the stipulations adopted that all services of the offices must be available free of charge, that workers could be placed only into those jobs that paid the union wage rate, and that the first orientation and placement of young laborers should be the exclusive function of the employment offices.

The result of the comparable strength of negative and positive suction power was an organized center in job markets that was able to bring together available worker and vacant job. This center developed into a new institution, the integrated system of employment offices. Rather than relying upon the principle of self-clearance of the market, both employers and unions agreed (a) that markets had to be organized through a governmental center, (b) that the necessary information on availability, conditions and terms, of jobs or services had to be systematically collected through appropriate administrative actions, (c) that such information and other assistance should be made available to workers and employers free of charge.

The new organizational centers systematically investigated each job market, directed young workers into promising occupations, provided facilities for retraining of adult workers, and thereby engaged in a long range planning of the prospective volume of labor services for the expected job opportunities. Employer associations and trade unions gave up their previous placement activities. Yet the public employment agencies were not given a monopoly; private placement was permitted if the private units gave their services free of charge\(^1\). The transfer from private to public functions did not involve a decline in power for the respective organizations, since both effectively determined the policies to be implemented by the employment offices.

A similar compromise was achieved in regard to the introduction of unemployment insurance. Agreement could be reached only after a long fight of nine years. Employer associations at first rejected the principle of compulsory insurance. During the currency depreciation, employers reversed their positions because insurance would have been a less costly device for supporting the unemployed. Trade unions insisted upon (a) a short waiting period (b) a long payment period (c) a minimal difference between the amounts of weekly compensation and home-take wage (d) and a premium payment of employers that exceeded over 50 per cent of the expected cost for the insurance. A final agreement became possible only after the government decided to separate the insurance for short term jobless workers from the compensation for long term unemployed. The latter alone remained subject to a means test. It was agreed that worker and employer should pay an equal share, and the government should assume the expense of administration. Unemployment insurance payments were expressed as a percentage of the wage rate received by the worker in his last job. The insurance

\(^1\) Emil Lederer and Jacob Marschak, «Klassen auf dem Arbeitsmarkt und ihre Organisationen». Grundriss der Sozialökonomik, Abteilung IX, Teil II, Tübingen 1927, p. 121.
became the law of the land when unions and employers between themselves and with the leading political parties agreed that unemployment insurance and placement of workers must be administered by the same agency. This common agency should be a self-governing organization whose policies should be determined jointly by the representatives of employer associations and trade unions.

Positive and negative suction power of the two types of organizations were thus of equal strength after the hyperinflation. Employers were able to prevent adoption of closed shops for union members as well as a job guarantee for returned veterans. Concerns avoided the proposed compulsion to hire only workers recommended by the employment offices. The temporary prohibition for the dismissal of certain groups of workers was largely repealed. Yet employers had to accept the principle of compulsory unemployment insurance, accommodate themselves to the principle that unemployment could not be used to reduce union wage rates, regard the placement function as neutral relative to industrial disputes, expect from the employment offices labor services only when employers paid union wage rates and operated their plants under legal working conditions. The period of a predominant position of employers in job markets had thus come to an end. Control was shared with trade unions as well as with the government.

From 1919 to 1931 there existed organized job markets. At their center were the institutionalized rules on working time, the eight-hour shift, on laying-off or hiring and firing of workers. These rules were supplemented and re-enforced through the new organizational institutions of public placement offices and compulsory unemployment insurance. Job markets had become organized primarily because of the power and actions of the two opposing private organizations that controlled these markets jointly.

**Lopsided Job Markets**

When trade unions were abolished and employer associations dissolved themselves, there was no return to “natural” wages and hours, determined by independent forces of demand and supply. In place of unions and employer associations, there developed three other organizing influences that participated in job and service decisions. We are referring to the appropriate actions of the party state, the coalition state, and to single employers. In each case, a different kind of power operated in labor markets. Political power of the ruling party was utilized to dominate the labor side of markets. The bureaucratic power of the coalition state sought to determine standards for hour and wage decisions in markets. The property power of employers operated within these standards and set the hours and speed of work, and dominated the relationship between laborers and machines within plants. The combined impact of these three powers in industrial relations was the rise of lopsided job markets because these powers originated on the non-labor side but imposed themselves upon workers.

The Labor Front was the creation of the Nazi Party. All leadership positions within the organization were occupied by Nazis. In its finances, the Labor Front
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was dominated by and responsible to the Party's treasurer. Organizational structure and rules as well as oligarchic leadership and uniforms corresponded to those of the Party. All attempts by intransigent Nazis to utilize the Labor Front as a "national" labor union movement were ruthlessly suppressed and all occupational functions undertaken by intransigent Nazis were excluded in the reorganization of the Labor Front of January, 1934. Yet most of the employers did not object to a political organization in industrial relations. Why did the Labor Front receive the support or toleration of most employers?

The Labor Front was not a trade union at all. Its central purpose was to prevent laborers from organizing new trade unions that would engage in representation of specific economic interests. The joint opposition of Labor Front and employers to independent trade unions provided the basis for their collaboration in the first phase of the regime. It was precisely this mutual support that made continuous suppression of trade unions so effective.

The Labor Front created a compulsory mass organization for the domination of workers. All gainfully employed had to become members of this party organization. Dues were deducted from wage bills without consent of workers. Tributes imposed upon laborers provided the party with one of its major sources of income. In 1937, for instance, the revenues of the Labor Front amounted to 360 million marks. Compulsory membership and payments were unavoidable because employers dismissed workers who refused to join or objected to pay dues for the Labor Front.

Compulsory membership and imposed tributes provided the means for two distinct policies. A large scale of activity was undertaken, such as holiday travels, organized concerts, theaters at reduced prices, in order to divert the attention of workers from their economic interests. Diversion was supplemented by sham achievements, such as beautification of the work place, better rest rooms, and more paid holidays, most of whom did cost little for employers. The Labor Front deliberately abstained from granting support to wage and hour demands of laborers or otherwise formulating and pushing for an economic policy of its own. The Labor Front became an effective wall that protected employers against the economic demands of workers.

The second goal of the Labor Front was the indoctrination of workers in Nazi ideology. Through compulsory meetings, parades, cheering sessions and all sorts of collections, laborers were forced to identify themselves with the Nazi Party and its ideology. Indoctrination was reenforced through intimidation and terror. Check on political reliability and directing indoctrination were carried through

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1 The Nazis even suppressed their own "trade unions", called NSBO. See Hans-Gerd Schumann, Nationalsozialismus und Gewerkschaftsbewegung, Hannover 1958, p. 87-92.
3 The Leipzig agreement of March, 1935, excluded the Labor Front from all economic policies. See especially the explicit statement of Schacht in Soziale Praxis, 1935, p. 394, and his confidential letter to Ley of July 26, 1936, in WI/FF 5, 1260, roll 260, deposited in the National Archives.
by the shop stewards of the Labor Front. In larger concerns, the shop steward was an employee of the Labor Front, not of the private concern. He had at his disposal a number of cell and block stewards who acted on his instructions. In addition, shock troops were organized in plants that functioned as listening posts for the Party, and executed the more violent actions of the Labor Front in factories. Even more important was the third function of all Nazi organizations which consisted in suppressing all union-like activities and preventing strikes. The Labor Front provided informers for the Gestapo who spied upon the ideas, talks and actions of workers. Most laborers lived in a continuous fear of violence, and refrained from open and direct collective actions that would have promoted their own economic interests.

The Labor Front, in neutralizing workers economically, in isolating them politically, in threatening them with violence, became the major institution of the lopsided job market. The supply of labor services was forcefully prevented from organizing itself. Laborers could no longer participate in job and wage decisions, and became the passive objects of the decision of party leaders. Mass domination by the Party created an atomized supply in labor markets. The political organization of the Nazis thus performed functions that were exactly opposite to those engaged in by genuine trade unions. While the latter through organization sought to centralize the interests, derive power from the solidarity, and thus gain benefits for workers, the Nazis transplanted political power into labor markets in order to prevent laborers from realizing individually and collectively their interests. It was this political power of mass organization, plus secret police that undercut unions, killed strikes, and was thereby capable of creating and maintaining lopsided job markets.

In addition to the actions of the Party, the coalition state implemented three policies that exerted a direct effect upon the availability of workers in job markets. There was first the policy of promoting employment opportunities for the unemployed. In the first year of the regime about 800,000 workers found jobs at various public work projects. This was supplemented by pressing about 200,000 men into the Labor Service. A total of about 1 million laborers were thus withdrawn from job markets. Yet most of the substitute forms of work were only of temporary significance. Already in April of 1934, Generals and big concerns were able to terminate public work projects when the skilled among the substitute workers could be utilized for filling rearmament orders. The "battle of employment" thus exerted no lasting influence upon the structure of job markets.

More significant was the imposition of compulsory military service of 1935. Within a few years, the number of men recruited or employed by the military was close to one million. Although the personnel involved rotated, the military goal of the coalition-state had the effect of reducing the number of available laborers in job markets. Yet actions of the Trustees of Labor and the Labor Front

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prevented laborers of benefiting from this militarily inspired reduction of the civilian labor force.

The third policy originated from a demand of the Generals that every gainfully employed person had to have a work book. Beginning with February of 1935, workers in one industry after another were issued a book that recorded their training, vocational experience, and former jobs held. The work book contained also information on the three skills of flying planes, driving cars and handling machines in agriculture. The work book thus provided the data necessary for the allocation of laborers to essential jobs in the second phase of the regime. Even in the first period, a work book became a precondition for finding a job. Employers had to enter new information and return the book to workers who changed jobs. Yet, in the second half of 1936 some employers refused to return the book to men trying to move to a better job. Legal actions by effected workers were of no avail when a decree of December 22, 1936 instructed the labor courts to reject such pleas\(^1\). Employers thus already profited from the work books even before they were used to assign or bind workers to particular jobs.

Political power of the Party and military-bureaucratic power of the state joined forces in creating indispensable conditions before workers could enter job markets. The Party insisted upon political reliability and compulsory membership and dues for the Labor Front as a requirement for finding or holding a job. The coalition-state stipulated military conscription and obtaining of a work book if workers wanted to hold or regain a job. Party and state thus fenced in the civilian labor force by creating a set of political-military conditions that had to be fulfilled before access to jobs was possible. Widespread unemployment in the first years underlined the penalty implicit in these job requirements and assured ready compliance by workers.

Employment offices and social insurances, the two overall institutions of job markets, were subjected to important revisions. The previous system of self-government by unions and employer associations was abolished. Employment offices were given a monopoly position in regard to placement of workers. All private placement agencies were abolished. New functions were assigned to the public employment offices. In two significant instances, employment offices did participate in job decisions. From 1934 to 1936, it was decreed that no person engaged in agriculture could be permitted to accept a non-agricultural job without prior permission of an employment office. A similar function was performed by the offices for the metal industries.

In directing the flow of workers to particular jobs, the coalition-state tried to provide sufficient workers for agricultural and armament producers. This was accomplished by making the employment offices the third party to specific job contracts. Finally, the task to keep a central file of all the relevant information contained in the work books was assigned to the employment offices. The new functions increased the power of these government agencies.

\(^1\) Reichsarbeitsblatt 1937, p. 13.
Modification of the social insurance went into three directions. Most important was the reduction of rights of workers in the unemployment insurance. While contributions of workers and employers to the insurance fund remained at the same level, compensation paid to the unemployed was either reduced or denied. The former principle of protecting existing job and wage markets from the pressure of the unemployed was rejected. The coalition-state desired that the unemployed should through their pressure enable employers to reduce or keep down wage rates. There was thus a systematic effort of eliminating the separation between job and wage markets, thereby returning to the structure of an unorganized labor market.

This new policy expressed itself in a reduction of insurance payments to workers. In the year of 1933/1934, a total of 1.5 billion marks was received from workers and employers. Not more than 680 million marks were spent for unemployment compensation. About 120 million marks went to the part time unemployed or paid the contributions of the unemployed to the sickness and old age insurances. A total of 580 million marks were used to create jobs by granting all kinds of subsidies to private enterprises. All kinds of devices were used to eliminate various categories of idle workers from the list of claimants for compensation, until the whole system of compensation was abolished in 1939. The continued payments of workers and employers, amounting to about 6.5 per cent of wage income, became an outright tax, the revenues of which were spent for financing the war.

In contrast, the depression-depleted funds of the old age insurance were restored and its coverage was extended to about four and a half million handicraftsmen. In making the old age insurance universal for all gainfully employed, the government was able to impose another tax upon artisan and dealers, that kept down the volume of disposable income for consumption.

Emasculation of the unemployment insurance provided the proper place for a new policy of "public assistance". The so-called Winterhilfe occupied the stage in this theater. Dominated by the Party, this organization collected "free" contributions of about 350 to 400 million Mark per year. These funds were primarily distributed as relief in kind among lowly paid workers. Having been deprived of their right to a minimum wage rate or to an unemployment compensation by the Nazis, workers suffering from low income had to be grateful for goods during the winter months, the value of which amounted to 30 or 40 marks in all. The economic function of the Winterhilfe thus was to prevent starvation of the "deserving" families at the bottom of the income ladder.

Another function of "public assistance" was performed by the NS-Welfare organization. In the last days of 1936, a wage dispute arose in a plant of the army in Wahn, Rheinland. Military leaders, in cooperation with the Ministry of Labor, had decided to reduce the hourly wage rates by 10 Pfennig. The wage reduction was disguised as an attempt to unify wage rates in all parts of the Reich. The case

1 Walter Stothfang, "Wo bleiben die Abzüge?" Der Angriff, March 11, 1934.
in Wahn was mishandled by imposing it retroactively, so that workers in the plant were asked to repay the "excess" for the preceding three months. This produced threats of strikes. The NS-Welfare organization stepped in to prevent the strike. It compensated the laborers for the wage reduction for a short while. In a letter to Göring, Bormann suggested that the workers in Wahn be granted a local addition to their reduced pay equal to the previous wage cut. This proposal was accepted by the Minister of War. The reduction itself remained in force in all other military plants in which the workers did not threaten to strike.

Having restored the unorganized job market, the state did not withdraw from industrial relations. There was no return to a competitive job market. A division of labor developed between state and employer relatively to the essential features of job markets. The coalition-state determined the overall standards while employers made most of the relevant local job decisions. Depression and undermined unemployment compensation practically excluded the worker's participation in such decisions even when this was permissible under the new labor law.

The coalition-state issued a decree on hours of work on July 26, 1934. Officially, the eight hour day was retained. Yet the employers and government officials were granted a wide latitude in introducing exceptions. On the one hand, trustees of labor were given the authority to determine the permissible hours of work by which an employer could exceed the eight hour day. This resulted in great variations of working time among different firms and industries. On the other hand, employers could freely redistribute working hours as long as the total did not exceed 96 hours over a two week period. In such cases, premium pay for overtime work was not required. The request to increase the working day permanently were usually granted whenever the employer could show that such an extension would relieve him from additional capital outlays. As a result, employers found overtime no longer more expensive, and the standard of a working day of eight hours was gradually eliminated as output came close to full capacity.

A substantial increase in the length of the working day occurred in 1936 as a result of the military orders placed with enterprises. Factory inspectors were freely issuing permits to increase the working day to ten hours. A letter of the Minister of Labor to the Minister of War, written on October 23, 1936, detailed the widespread violations of the law on the eight hour day. The Minister of Labor spoke of "social retrogression" because the daily working time in chemical and metal industries had risen to twelve hours. "Thousands of women work again 8 or 10 hours during the night time, based upon special permission of the factory inspectors." In a subsequent meeting between the experts of the two ministries, the "absolutely untenable extension of working time in the plants of the Borsig A.-G." was discussed. The Ministry of Labor tried to limit the working time in this enterprise by a binding decision. This threat to their purchasing programs induced the procurement officers to ask for the intervention of their superiors. A directive was promptly issued. "According to a decision of the Minister of War

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1 WI/IF 5.1616, microfilm roll 297, T-77.
and General Göring, the present tempo of rearmament and overtime employment shall be continued, in spite of the social consequences for the workers affected”.

In the new labor law, employers were explicitly granted the authority to formulate and execute the rules of the shop. Although the council of confidence had to be heard, and the trustee could issue guiding principles for employers, the shop rules were decided unilaterally by the employer. Such rules could be set aside by the trustees only when the confidence council could prove that a particular set of rules was “unsocial”. Interference by the trustees in such cases happened only in exceptional circumstances. The unorganized job market became thus again associated with the managerial privilege of employers to decide unilaterally upon the working conditions for workers in plants. It was not before 1938 that the shop rules of employers had to find the explicit consent of the trustee of labor.

Simultaneously, the previous protection of workers against sudden dismissal was substantially diluted. Two kinds of new causes were accepted for sudden dismissal. One lay in the particular policies of Party and state. Women could be dismissed so as to provide jobs for unemployed men. Summary dismissal followed any overt act that was interpreted as a dislike of the Nazi regime. The other cause resided in the loyalty that laborers owed their employers. Legally, when the requirement of giving a worker a proper notice in advance was infringed upon, workers had the right to sue for damages. Actually, access to the labor courts was often contingent upon consent of the Labor Front which had an almost exclusive right to represent workers in Labor courts. When cases were admitted to the court, some laborers did find that the courts accepted the arguments of employers of refusing claims for damages that were written into collective regulations or shop rules.

The whole grievance procedure became dominated by the Labor Front. Workers were often deprived of the assurance that they could obtain an impartial decision on interpretations of shop rules and collective regulations. In case of complaint, the Labor Front could decide whether to reject a request, negotiate with the employer, or bring the complaint before the Labor court. The aim of the Labor Front was to reduce the number of disputes and prevent so-called unnecessary litigation. This policy was quite successful. The number of cases settled by the Labor Courts fell from 427,604 in 1929 to 174,476 in 1936.

In all, the organized job market differed from the lopsided market in two crucial respects. There was first a significant difference in the economic situation. The prosperity from 1924 to 1929 greatly enhanced the negative suction power of the union and diminished the negative absorption power of the employer. The depression in the first phase of the Nazis produced an excess of available laborers

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1 WI/IF 5.1223, roll 248, T-77.
2 For a review of such political dismissals by labor courts, see Frieda Wunderlich, German Labor Courts. Chapel Hill, p. 170 ff.
over the total of available jobs in markets. In the absence of trade unions and government action, excess of labor services would have created cutthroat competition among workers, and would have enhanced the opportunities of employers. It was because of the actions of the Party and the coalition state, however, that there developed not a cutthroat but a lopsided labor market in the first phase of the regime.

A new power structure was the second and major characteristic of lopsided job markets. The power enjoyed by employers had increased significantly. Their plutocratic power of property could be readily translated into increased positive suction power. When price and quantity are interacting, an increase in the demand for labor services will reduce the positive suction power of the employer because he can get more services only at better terms of trade. In the absence of trade unions, atomization of laborers and emasculated unemployment insurance, negative suction power could not exert itself. Even when looking for more laborers, employers were able to benefit fully from the surplus of services and the destruction of independent trade unions.

The bureaucratic power of the coalition-state acted in such a way as to increase the power of employers. Emasculation of unemployment insurance abolished the partial insulation of the employed from the unemployed. Dilution of the right against summary dismissal increased the decree of replacability of employed by unemployed workers. Even those still employed stood with one foot in their respective market because they could lose their jobs at any time. The result was an effective atomization of laborers in markets. The interconnection between the internal and external structure of job markets\textsuperscript{1} was intensified so that the lopsided market provided a ready channel for translating the weakness of laborers in markets into effective submissiveness of workers in plants.

Most important in the new power structure was the role of the Nazi Party. Building the Labor Front upon its monopoly of political instrumentalities and police forces, the Nazis were able to achieve a twofold success in job markets. Compulsory membership and political reliability as a condition for work, control by Nazi stewards and shock troops on the job in plants, sole representation of Nazis in confidence councils and labor courts, and an extensive supervision of the emasculated grievance procedure, enabled the Party to transform the temporary atomization of laborers into a permanent one. In addition, the Labor Front succeeded in driving the interest orientation and many indigenous ideas underground, forced workers to behave as if they had accepted Nazi doctrines, and made the Nazi rule more palatable by providing either a few new advantages (e.g. more paid vacation or low price travel) or by pretending that laborers were no longer second class citizens in plants and in the economy. The Labor Front succeeded in preventing most forms of individual or collective interest realization by workers.

\textsuperscript{1} On the distinction between the internal and external structure of labor markets see the article of John T. Dunlop in G. W. Taylor and F. C. Pierson, New Concepts in Wage Determination. New York 1957.
The Dictated Wage Market

Elimination of collective bargaining enabled the coalition-state to decide whether wage rates shall be set by the state or negotiated between single employers and laborers. Business organizations had argued for years against the interference of the state in wage markets. A compromise was reached among the ruling groups. In return for accepting the principle of governmental fixing of wage rates, business groups were able to nominate and actually appoint the majority of the trustees of labor. The trustees set the wage rates for specific industries, while single employers fixed the wage rates for their plants. In practice, the wage rates set by the trustees were widely accepted by the larger concerns. The following table presents the wage rates set by the trustees and reported to the Ministry of Labor.

### Hourly Money and Real Wage Rates

(1929 equals 100)

<table>
<thead>
<tr>
<th></th>
<th>Germany</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In Pfennige</td>
<td>Index of Money Rates</td>
</tr>
<tr>
<td>1930</td>
<td>86.8</td>
<td>102</td>
</tr>
<tr>
<td>1931</td>
<td>82.3</td>
<td>96</td>
</tr>
<tr>
<td>1932</td>
<td>69.7</td>
<td>82</td>
</tr>
<tr>
<td>1933</td>
<td>67.6</td>
<td>79</td>
</tr>
<tr>
<td>1934</td>
<td>67.5</td>
<td>79</td>
</tr>
<tr>
<td>1935</td>
<td>67.5</td>
<td>79</td>
</tr>
<tr>
<td>1936</td>
<td>67.5</td>
<td>79</td>
</tr>
<tr>
<td>1937</td>
<td>67.6</td>
<td>79</td>
</tr>
</tbody>
</table>

Three inferences are readily suggested by this comparison between the wage rates of Germany and the United States. First, wage reductions of the previous governments of Brüning and Papen were quite effective in largely eliminating the influence of the trade union upon wage rates. When the Nazis came to power, wage rates had fallen almost to the lowest point of the depression. Second, the extent of the decline in wage rates was almost the same in Germany and in the United States. In both countries money rates had fallen about 20 per cent, while real rates had risen slightly, from 1929 to 1932. Finally, there was a striking divergence between the respective wage rates in the subsequent upswing. Although the rate of reemployment was faster in Germany, money rates remained at the depression level, while real rates actually fell by 6 points of the index. In the United States, however, money rates went up by 32 points and real rates by

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29 points from 1933 to 1937. Increased union activities and New Deal legislation raised money wage rates 10 per cent above the level of 1929, whereas in Nazi Germany money rates were 22 per cent below the pre-depression period.

Cooperation of the Labor Front, the coalition-state, and of employers did produce an extraordinary distributional effect. The actions of the three powerful groups together had achieved a substantial increase in employment which was accompanied by fixed money and a decline of real wage rates. While the social capitalism of the New Deal was able to raise the real wage rate by one-third above the depression level, the organized capitalism of Nazi Germany was able to keep money rates stable and—through the agricultural price policy—press real wage rates even below that level. How was labor deprived of its share in the rising national income?

The power of the state was utilized to prevent any increase in wage rates. This was accomplished through the suppression of trade unions as well as through the effective collaboration between state and employers. Legally, employers could have raised the plant rates above the rates set by the trustee. Enjoying the period without trade union, employers fully accepted the policy of the state of keeping wage rates at the depression level. The first feature of the dictated wage market was thus a dual power structure. The power of the state was reenforced by the power of employers. In regard to wage fixing, the two powerholders did not oppose each other but collaborated in implementing the same policy. Wage fixing was highly effective up to the middle of 1936 because the interests of the employers were identical with those of the state.

Direct controls in form of fixed wage rates did not produce any shrinkage effect. The law of supply was ineffective because there was no decline in the quantities of labor services offered when money rates declined relatively and real rates absolutely. Two reasons explain this ineffectiveness. One lay in the inability of workers to get command of the capital required to establish a business. Unemployment was the second reason that made the law of supply ineffective. If any worker would have protested against the decline in real wage rates, he would have invited his own dismissal. Lack of property and widespread unemployment had thus the effect of severing the interaction between dictated wage rates and the quantities of labor services offered for hire in organized capitalism, while trade unions and government wage arbitration were responsible for the earlier severance between wage and job markets. Yet the same relationship between the two types of markets produced money wage rates in social capitalism that lay by one-fifth above the one of organized capitalism under the Nazis.

The dictated wage market gave rise to two peculiar forms of exploitation. Stable wage rates were the product of three decisions. The Ministry of Labor instructed the trustees to keep the money rates at the level of 1933. The Labor Front prevented workers from resisting these stable rates, while employers kept the plant rates very close to the stable rates of the trustees. All these decisions were based upon the police power of the state, the political and secret police power of the party, and the property power of employers. The impact of these powers expressed itself in a command to workers to work for, and be satisfied with,
the fixed money rates. At the same time, the physical product of labor rose under conditions of increasing employment. The command kept the money rate below the productive contribution of labor, leading to an exploitation of workers. Such an exploitation by non-market power was more effective and advantageous than monopsonistic exploitation, since the former could be achieved under conditions of an increasing quantity of labor services demanded and utilized by employers.

The second form of exploitation related to the decline of real wage rates. In carrying through an agricultural, exchange rate, and import policy that had to raise the cost of living, the real wage rates had to decline and stay steadily below the money rates. As the table above shows, this exploitation amounted to 6 points of the index by the end of the first phase of the Nazi period. Yet the development under the New Deal, when real rates rose by 29 points from 1933 to 1937, indicates clearly what could have happened if Germany had been able to avoid Nazi dictatorship and organized capitalism.

Imposed exploitation was followed by a quasi-compulsory form of self-exploitation. If workers had acted according to the principle of marginal productivity, they would have systematically reduced their efforts until their marginal product would have been equal to their reduced real wage rate. Unemployment prevented workers to engage in such a process of equalization. The response of employers and workers to the decline in the real rates was exactly the opposite to the one implicit in the marginal productivity theory. An increasing number of factories offered laborers a shift from hourly to piece rate wages. Eager to compensate themselves for the decline in real rates, many workers intensified the speed of their work and thus engaged in a form of self-exploitation. For instance, the officially fixed money rates per hour for women in Thuringia were 30 Pfennig in the toy industry, 38 in the metal industry, and 45 in uniform producing textile firms. The actual piece rate wages, when expressed in hours, raised the earnings of women to 40, 44, and 60 Pfennig in the respective industries. For the Labor force in general, the real earnings rose slightly. Hourly earnings were 3 Pfennig in 1933 and 7 in 1936 above the fixed hourly money rates. Minimizing the deterrent effect of direct and indirect controls could be achieved only when laborers increased their efforts. In spite of piece rate wages, the real hourly earnings of 1937 lay still by 20 per cent below the one of 1929.

The impact of wage dictation was quite different for employers. Under conditions of increasing output, fixed wage rates reduced the unit cost of labor for concerns. Lower wage costs and an increase in most of the actual prices of goods produced an exceptional increase in rates of profits. Fixed wage rates and dividend ceiling together raised the volume of undistributed profits which became the preferred form of capital formation. Direct controls of wages and dividends thus functioned (a) as special inducements for employers to raise their profits without increasing their efforts per unit of input, (b) as a kind of class legislation directed

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1 See the copy of a secret speech by the trustee of labor delivered in Sonneberg at November 17, 1938 in Wi/IF 5.1223, roll 249, T-77.

against laborers and shareholders who were prevented by the powerholders from obtaining a proportionate share of the increase in national income. Enriching private concerns was thus a definite result of dictated wage markets.

Information is lacking for measuring the rise in the rate of profit per unit of capital investment. The following table gives the principal items in the accounts of 1,420 corporations which together had a nominal capital of 8.5 billion Reichsmarks.

Earnings of Large Corporations

(In Million Reichsmarks)

<table>
<thead>
<tr>
<th></th>
<th>Write-off for Depreciations</th>
<th>Gross Earnings</th>
<th>Wages and Salaries</th>
<th>Total Profits</th>
<th>Total Losses</th>
<th>Net Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1932</td>
<td>730</td>
<td>5,800</td>
<td>2,700</td>
<td>250</td>
<td>640</td>
<td>-390</td>
</tr>
<tr>
<td>1933</td>
<td>740</td>
<td>6,300</td>
<td>2,900</td>
<td>360</td>
<td>240</td>
<td>120</td>
</tr>
<tr>
<td>1934</td>
<td>890</td>
<td>8,000</td>
<td>3,650</td>
<td>450</td>
<td>80</td>
<td>370</td>
</tr>
<tr>
<td>1935</td>
<td>970</td>
<td>9,500</td>
<td>4,350</td>
<td>500</td>
<td>40</td>
<td>460</td>
</tr>
<tr>
<td>1936</td>
<td>1,160</td>
<td>11,300</td>
<td>5,080</td>
<td>590</td>
<td>70</td>
<td>520</td>
</tr>
</tbody>
</table>

Gross earnings rose almost by 100 per cent in these five years. Total wages and salaries increased by about 90 per cent. Crucial for the income effect of the rearmament boom is a comparison between total profits and losses for the four years of the boom. If we subtract the total losses from the total profits, then the new profits rose by 433 per cent from 1933 to the end of 1936. This great change in the profit situation readily explains why the leaders of the large concerns were fully satisfied with the policy of economic rearmament, why they were fully in favor of direct controls for laborers that were not condemned by any group of businessmen during the first phase of the regime.

Statism for Labor

There was no essential difference for labor between the first and the second phase of the Nazi regime. Statism was imposed upon labor already in 1933, while business concerns enjoyed the great advantages of organized capitalism. In fact, it was in the field of labor that the meaning of statism was first developed by the Nazis. For Labor, statism included (1) suppression of self-chosen and self-directed economic, political and social organizations, (2) compulsion of joining and paying tributes to an organization of mass domination, (3) extensive indoctrination of laborers in, and submission to, Nazi ideology, (4) a constant threat of being spied upon, arrested and tortured in a concentration camp. In addition, Party and

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coalition-state—supported by employers—imposed (5) exploitation in labor markets and exerted pressure upon laborers to (6) increase their output through self-exploitation, and subjected workers to (7) the joint managerial prerogative of employers and Labor Front.

The first four features of statism have been generally regarded as typical and necessary consequences of one-party dictatorships, be they fascist or communist in nature. Our analysis has shown, however, that in the field of labor there were three additional features of statism, namely imposed exploitation, quasi-compulsory self-exploitation, and a combined economic-political domination of laborers in plants.

Was the relationship between the first and the second set of statist features accidental? The answer can only be in the negative. There was and is an inherent necessity that links the non-economic and economic elements of statism tightly together. One-party regimes usually set themselves the goal of promoting massive projects of economic reconstruction, which require all the attainable resources of the nation. The new goal is not self-selected but must be imposed upon the people by a one-party dictatorship. The rearmament policy constituted the central goal for the first phase of the Nazi regime. The new project called for exceptionally large efforts and new sacrifices by the laboring classes. It was this need for new forms of capital formation that induced the Nazi Party and coalition-state to utilize their instruments of power for imposing effective exploitation upon German workers.

Imposed as well as self-chosen exploitation could become operative only when Party and state engaged in a deliberate institutional realignment of the prevailing labor markets. Neither the lopsided job markets nor the dictated wage markets could have been established and maintained solely by the direct actions of the state. In addition to fixing wage rates, prohibiting strikes and collective bargaining as well as imposing entry stipulations, emasculating the unemployment insurance, relegating labor courts, and imposing work books upon laborers, there had to be an effective complementary policy by the Nazi Party to make direct actions by the state permanently effective. This Nazi Policy took the form of suppressing independent trade unions, of herding all gainfully employed into the Labor Front, and of using this organization to prevent effective forms of resistance, quell incipient strikes, replace union spokesmen by Nazi stewards, dominate and misdirect the grievance procedure, and divert the attention of workers from a realization of their economic interests. Behind all these actions of the Labor Front stood the ever-present organization of the Gestapo, its spy system, torture chambers and concentration camps, which were utilized whenever the actions of the Labor Front fell short of their desired success. It was not only the direct action of the coalition state, nor alone the domination and violence of the Nazi organizations, but the combined coordination of both, that constituted the essence of statism for Labor in the regime.

Quite different was the meaning of these statist actions for employers. The non-economic features did not at all apply to any segment of big business, while the economic features created exceptional benefits for employers. The gains
springing from the imposed and self-chosen exploitation went largely to employers who enjoyed a veritable profit paradise. The institutional realignment of labor markets enabled business concerns to make their property and trading powers effective on both sides of markets, since laborers could not use their absorption or suction powers in any form whatever.

In return for these material gains as well as the ideological advantages of being the plant leaders, employers had to pay a two-fold price. On the one hand, employers could make use of these advantages in labor markets only because of the armament orders placed with firms by the procurement agencies of the armed forces. Given such orders, employers could see in the low unit labor cost only an inducement for increased production and profit-making. On the other hand, plant leaders had to recognize the political prerogative of the Labor Front in factories. Yet the economic outlays involved “cost really relatively little, compared to the increase in real wages that could have been given, and which were granted in quite a number of other countries”\(^1\). At the time, this two-fold price appeared to most employers as an exceptionally good bargain.

Finally, the statism imposed upon Labor was not at all incompatible with organized capitalism. On the contrary, the statist dictation to laborers opened to employers new avenues of prestige. It was precisely in the labor issue that capitalism had been most defective, in which many employers were most eager to restore their power and receive again obedience from their workers. The prevailing wage rate, the readiness to submit to managerial instructions, the intensity and speed of work, could not have been better for effective production, even so they were the product of statism. Rather than being in contradiction to the principle of economic freedom for employers, labor markets dictated by statism turned out to be the most profitable and the least dispensable feature of organized capitalism.

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\(^1\) Per *Jacobsson*, «*Le Financement de la Guerre en Allemagne*», Kyklos, 1947.