Sugar Barons and Bureaucrats: Unravelling the Relationship Between Economic Interest and Government in Modern Germany, 1799-1945

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On January 11, 1799, the agricultural chemist Franz Carl Achard presented the king of Prussia with a pound of white sugar, wrapped in a silken handkerchief [1]. This sugar had been extracted from beets grown on a farm in Silesia that the king had given to Achard as a research station. The amount of sugar Achard had managed to extract from his rudimentary beet experiments was small and the process was expensive, but the importance of his act was clear to all present. If a way could be found to grow a source of sugar in the temperate climes of central Europe, it would be possible to end Prussia's reliance on English, Dutch and French sugar imports [9]. This, in classic mercantilist theory, would diminish the outflow of the country's scarce capital. Moreover, it would provide the monarchy with a new source of revenue. Thus began the long relationship between the Prussian-German government and the sugar industry.

When I set out to write this paper, I assumed that it would be possible to fit a full analysis of this relationship into the conference paper format. That was a far too optimistic assessment. What I present to you today is an overview of an intricate, long-term relationship. In the one hundred forty-six years covered in this talk, three themes emerge. One, throughout the entire period both groups retained a strong sense of their separate interests. Two, these interests remained incredibly stable throughout the entire period. Three, the German sugar industry was only possible because of government intervention and a healthy industry was entirely dependent upon sympathetic government policies.

Before proceeding further, allow me to define the terms of my argument. The major governmental interface with the sugar industry was first the Prussian finance ministry and then after unification the imperial finance ministry. These officials were primarily interested in sugar as a source of revenue. After 1871, sugar (like tobacco, whiskey and matches) was a major source of revenue for the imperial authorities under Germany's complex division of taxes between the federal government and the states [24]. For this reason, sugar taxation also drew the attention of the Chancellor's office. In the terms of this paper then, when I refer to "the government" or

BUSINESS AND ECONOMIC HISTORY, Second Series, Volume Twenty-one, 1992.
 ISSN 0849-6825.

"bureaucrats", I am specifically referring to political and career appointees in the finance ministries and the chancellory.

I also use the term "sugar industry" as if all sectors and all individuals within those sectors shared a unanimity of views. This was clearly not the case. The industry was traditionally divided into three sectors: beet growers, mill owners and refiners. All were supposed to have different agenda. In fact, most mills were owned by beet farmers on a share basis. The owners of the minority of privately-held mills themselves owned vast tracts of beet fields. In the 1890s, both sets of mill owners responded to shifting international market conditions by adding refining capacity to their mills. By 1920, the growing, milling and refining sectors were virtually (and vertically) integrated [7]. This is not to assert that the industry spoke with one voice, for individual mills and regions always tried to influence government intervention and subsidization in ways that benefit their own peculiar interests. Still, when viewed over one hundred forty-six years the *Zuckerinteressanten* displayed a remarkable consensus in their demands.

Stages of Development

There were essentially nine stages in the relationship between the sugar industry and the German government. The first stage was characterized by the Prussian government's sponsorship of the nascent industry. Seeking to spur the domestic production of sugar, the Prussian government refused to assess a tax on sugar produced from beets. After the founding of the German Customs Union (the *Zollverein*), the Prussian preference for beet sugar was taken up by the other German states. This provided the nascent German industry with a substantial price advantage over foreign cane sugar producers.

This initial period ended in 1841, when the Prussian government decided to tax beet sugar. A complicated formula was established (based on the notional amount of sugar extracted from an average beet) that sought to place beet sugar taxation on par with imported sugar [14]. Beet growers and mill owners were quick to realize that if they produced sugar more efficiently, i.e., by increasing the sugar content of their beets or the extraction capabilities of their mills, the additional sugar would be tax free. This set off a decade of phenomenal improvements within the industry. The Prussian treasury tried vainly to keep up. Ten times between 1841 and 1849 the beet tax was raised in a futile attempt to retain parity between beet and cane taxation. This became ever more urgent as beet sugar replaced cane as the major item of domestic consumption. Finally, in 1849 the government doubled the beet tax. Growers and mill owners convinced themselves that the Prussian treasury wanted to destroy their industry [3]. As a direct result, a group of 141 sugar mills banded together to form an interest group (the German Sugar Association) committed to winning from the government a more sympathetic hearing [23]. Ironically, the beet tax, placing as it did a premium on high sugar content and efficient extraction, made the German beet sugar industry the most sophisticated in the world.

By the 1860s, the beet growers and mill owners (who were polemically labelled "sugar barons" by opponents of sugar subventions) were powerful enough to force upon the government a new era in sugar policy [3]. Since the 18th century, the sugar duty assessed on imported cane sugar was rebated to refiners if they reexported their product. Producers of beet sugar, lobbying through the German Sugar Association, argued that rebating this duty violated the 1841 agreement to treat cane and beet sugar equally. In 1864, the GSA was able to convince a majority in the Prussian House of Deputies to extend the same treatment to exported domestic sugar. Buoyed by this export subsidy, Germany quickly became the world's leading sugar producer, a position it retained until 1913 [13]. Over half of this enormous production was exported. In 1900, it was estimated that one-third of Germany's nearly 400 sugar mills lived entirely from the export trade, with a further third heavily involved in the international market [6]. At the same time, sugar had become Germany's leading export earner. This period (from 1864 to 1902) marked the high point of the German sugar boom. German producers appeared to control government policy, pulling an inequitable subsidy from the public purse [3].

As sugar exports boomed, the rebating of the beet tax became an increasing drain on the treasury. Once it became clear that the rebates drained money away from more urgently perceived needs, i.e., the naval buildup and social insurance, Reich tax authorities moved to end them [24]. Unfortunately for the government, the sugar boom had nurtured a broad community of support in the countryside that translated into a multi-party coalition supporting the sugar interest in the Reichstag. Between 1887 and 1890, repeated attempts by Chancellor Otto von Bismarck and his successor Leo von Caprivi to push new sugar legislation through the Reichstag foundered [6]. Only after the elections of 1890, which saw the election of a large contingent of Social Democrats (who were committed to the end of all sugar subsidization), was Caprivi able to cobble together a coalition favoring the abolition of the beet tax and the consequent end of export subsidies.

Unfortunately for the government and the industry, the end of export subsidies coincided with a dramatic turn for the worse in Germany's market posture. In the course of the 1890s, the United States, which had been the destination of over one quarter of all German sugar exports, began to close its borders [11]. The result was an economic depression in sugar beeet growing areas. A broad coalition of center-right parties in the Reichstag -- led by deputies from the sugar belt -- forced through a new sugar tax law in 1896 that cartellized the industry [8, 22]. According to the Sugar Tax Law of 1896, an open export subsidy of 4 Marks/100 kilograms of sugar was offered exporters. Producers were forced into a production cartel that allocated yearly raw sugar output. Mills that overshot their quota were charged a surtax. Government fiscal authorities resisted this regime, realizing both that the export subsidies would cost the Reich money and that the production cartel was unenforceable [21].

Uncomfortable with what it considered an unworkable regime, the treasury joined with the Foreign Office in seeking an extraparliamentary exit from the cartel regime. The club that it used was the worsening situation on the world sugar market. Improvements in cane hybridization were supporting a vast expansion of cane production. Also, new sugar mills in the Ukraine were pumping out large quantities of sugar which the Russians were dumping on the European market. In 1900, the government took advantage of a British call for an international agreement to export subsidies to enter into negotiations with other producer nations. These talks foundered upon Russian intransigence [16]. In 1902, the British government insisted that an agreement be reached with its major supplier nations or it would close its borders to sources from beyond the British Empire. This threat forced German producers, who were now dependent upon Britain as their largest overseas market, to support the German government in the Brussels negotiations [25]. The resultant Brussels Convention abolished all export subsidies, limited the signatories to levying a modest import duty, and allocated international market shares [2]. When it forced the ratification of the Brussels Convention through the Reichstag, the government achieved its long-term objective of removing the sugar baron's snout from the public purse.

In this period that followed 1902, consumer interests, spurred on by the government, increasingly took the fore. When government support was removed, the production and pricing cartels were abolished. The German sugar industry for the first time in its existence was exposed to the harsh winds of an unsubsidized, unregulated marketplace. Many smaller producers, particularly though who had been sustained by the export rebates, were forced out of business. Between 1902 and 1914, nearly one quarter of all sugar mills were forced to close [2]. In many places they were superceded by new integrated mill/refineries which operated on a grand scale. The remaining mills turned their attention away from export promotion toward raising domestic consumption. The German Sugar Association -- heretofore an advocate of a high consumption taxes as a means of financing export rebates -- now demanded a lower consumption tax than the government was willing to countenance [16, 25]. Unable to convince the government to lower the consumption tax below 20 Marks/100 kilograms, the Sugar Association turned its sights toward the War Department, which it convinced to institute a daily sugar ration for recruits to take with their morning coffee.

When war commenced in August 1914, the German government immediately forbade the export of sugar. Producers were terrified, as they had sufficient supplies of sugar on hand to last the population through Christmas 1916 at the pre-war rate of per capita consumption. They responded by hoarding their sugar and releasing only small amounts of it onto the market, hoping in that manner to retain high prices [11]. The government winked at this behavior. Beet cultivation and harvest utilized vast quantities of fertilizer and labor that where needed in other sectors of the farm economy and in armament factories. The introduction of sugar rationing in 1915 served to further this temporary communality of interest. The sporadic nature of the sugar supply, and the inability of many civilians to fill the meager ration their cards allowed, led to widespread uneasiness [11]. Left-of-center newspapers correctly charged producers with hoarding and demanded that the authorities intervene. Seeking to offset popular disturbances, many municipal authorities negotiated with local mills for special ration supplements [11].

After the overthrow of the imperial regime in November 1918 and in the Weimar period that succeeded it, consumer interests remained at the forefront of bureaucratic planning [7]. The sugar interest had become subsidiary to the government's need for full stomachs and social stability. Price controls were retained on sugar as a means of providing the population with reasonably priced sucrose. Producers complained that the controlled prices were too low, and argued the decontrol -- and a raise in prices -- would result in higher production and eventual lower prices. Moreover, producers demanded some form of protection from the importation of foreign sugar, which the government had sanctioned as a means of fulfilling domestic demand [7]. Producers were even more incensed when the Dawes Plan -- acceded to by the government in 1924 -- set the sugar consumption tax at a level 50% higher (30 Marks/100 kilograms) than the pre-war level [10, 20]. This dampened consumption and further restricted the market for German sugar. Between 1914 and 1930, the number of sugar mills had decreased by 50%, as had the number of sugar refineries [7]. Shorn of its support in the bureaucracy, German sugar production was in free-fall. Even when sympathetic fiscal officials returned in 1930 with the Brüning government, the decline could not be stopped [7]. Sugar consumption, which had always been less income elastic in Germany than in Britain and France, fell as unemployment rose.

The failure of the open market convinced many in the sugar industry that the corporatist mutterings of the Hitler movement offered them their best opportunity to regain their preeminent social position and control over government sugar policy [14]. Upon seizing power in 1933, the Nazis moved with some circumspection where the sugar industry was concerned. Unions were smashed and Jewish owners were forced out, to the loud applause of the majority of mill owners. Only in June 1934 did the Nazis move to reorganize the industry, dissolving the Sugar Association and replacing it with the Reichswirtschaftsverein Zucker under the control of Nazi Peasant Leader Richard Walther Darré [19, 23]. In the end the Nazis showed as little concern for the opinions of the beet growers and mill owners as their democratic predecessors. Nazi economic planners had two goals: to garner public approval by maximizing sugar consumption and to prepare for war. To this end, the government set both prices and production levels [4]. Producers had to be satisfied with their sector's restored profitability.

As I have discussed elsewhere in some detail, the resumption of world war in September 1939 led to a tightening of the already strong grip that the Nazi government exercised over the sugar industry [19]. Seed, fertilizer, farm labor and energy were all centrally allocated. Several prominent sugar industrialists were implicated in the 1944 conspiracy against Hitler, but most accepted the regime and its strictures. The advance of the Soviet army into the sugar belt in the spring of 1945 -- bringing with it the establishment in the Soviet zone of occupation of a communist regime -- brought an end to the German sugar industry as a meaningful economic force.

Conclusion

In this paper I have suggested that the relationship between the sugar industry and the German government be understood in terms of nine stages. From 1841 through 1914, government policy remained fixed: the beet sugar production was an important source of revenue that was to be maximized whenever possible. Even in stage five -- the cartel period of 1896-1902 -- the government never lost sight of sugar's important revenue function. After 1914 there was a decided shift in government focus: maintaining or increasing sugar consumption became a means of controlling popular discontent. Whether prices and production were controlled or whether foreign sugar was imported to make good domestic shortfalls, sugar became an important tool in social policy. After 1933, the Nazis continued this consumerist concentration with a vengeance.

As businesspeople concerned with profit and loss, beet growers, mill owners and refiners had different interests. From its beginnings the industry's goal was dominating the domestic market. After 1864, the industry became increasingly export-oriented. Both were only possible because of a sympathetic fiscal regime. The industry did everything in its power to assure its privileged position in the German political economy, flexing its considerable political muscle to extort from the government policies that protected its profitability and world market share. Throughout the period of the Kaiserreich (with the exception of the years 1890-1896) the industry was able to mobilize a majority coalition in the Reichstag to support its political-economic goals, which before 1902 focused on increasing profits through expanded production and export and after 1902 through increased per capita consumption. For a decisive period from 1918 to 1930, this coalition broke apart. As a result the industry was exposed to world market forces with a vengeance.

In sum, one can not help but be struck by the consistent, long-term nature of government-industry relations in the sugar sector. As a united Germany reemerges from the Cold War, research in German business and economic history will increasingly focus on such long-term trends and continuities. In this respect, perhaps John Gillingham's exemplary study of German heavy industry across the divide of 1939-1945 is the wave of the future.

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