Retrospectives
The Coining of “Privatization” and Germany’s National Socialist Party
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This feature addresses the history of economic terms and ideas. The hope is to deepen the workaday dialogue of economists, while perhaps also casting new light on ongoing questions. If you have suggestions for future topics or authors, please write to Joseph Persky, c/o Journal of Economic Perspectives, Department of Economics (M/C 144), University of Illinois at Chicago, 601 South Morgan Street, Room 2103, Chicago, Illinois 60607-7121.

Tracing “Privatization” Back One Step

The concept of privatization seemed very much in the air in the late 1970s and early 1980s. Under prodding by Margaret Thatcher, 5 percent of the shares in British Petroleum were sold in a public offering in November 1979, the first of the major flotations in this period (Vickers and Yarrow, 1988, p. 316). My goal here is not to comment on the merits of privatization as a policy, but rather to investigate the history of the term “privatization” in economics and to shed some light on the context in which the word was coined. Although the origin of the term is often attributed to a 1969 book by Peter Drucker, I will show that this attribution is incorrect, and that the terminology of privatization played an evolving role in German economic policy from the 1930s through the 1950s.

The standard story on the coining of “privatization” reports that in 1969 Peter Drucker used the term “reprivatization” in the sense that economists understand it today. In The Age of Discontinuity (1969, p. 229), Drucker makes a negative appraisal on the managerial capabilities of the public sector: “Government is a poor manager . . . It has no choice but to be ‘bureaucratic.’” Drucker’s (p. 233) analysis of
how government works leads him to what he takes as “the main lesson of the last fifty years: the government is not a doer.” Thus, Drucker (p. 234) proposed adopting a “systematic policy of using the other, the nongovernmental institutions of the society of organizations, for the actual ‘doing,’ i.e., for performance, operations, execution. Such a policy might be called ‘reprivatization.’” Drucker referred to “reprivatization” because he proposed giving back to the private sector executive responsibilities that had been private before the public sector took them over through nationalization and municipalization starting in the last decades of the nineteenth century.


However, this story is wrong. The terms “privatize” and “reprivatize” appear in the 1961 edition of *Webster’s Third New International Dictionary of the English Language Unabridged*. “Privatization” was defined (p. 1,805) as “to alter the status of (a business or industry) from public to private control or ownership.” “Re-privatization” was defined (p. 1,927) as “the act or action of privatizing again: restoration to private ownership or control (as after nationalization).” Similar dictionary definitions are now widely accepted (for instance, *Oxford Dictionary of English*, 2003, p. 1,401; *New Oxford American Dictionary*, 2005, p. 1,349).

The *Oxford English Dictionary* (second edition, 1989, volume XII, p. 521) suggests that the earliest written record of the word “privatization” in English occurred in 1959. On July 28, the British newspaper *News Chronicle* reported: “Erhard selected the rich Preussag mining concern for his first experiment in privatisation.” Ludwig Erhard was at that time Vice-Chancellor and Minister for Economic Affairs of the German Federal Republic. However, the compilations of Erhard’s writings and speeches around this time do not include the word “privatization” (Erhard, 1958, 1963). The OED (volume XIII, p. 666) also suggests that “reprivatize” was used in 1959. The April 4, 1959, issue of *The Economist* gave information about the first sale of state-owned shares of the Preussische Bergwerks und Hüttent AG, commenting: “A whole series of political and legal hurdles will have to be taken before the way is clear to denationalize, or reprivatise, in earnest” (CXCI, 6032, p. 53).1

Several other dictionaries state that “privatize” and “reprivatize” originated in the late 1940s. For example, the 1987 *Random House Dictionary of the English Language* suggests 1945–50 as the date of origin for “privatize” (p. 1541) and also for “reprivatize” (p. 1635). The 1983 *Webster’s Ninth New Collegiate Dictionary* (p. 936)

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gives 1948 for the first use of “reprivatize.” However, in the next sections I will document the word “privatization” in works published in the 1930s and early 1940s on German economic policy, and its recurrence in the 1950s and 1960s.2

Why has a misattribution occurred? Undoubtedly, Peter Drucker’s work has had a strong impact on the literature, and his Age of Discontinuity has been widely disseminated. Daniel Yergin and Joseph Stanislaw (1998, p. 114) explain that a young British conservative politician, David Howell, was charged in the late 1960s with working out a plan to reduce the state sector in Britain. He learned the word “privatization” from Drucker’s work, and used it in a 1969 pamphlet, “A New Style of Government.”3

“Privatization” in the Analysis of Nazi Economic Policy

In the late 1930s and the early 1940s, a number of academic works were devoted to the analysis of economic policy in Germany under the rule of the National Socialist Party. One major work was Maxine Yaple Sweezy’s (1941) The Structure of the Nazi Economy. Sweezy stated that industrialists supported Hitler’s accession to power and his economic policies: “In return for business assistance, the Nazis hastened to give evidence of their good will by restoring to private capitalism a number of monopolies held or controlled by the state” (p. 27). This policy implied a large-scale program by which “the government transferred ownership to private hands” (p. 28). One of the main objectives for this policy was to stimulate the propensity to save, since a war economy required low levels of private consumption. High levels of savings were thought to depend on inequality of income, which would be increased by inequality of wealth. This, according to Sweezy (p. 28), “was thus secured by ‘reprivatization’. . . . The practical significance of the transference of government enterprises into private hands was thus that the capitalist class continued to serve as a vessel for the accumulation of income. Profit-making and the return of property to private hands, moreover, have assisted the consolidation of Nazi party power.” Sweezy (p. 30) again uses the concept when giving concrete examples of transference of government ownership to private hands: “The United Steel Trust is an outstanding example of ‘reprivatization.’” This may be the first use

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2 The standard story appears to be wrong in another way, too. Many of these sources that cite Peter Drucker (1969) as the source of “privatization” also agree that the first use of “privatization” in the strict sense occurs in Robert Poole’s (1976) work Cut Local Taxes Without Reducing Essential Services, published by the Reason Foundation. However, in a Cornell University working paper in 1970, William Drucker (1970, pp. 20–22) refers to the term “reprivatization” from Peter Drucker, introduces the term “privatization,” and makes its the meaning clear (p. 35): “As a system for providing health services, privatization, as has been discussed, appears to be at the opposite end of the spectrum from total government ownership and delivery of health services.” (No direct family relationship appears to exist between Peter Drucker and William Drucker.)

3 There was also a growing U.S. literature on contracting out government services to the private sector in the 1970s. This literature often focused on organizational and management issues. Peter Drucker did apply the concept of reprivatization in a way similar to that of contracting-out. This was not the first time that “privatization” was used in a way similar to “contracting-out”; see the discussion below of Caldwell (1953, p. 504). But it suggests another possible connection that would help explain why Drucker’s work has been taken as the origin of the “privatization” terminology.
of the term “reprivatization” in the academic literature in English, at least within the domain of the social sciences.  

Hans Wolfgang Singer used the term in “The German War Economy—VII,” published in the *Economic Journal* in 1942. Singer (1942, p. 377) reported the claims by German officials that the new policy was to “produce more and organize less” and “in pursuance of ‘re-privatisation’ factories and machine tools which were previously only leased to private business-men are now to be sold to them.”

In 1943, Sidney Merlin published “Trends in German Economic Control Since 1933,” in the *Quarterly Journal of Economics*. Merlin agrees that Germany’s National Socialist Party was looking not only for business support, but also for increased Nazi control over the economy (p. 207): “The party, moreover, facilitates the accumulation of private fortunes and industrial empires by its foremost members and collaborators through ‘privatization’ and other measures, thereby intensifying centralization of economic affairs and government in an increasingly narrow group that may for all practical purposes be termed the national socialist elite.” Merlin was aware of Sweezy’s work, but instead of “reprivatization” he used the word “privatization,” which may be the first time this term is used in the social science literature in English.

It is difficult to be certain why the terms of “privatization” and “reprivatization” emerged from the discussion of German economic policy in the 1930s and 1940s. In February 1934, in a newspaper article in the *Der Deutsche Volkswirt* called “Zur Neugestaltung des deutschen Nahverkehrs” (“On the New Organization of the German Urban Transportation”; all translations are the author’s), the German word “Reprivatisierung” appears, which translates as “reprivatization.” In that article, Heinz Marschner (1934, p. 587) wrote: “The following essay makes an interesting proposal: the reprivatization of urban transportation, which after the period of inflation came under public control, especially in the hands of local governments.”

This text comments on the German National Socialist (Nazi) government’s position that the ownership of urban transportation should be returned to the private sector. Several months later, Hans Baumgarten (1934) used “Reprivatisierung” in his article on banking policy in Germany (p. 1645): “Once there have been established the crucial factors that must be met in order to proceed with future reprivatization and future distribution of dividends, it has to be added that, after all, reprivatization also depends on the possibility itself of distributing dividends.”

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4 Sweezy’s book is built on her Ph.D. Dissertation (Sweezy, 1939a). Some parts of this research had resulted in journal articles published previously (Sweezy, 1939b, 1940). None of them included the term “privatization.” Gustav Stolper (1940) dedicated one part of his *German Economy 1870–1940* to the Nazi period and used the term “reprivatizing” (p. 207), referring to the return of banks to private ownership in the middle 1930s. Outside the social sciences, some earlier examples of “privatization” exist. For example, Cooper (1937, p. 579) uses precisely this term to refer to the private appropriation of administrative offices when analyzing the policy implications of the Logan bill. However, the Logan bill related to legal implications of a proposed U.S. administrative court, and the meaning is rather different from the modern idea of privatization in the social sciences.

5 This article was part of “The German War Economy, I-XII,” a series of twelve articles in consecutive issues of the *Economic Journal*, vols. 50–54, December 1940 to June–September 1944. Actually, the four first articles had the title “The German War Economy in the Light of German Economic Periodicals.” It is in the fifth article that the numbered title “The German War Economy” began to be used.
devoted its editorial page to Umschau: Reprivatisierung (“Survey: Reprivatization”) in the issue published in April 9, 1936 (volume 10, number 28). The German government had sold shares of public enterprises to private buyers during the previous weeks, and this editorial discussed expectations those sales had created among interested parties about the likelihood of a wider scale privatization policy. The editorial page of Der Deutsche Volkswirt was considered at that time to be a press organ for Hjalmar Schacht, who Adolf Hitler had earlier appointed head of the Reichsbank and then appointed Minister of Economy.

The correspondent of The Economist in Germany in his column of April 18, 1936 (CXXIII, 4834, p. 127) commented on the editorial page article in Der Deutsche Volkswirt: “The question of the sale by the Reich of industrial and bank participations, acquired since the 1931 crisis, is discussed in Dr. Schacht’s press organ.” This issue of The Economist did not include the word “reprivatization.” But several months later, the following sentence appeared in the August 1, 1936, number of The Economist (CXXIV, 4849, p. 220): “‘Re-privatisation,’ as it is called, has, however, been under way in the cases of all three banks. Some 40 per cent of the G.D. Bank’s holding of Deutsche-Disconto shares had passed back into private hands by the end of 1935. The new advance of bank shares to above par ought to smooth the way for complete ‘re-privatisation.’” This may well be the first recorded use of the term “reprivatization” in the English language. Later, in The Economist, the April 3, 1937, issue (CXXVII, 4884, p. 16), the correspondent in Germany wrote: “The Deutsche-Disconto Bank announces that it is now fully ‘reprivatised.’ The D.D. Bank’s reprivatisation was in part financed by sale to the Reich of the former Disconto Bank’s central offices. The reprivatisation of the Commerz- und Privat Bank is not yet complete. . . . The Finance Ministry’s holding has been reprivatised.”

Thus, “reprivatization” appears to have come into English on the heels of the invention of the German term “Reprivatisierung.” This apparently happened in the case of the The Economist articles mentioned above. Sweezy used a variety of German journals, periodicals and newspapers (1941, pp. 245–6) and Singer (1942) used only German journals and periodicals as sources. Der Deutsche Volkswirt was among these sources, so they too may well have imported the German term into English.

“Privatization” after World War II

After the end of World War II, the term “privatization” fell out of use for a time. In the mid-1950s, it began to reappear. In a study of administrative reform in Colombia, Lynton Caldwell (1953, p. 504) explained: “The officialization of privately controlled enterprise at the national level has been paralleled by the privatization of certain public services at the municipal level.” In his work on the German economic and political scene in the postwar era, Otto Kirchheimer (1954, p. 314) claims: “Privatization is probably the most important single social phenomenon of the post-war German scene.” In an analysis of the agrarian reforms in the former Czechoslovakia, Frank Meissner (1955) discusses the scenarios for a future without Communist domination in this country. In such a scenario, Meissner (p. 83) writes: “A ‘privatization’ of collective farming will, no doubt, become a highly topical issue.”
By the end of the 1950s, German economic policy again provided the main source of inspiration for using “privatization.” In 1958, the German trade union Deutsche Angestellten-Gewerkschaft (DAG) published *Das Eigentum an der Volkswagenwerk: GmbH Privatisierung, Staatsbetrieb oder Stiftung? (Ein Vorschlag der DAG)*—that is, *Ownership of Volkswagen: Privatization of Corporations with Limited Liability, Public Enterprise or Foundation? (A Proposal by DAG).* “Privatisierung” appears in the title of this report, which is full of references to the proposed privatization of the automobile firm Volkswagen. The paper makes extensive use of the German word (pp. 1, 3, 13 and 17), and the text shows that this concept was being widely used in Germany at that time: “When it comes to the topic of socioeconomic or sociopolitical reorganization, the public discussion is dominated by some catchwords like ‘state-owned enterprise,’ ‘privatization,’ ‘reprivatization,’ ‘socialization,’ ‘people’s share,’ or ‘joint ownership’” (DAG, 1958, p. 1). Discussions of the Volkswagen situation in English picked up the word as well. In the *Harvard Law Review* in 1966, Detler Vagts analyzes the German policy of corporate reforms and points out (p. 27) that it “has denationalized several major enterprises. . . . The Volkswagen privatization involved some 1,500,000 subscribers, whereas the total number of shareholders in Germany before that time was estimated to be only 500,000 or 600,000.” Vagts’s use of “privatization” clearly refers to the transference of government ownership to the private sector.

As this quotation shows, Vagts (1966) also used “denationalization” and “privatization” synonymously, which raises a question: why didn’t English-speaking authors who were discussing the sale of a government-owned firm to the private sector use the terminology of “denationalize,” which was used in Great Britain as far back as 1921 (Oxford English Dictionary, second edition, 1989, volume IV, p. 454)? Indeed, British scholars usually employed the term “denationalization” when analyzing the privatization of the steel and coal in the United Kingdom in the early 1950s (for example, Mackenzie, 1955, p. 145; Barna, 1957, p. 12). However, many German and U.S. scholars during the 1950s and the 1960s used versions of “privatisierung” or “privatization,” and “reprivatisierung” or “reprivatization.” In fact, in the literature of the 1930s and 1940s, the concept of denationalization focused largely on a literal deprivation of nationality for individuals (Abel, 1942). Not many economic analyses used the word. “Denationalization” may also have sounded too much like ownership was being surrendered to foreigners, while “reprivatization” or “privatization” did not carry such an implication. According to Yergin and Stanislaw (1998, p.114), Margaret Thatcher reached for the term “privatization” because “denationalization had a negative and unappealing connotation,” among other reasons. British scholars followed this lead and began to use “privatization” after Thatcher’s privatization policies were implemented in the 1980s.

### A Final Twist

The primary modern argument against privatization is that it only enriches and entrenches business and political elites, without benefiting consumers or taxpay-
The discussion here suggests a rich historical irony: these modern arguments against privatization are strikingly similar to the arguments made in favor of privatization in Germany in the 1930s. As Sweezy (1941) and Merlin (1943) explicitly point out, German privatization of the 1930s was intended to benefit the wealthiest sectors and enhance the economic position and political support of the elite. Of course, this historical connection does not prove that privatization is always a sound or an unsound policy, only that the effects of privatization may depend considerably on the political, social and economic contexts. German privatization in the 1930s differed from the privatization of Volkswagen in the 1950s, and both of these situations differ from, say, the British privatizations of the 1980s, the Russian privatizations of the 1990s, or the privatizations across Latin America over the last two decades.

For examples of such criticisms of privatization in this journal, in the context of Russia’s experience in the 1990s, see Desai (2005, p. 97) and Guriev and Rachinsky (2005, p. 138–139).

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References


