



The Nature of Rationalization

Now that we have gained an overview of the facts regarding rationalization, we can understand the nature, the point of rationalization.

The word “rationalization” is used with different meanings.

It initially referred to a unique historical process. When monetary value stabilized in Germany after the inflation disaster of 1923 and this stabilization caused a sales crisis in German industry, companies had to adapt to changed sales conditions. At the time, German industrialists and their industrial managers cried out: “Our factories have become obsolete! We are no longer competitive! We must rationalize our plants!” German industry needed to catch up with the technological developments that had begun in the United States in 1914. The technological renewal of German production facilities was accompanied by the development of an industrial model based upon the division of labor, the introduction of new processes to rationalize and intensify work, and the standardization and scientific application of management principles. This process of rapidly adapting German industry to the new conditions—which unfolded between 1924 and 1929—was described as “rationalization.” This term was also adopted by other countries whose national economies required similar transformation processes.

Rationalization created its own market. The technological renewal of all sectors of German industry, the construction of new plants, the modification of old ones and the installation of new machines created a huge demand for building materials, equipment, tools, and iron. The industrial branches that produced capital goods experienced brisk sales. Because they employed a growing number of workers and paid ever-higher wages, the market for consumer goods expanded as well. In the course of 1926, these developments enabled Germany to overcome the economic crisis that followed the stabilization of the mark. The years 1926 to 1928 were the years of the great rationalization boom. This was a time when German capitalists believed that, through rationalization, they could quickly overcome the economic consequences of both the war and Germany’s defeat; a time when general economic optimism made it easier for German workers and salaried employees to secure a significant rise in their wages and salaries; a time when the German people’s standard of living increased rapidly, German

democracy was strengthened and the German people threw their full support behind Stresemann's peaceful foreign policy.

But the rationalization boom soon ended. Once the greater share of German companies had completed the technological renewal of their plants, the technological transformation process progressed more slowly. This caused a drop-off in the demand for capital goods and a sales slump in the capital goods industries. The dismissal of large numbers of workers in the capital goods industries led to a decline in business for the consumer goods industries. The result was the severe economic crisis of 1929. A rationalization crisis followed the rationalization boom. Now the companies that had greatly expanded their plants and production capacities between 1924 and 1928 saw that they were unable to sell the quantities of goods they were capable of producing and that they were unable to fully utilize their new plants and machines. The optimism sparked by rationalization faded. People began complaining that rationalization had been overhasty and excessive, that it had often been "mis-rationalization." The population no longer believed that the consequences of war could be overcome by rationalization. In their disappointment, people turned against democracy, which was incapable of reviving the national economy; against the working classes, whose wages had risen excessively; against the policy of reconciliation, which had cravenly awarded the victorious powers high tributes to be paid from the fruits of German labor. In 1930, a wave of anti-democratic nationalist reaction swept across the nation. The joy over rationalization disappeared in similar fashion in other countries. Whereas the United States had once demonstrated its faith in the triumphs of rationalization by electing Herbert Hoover—the creator of organized rationalization—to the presidency, his popularity waned in the fall of 1929, when the rationalization boom also turned into a rationalization crisis in America.

The historical purpose of rationalization was to adapt the national economies that had gone through war and inflation to the new economic situation brought about by the stabilization of monetary value. In this original sense, rationalization ended in 1929. Its accompanying ideological phenomena have also come to an end—the effusive admiration of the "American economic miracle," the exaggerated illusion that the "new industrial revolution" would secure permanent prosperity, steadily increase the living standards of the working classes and overcome all the evils of capitalist production.

[...]

Source: Otto Bauer, *Kapitalismus und Sozialismus nach dem Weltkrieg, Erster Band, Rationalisierung Fehlrationalisierung* (Berlin: Büchergilde Gutenberg, 1931), 161–63. Translation by Adam Blauhut.