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ECONOMIC FOUNDATIONS OF THE GERMAN TOTALITARIAN STATE

MELCHIOR PALYI

ABSTRACT

The present analysis of dictatorship assumes that economic interests are the primary driving forces of its political mechanism. Any interpretation of contemporary Germany must take account of the fact that the German people have been convinced of the futility of continuing or restoring the economic system which collapsed in 1930-33. The inflation of the early 1920's delivered a moral blow at democracy as a form of government which shook the nation's political loyalty by undermining its reliance upon security based on "saving" and upon the "justice" of capitalistic wealth distribution. In their "despair" a large sector of the German people were willing to follow Hitler, whose essential formula was "to eliminate unemployment by public works and armaments, to restore confidence by armaments, and to foster foreign trade by armaments." Despite current beliefs regarding the militant cultural background of the German people, it is naïve to attribute to the Germans any rigid philosophy. If there is a national characteristic at all, it is the lack of ideology, continuity, and stability, combined with an ability to sublimate worldly aims into quasi-religious enthusiasm. By 1938 the Nazi economic system was threatened with alienation of the loyalty of the masses and of the army. War had to be risked to keep the system going.

ECONOMIC VERSUS IDEOLOGICAL INTERPRETATION OF NAZIISM

That the economic man of reality is subject to a variety of non-economic motivations, rational and otherwise, is a commonplace recognized by the most academic of equilibrium theorists. But it does not seem equally recognized that the "political man's" motivations are also largely of the rational-economic type. Perhaps a reaction against the primitive economism of Marx is responsible for the prevalent trend to seek the foundations of totalitarian power in psychological or sociological analogies. The popularity of this trend is exemplified by such attempts as dissection of the Nazi party and state into "charismatic" or similarly irrational structures, the reduction of their loyalty bases to pure Machiavellism, on the one hand, and to German mystical philosophy, on the other—to say nothing of explanations in terms of German "nature," of the magic of Wagnerian music, and of Hitler's "magnetic personality."¹ At least one

¹ H. Gerth, "The Nazi Party: Its Leadership and Composition," *American Journal of Sociology*, XLV (1940), 517-41, is the outstanding attempt. Cf. M. Florinski, *Fascism and National Socialism* (New York, 1935); E. Hambloch, *Germany Rampant* (New York, 1939); A. Cobban, *Dictatorship* (London, 1939), pp. 207 ff.; K. Loewenstein,

imaginative philosopher discovered the satanic principle embodied in Germanism and Reformation,² while his counterpart sought the metaphysical source of the authoritarian evil and found it institutionalized in the Roman church.³

The present approach to the "foundations" of a dictatorship assumes that economic interests are the primary driving force of its political mechanism.⁴ A few preliminary observations have to be brief and dogmatic. Economic motives are by definition "rational" and must be known to those whose actions they supposedly determine, even if no "logical" expression of the objectives is forthcoming. The rationality must be understood from the point of view of the acting individuals whose outlook is formed by their particular twist in interpreting current history. People may have "foolish" ideas about what their interests are, but they do not choose them without "reason" and will act as rationally in their pursuit as they are able to. Noneconomic ideologies are (in an irreligious age of mass movements) mostly interpretations of history, consisting of analogical generalizations—the "teachings of history"—and implying, of course, basic norms of group conduct, which are taken for granted. The primary significance of the economic motive expresses itself at least in the wishful coloring of the ideology

The present approach deals not with the "truthfulness" of certain historical interpretations but with the actors' own belief in them. Needless to say, it is not feasible arbitrarily to impute beliefs to a group; nor is empirical evidence of the existence of a belief sufficient proof of its effectiveness as a "motive force." Moreover, particular care is necessary to avoid confounding *ex post facto* rationalizations

Hitler's Germany (New York, 1939), pp. 5 ff.; O. D. Tolischus, *They Wanted War* (New York, 1940)—all more or less dilettante. For the approach in terms of Marxian class conflict, discarded since the Nazi-Bolshevik co-operation, see F. L. Schuman, *The Nazi Dictatorship* (New York, 1935).

² Goetz Briefs, "Limes Germanicus," *Review of Politics*, I (1939), 261 ff and 444 ff.

³ Paul Tillich, *The Interpretation of History* (New York, 1937).

⁴ "As yet, the great bulk of mankind live on the physical plane; and therefore, physical conditions, as yet, exert the most powerful influences in shaping civilization" (J. Strong, *Expansion under New World-Conditions* [New York, 1900], p. 10). For a discussion of the concept of "ideology" see Louis Wirth, "Ideological Aspects of Social Disorganization," *American Sociological Review*, V (1940), 472-82.

with real motives. On the other hand, subsequent developments may (and often do) bring underlying motives to the light.

Obviously, "facts" are open to as many interpretations as imagination may create. The interpretation has to be gauged in terms of its ability to provide a systematic "understanding," all elements of which must be consistent with the empirical material and with one another. This leaves the selection of the relevant facts to judgment ("relevance" itself is a matter of valuation)—a selection that is based on a number of assumptions or generalizations of an empirical nature. It is, for example, taken for granted that the leading men in Germany, such as Schacht, Thyssen, and Hindenburg, who were instrumental in bringing Hitler to power were not motivated by sentimental patriotism, romantic hero worship, and charismatic or quasi-religious delusions. They "knew" what they were doing (or so they thought). True, the rank and file might have been affected by Hitler's propaganda technique, but it would be very naïve to assume that millions of Germans decide their own fate without thought about the meaning of the regime they vote for.⁵ (The Townsend plan, propaganda for silver, the "Kingfish" movement, etc., may be based objectively on delusions about economic possibilities, but the motivation of the followers is certainly not "irrational.") In short, it is assumed that the political choice of the masses in a modern country, provided as they are with all superficial paraphernalia of a secularized civilization, is largely dictated by considerations of prospective maximum results to benefit individuals and groups.

Lastly, the pursuit of economic aims does not necessarily imply the use of "economic" means. Disregarding the fairly common confusion of aims and means, which affects rationalizations rather than actions, the strict distinction between "politics" (and war), on the one hand, and "business," on the other, is typical only of a pacifistic capitalism. A realistic approach has to accept it as a fact that economic aims can be, and often are, promoted by any device by which men manipulate one another.

⁵ One source of confusion arises from overlooking the fact that seemingly irrational ("meaningless") propaganda may have a more or less definite *symbolic* meaning; the mystical air assumed by apparent inarticulateness may actually provide a more emotional, and therefore more effective, coloring than a logical formulation is able to create.

THE MYTH OF THE VERSAILLES TREATY

The fundamental fact to face is this: the major part of the German people had been convinced of the futility to continue or to restore the economic system which seemed to go to pieces in the 1930-33 catastrophe. The thoroughly dissatisfied strata included the farm population (about thirteen millions), the unemployed and their families (fourteen to eighteen millions), the millions of "disinherited" middle classes, broad sections of small and "large" businessmen, many if not most professionals, etc. The overwhelming conviction that a new system was needed has found innumerable expressions. By 1932 the economic psychology and political temper of the country—especially of the "countryside"—were well prepared for a social revolution. The disaffection against the democratic Republic and a temporarily New Deal-ish capitalism was economic in most of its significant aspects, and the totalitarian collectivity which it engendered was founded on economic expectations. The *basic loyalty* which since supports it is also economic in the underlying expectations, enhanced, of course, by the "chance of violence," to use Max Weber's term; by ethical rationalizations; by appeal to historical sentimentalities and traditions, etc. The course of the Nazi regime—and the same holds probably for every European totalitarianism—has been determined step by step by the naked realism of well-definable group interests, the representants of which rarely conceal the "rational" character of the *sacro egoismo* for which they stand.

German political oratory of all shades during the crucial period of transition has been eloquent about the underlying economic malcontentment. Subsequently, the Nazi boast of achievements in eliminating unemployment, stabilizing farm prices and property rights, "rationalizing" production, preserving and obliging numerous vested interests, etc., to say nothing of loot at home and in conquered countries, is another aspect of the same emphasis. To justify themselves, the Nazis used rationalizations combining political, ethical, and economic interpretations. One of these rationalizations they had in common with German politicians of virtually every shade: the blaming of the Versailles Treaty, and in particular of the repara-

tions, for the country's trouble. It is instructive to note that the imposing literature on political propaganda consistently ignores the unusually successful propagation of this theme which became so generally accepted that one is usually unaware of its controversial character or of the fact that it had to be "propagated."

In reality, "Versailles" had little to do with Germany's post-war maladjustments. It may suffice to mention that between 1924 and 1931 Germany transferred barely more than one billion (gold) dollars in reparations while she received six and one-half billions in credits; that for five years she enjoyed a "boom," raised the living standards of the masses, replenished inventories and gold and foreign-exchange reserves, expanded and "rationalized" plants in a seigniorial fashion, and gave over a billion marks in credits to Russia—all in face of the reparations, the payments on which actually ceased in the summer of 1931, while the German fury against Versailles artificially fanned by the Nazis, raged. Nevertheless, the myth about the vicious treaty and the pernicious reparations remains one of the pseudoscientific dogmas of this generation.

The continuous resentment-raising by Anglo-American "liberals" and pacifists (J. M. Keynes, W. Lippmann, H. G. Moulton, etc.) against Versailles and the reparations has greatly promoted Hitler's victory, a fact skilfully sidestepped by all concerned. According to the Nazis, the treaty was a documentary proof of the fact that the Allies had no respect for right and justice or for Germany's vital interests. They argued that in face of the treaty Germany had no way out but by force, and every "moral" right to use it—an excellent rationalization to justify Nazi objectives. Consequently, the German intellectuals of Western orientation had to defend the treaty and to deflate the adverse propaganda. But the Hitlerian ranks could claim both the Western liberals as crown witnesses (Keynes even appeared in Berlin to harangue the ultra-nationalistic students) and "scientific" dignity for their own antiliberal tendencies. The same propaganda had perhaps even more to do with the success of the Nazis in tearing up the treaty and conquering the Continent. The anti-Versailles ballyhoo has pervaded the broadest newspaper-reading strata of the Occident and has become rigidly accepted by the "man on the street" because it fitted as a rationaliza-

tion into the prevailing longing for peace, implying not only economic security but also less taxation or more social expenditures. The consequence was the rise of a pro-German sentiment, especially in England, or at least of a "bad conscience" toward Germany. The British appeasement policy of the thirties would be unintelligible without the effective propaganda against Versailles during the twenties.⁶

No doubt, between 1919 and 1924 an amount of disturbances and maladjustments was due to the political and financial uncertainties which the lack of definite settlement with Poland and France created. But the treaty did not interfere with Germany's ability to recuperate; its territorial and economic clauses meant little to her productive or export ability—so little indeed that, after coming to power, the superpatriot Hitler could reverse his own propaganda and loudly recognize the Versailles boundaries.⁷

INFLATION AND POLITICAL LOYALTY

A debtor country with a surplus population until the early 1890's, Germany had to import capital and export men to build industries and secure rising living standards for a population which trebled in less than a century. By that time her railroad system had been completed and the legal remnants of the patrimonial age eliminated. Based upon large coal reserves and potash deposits, an aggressive commercial and industrial system of first magnitude and great wealth was developed. High-grade export industries helped to repay the railroad debt and other foreign liabilities and to accumulate foreign assets estimated in 1914 at seven billion gold dollars.⁸

⁶ "There still ring in our ears the indignant clamor with which Europe and America . . . had greeted our [France's] occupation of the Ruhr. I rather hope that those who, in 1923, raised all that indignant clamor are feeling a little silly in 1940. They have their own small part in the psychological responsibility for the 'collapse' of the democracies" (Jules Romains, "The English Mystery," *Saturday Evening Post*, October 19, 1940, p. 19).

⁷ See the keenly impartial book of W. J. Rose, *The Drama of Upper Silesia* (Brattleboro, 1935).

⁸ Lamprecht's *Deutsche Geschichte* (Berlin, 1894-1909) and Sombart's *Deutsche Volkswirtschaft im 19. Jahrhundert* (Berlin, 1903) are still the best presentations of the process of Germany's industrialization. See also J. H. Clapham, *Economic Development of France and Germany, 1815-1914* (Cambridge, 1921), and W. H. Dawson, *The Evolution of Modern Germany* (New York, 1908).

In 1914, Germany's public debt was about 14 billion marks, most of it the purchase price of the nationalized railroads. The war raised the debt to some 130 billions, most of it unloaded on the central bank. The mark had already depreciated by 40-60 per cent, and the gold reserve more than halved. The industrial apparatus had been overstrained and mismanaged for war purposes; the merchant fleet was gone and so were the foreign investments which had been largely liquidated to buy war materials or confiscated by the enemy and lost through other countries' breakdown. Commercial relations were disrupted and export markets lost. Labor trouble made internal readjustment extremely difficult.

War finance started the inflation, and the Republic resorted to the printing press until the end of 1923 to overcome the post-war difficulties. This futile attempt was full-heartedly supported by such powerful and otherwise violently antirepublican groups as the old administrative and academic bureaucracy, business, and landed nobility. The runaway inflation used up the national resources to procure employment for labor and enormous paper profits for industry and agriculture.

The voluminous literature on the German superinflation virtually ignores its political mechanism and consequences.⁹ The latter were more profound than the purely financial and economic after-effects. That they did not lead to an immediate overthrow of the Republic, the moral credit of which was as badly, and more permanently, impaired than the financial, was due to Poincaré's army in the Ruhr. But the moral blow delivered at democracy as a form of government shook the nation's political loyalty by undermining its reliance upon the basic security provided by "saving" and the elementary "justice" of capitalistic wealth distribution. Both depend on some degree of monetary stability. And the impoverishment of the middle classes through inflation was the more serious, since they were already carrying much of the burden of professional dislocation which the war created.

⁹ Cf. C. Bresciani-Turoni, *The Economics of Inflation* (London 1927); F. D. Graham, *Exchange, Prices and Production in Hyper-inflation* (Princeton, 1930); F. Hesse, *Deutsche Wirtschaftslage von 1914 bis 1923* (Jena, 1938).

THE POLITICAL CONSEQUENCES OF THE GREAT CRISIS

The inflation ended in November, 1923, but a stabilization crisis of extreme sharpness was on hand. Interest on best short-term credits rose to 20 and 25 per cent, and capital appeared to have only one source left—the central bank, which had to “ration” its credit. Capital values declined accordingly, and real estate and corporate securities were practically unsalable. The financial system of the country was paralyzed, with commercial bank deposits reduced from twenty billion marks in 1914 to less than one-half billion; the economic machinery came almost to a standstill, with unemployment rampant. A nation-wide prospect of bankruptcy again shook the foundations of political loyalty.

The crisis was overcome with the aid of the reparations. To enable Germany to pay, the Dawes Plan was framed under banking leadership (creating, incidentally, substantial intermediary profits). The former enemies and neutrals “flooded” Germany for five years with credits. Germany could not take all that she was offered. The years 1925–30 were for the Germans a New Deal period of government expenditure for so-called social purposes including swimming pools, public parks, “uneconomic” housing, and similar projects which amounted to large-scale subsidies. It coincided with a new era of speculative capital expansion on the part of industrialists and bankers.

Post-inflation Germany enjoyed a wave of borrowed prosperity. Gold and foreign-exchange reserves were restored, depleted inventories were replenished by great import surpluses, and the industrial apparatus was greatly but not “soundly” expanded.¹⁰ Then came the Great Crisis. For the third time in twelve years German economy was threatened with “stoppage” and faced financial collapse. By 1931 not only had her last resort of getting rich quick (by foreign credits) vanished but she was under a “run” and the partial repayments more than exhausted her cash reserves and inventories. The worst of it was that even the prospect of an early return to prosperity seemed to have faded. Germany’s export markets had become so weak that even an inflation, the thunder of which had been stolen by English devaluation, could not promise their reopening.

¹⁰ Cf. D. Warriner, *Combines and Rationalization in Germany* (London, 1931).

Exports provide Germany with vital raw materials and foodstuffs. But after 1929 crude material prices went down 40 per cent or more, breaking the purchasing power of the basic producers as well as that of their suppliers. Export markets had been further reduced by extreme neo-mercantilist policies all over the world. It started with the American tariff of 1929, the highest of its time. By 1931, under Britain's leadership, the free-trading countries turned to high tariffs and the protectionists to more protection. Export subsidies came again into world-wide use, while France excelled in the technique of quotas and similar restrictions, adopted by one country after another. Moreover, monetary manipulation, such as by devaluations, added in most countries further protection against imports and more subsidies to exports.

Three depression years of unemployment and wild political strife, the breakdown of international credit and trade, the bankruptcy of one customer-country after the other, the defeatism of a profitless capitalistic system, the virtuosity of "planning" propaganda, and, above all, a nation's longing for security and stability at almost any price after several consecutive financial catastrophes—all these circumstances have to be visualized to understand the success of an apparently "irrational" demagogy.

The essential formula which Adolf Hitler intimated and succeeded in "putting over" was in reality to eliminate unemployment by public works and armaments, to restore "confidence" by armaments, and to foster foreign trade by armaments. A large sector of the German people were willing to follow him, owing to their "despair"¹¹ as well as to the appeal of armaments to their political imagination shaped by the education which a Frederick the Great and a Bismarck have disseminated, to the unhealthy swelling of German self-admiration during World War I, the inclination of broad strata toward a "reactionary" philosophy of life, and to the example of totalitarianism in Russia, Italy, and Japan.

IS THERE A GERMAN SOCIAL PHILOSOPHY?

The Germans appear to be imbued, just like other occidental nations, with the idea that they are "entitled" to what they regard

¹¹ Especially since the "last" hope of international co-operation—the London Economic Conference of 1933—was first postponed for half a year and then "torpedoed" by President Roosevelt.

as the proper or customary level of prosperity and living standards. They were not willing to wait in the face of a seemingly dark outlook by following orthodox lines of painful adaptation (notwithstanding their willingness to carry great sacrifices if regarded as temporary with "recompensation" in prospect). In distress public works, "controlled" inflation of one kind or another, and some degree of autarchy are at present the answer of dictators and democracies alike, and the Germans have experimented since 1916 with virtually every known type of economic "management." But in spite of Russian and Japanese examples, the world was taken by surprise when Hitler's public works assumed, with popular approval, a military character with aggressive implications.

For centuries the German people received an education of the bellicose brand. The underlying philosophy is supposed to be distilled from a long history. Was not Germany poor and exploited each time when she was weak and divided as in the Thirty Years' War and in the Napoleonic era, while Prussia obtained new provinces when Frederick the Great managed to fight the big powers, and Bismarck brought home German unity as well as Schleswig, Alsace-Lorraine, and five billion gold francs—after three victorious wars?

The larger one's army and the more one can exploit other nations the richer and more prosperous is the country, such is the gist of a traditional Prussian interpretation of history. The theory that rich nations draw their wealth from the exploitation of colonies or other controlled territories has been widely current among German school-teachers (and professors). They rationalized further, at least since Nietzsche, that utilitarian mass happiness, democratic humanitarianism, and the allegedly immutable laws of prosperity are as many ideologies by which the possessors safeguard their "loot" against the "have-nots" (the latter allegedly short of "living space"). Thus, a naïve theory of imperialism was closely knit to a "reactionary" social doctrine.¹²

¹² An adequate "ideological" history of modern Germany is still lacking. Lévy-Bruhl's *L'Allemagne depuis Leibniz* (Paris, 1890) and F. Meinecke's *Weltbürgertum und Nationalstaat* (Munich and Berlin, 1919) are first approximations. Gooch's *Germany* (London, 1925) is a superficial compilation. M. J. Bonn's *Crumbling of Empire* (London, 1938) offers good observations. Cf. also W. Gurian's analysis, *The Future of Bolshevism* (New York, 1937).

Both have strong traditional backing. The fact that the French Revolution which carried over Europe the flag of liberation from obsolete "chains" also meant Germany's political and economic humiliation left deep traces on the nation's "mind."¹³ However, the secondary role of the ideology ought to be obvious. Under the impact of Napoleonic victories, the Prussian bureaucracy became the center of economic and social progress (in the Adam Smithian sense). When, in 1815, under czarist lead, the feudal and patrimonial interests recovered their power, a long "reactionary" era followed, shaken by subsequent French revolutions. The influence of a vastly expanding free English capitalism led to a definitely new turn of the ideological tide, and economic liberalism became predominant in German thought of the 1860's. Then, Bismarck's victories by the old-fashioned "iron and blood" technique again reversed the trend. Treitschke is a typical representative of this last change: originally a liberal (*brossdeutsch*) historian, he became after 1866 a chief apologist of ultra-Prussianism. The break between Wilhelm II and Bismarck brought again a fresh swing toward liberalism, interrupted by Caprivi's fall; but the prosperous years after 1900 witnessed a definitely "progressive" trend in German politics, social attitudes, and intellectual life, largely due to the competition with a progressive Anglo-American capitalism and to the revolutionary rumbling of the Slav earth. Another reactionary reversal came with the 1914 war on the democracies and the wartime preponderance of the military. Then again, in the agony of defeat, whole Germany looked for a while at Wilson as the savior, until the disappointment with internal economic conditions and the rising hope for external politico-economic chances made them return once more to the old-time idols.

In short, German political philosophy tends to be on the side of the "stronger battalions." It accepted and glorified eighteenth-century ideologies when they were impressively supported by French bayonets as well as the nineteenth-century bourgeois outlook when convincingly suggested by British capitalistic success and naval

¹³ The French Revolution imposed upon the Continent the emancipation of the Jews, thus creating a "vested interest" of the latter in the ideas of the former. Consequently, all reactionary movements suspect the Jews of "revolutionary" affiliations, which is a basic element in German anti-Semitism.

supremacy, and Bismarckian power politics when "tested" on the battlefields. It is very naïve, therefore, to attribute to the Germans any rigid philosophy. Their philosophical cycles fluctuate according to what appears to be to their "interest" at each time.¹⁴ If there is a national characteristic at all, lack of ideological continuity and stability, and possibly an exceptional ability to sublimate worldly aims into quasi-religious enthusiasm, distinguish the "German mind" from that of Western nations.

THE DYNAMICS OF THE NAZI ASCENDANCY

An attempt to reduce a genuine break in the continuity of a nation's loyalties to a few "essentials" necessarily risks oversimplification. *Some* contributing factors may be briefly enumerated.

a) It has been indicated that after 1930 a chiliastic outlook became prevalent in Germany. The attitude in all shades of this widespread utopianism was anticapitalistic; an outstanding political expression was the rising tide of the radical vote. Virtually all pressure groups clamored for governmental rescue; the entrepreneurial group turned in the 1930-33 crisis overwhelmingly "planning" minded, demanding state protection and monopolistic "freezing" of its interests. Like Italian and Hungarian fascism, the Nazis met with sympathy on the part of broad nonlabor groups by offering to use Lenin's methods in favor of those groups. With Hitler's coming to power, radicalism became as official as (say) Lutheranism was under the Prussian kings, adding dignity to its mass appeal. Its meaning was fluid from the early days of the Nazi movement but with strongly "state-socialistic" implications in favor of the "forgotten men." Without reference to this radical tinge neither the broad popularity of Naziism nor the internal coherence of a party recruited mostly from the lower strata (especially of peasantry) could be understood.¹⁵

¹⁴ It is typical, too, that German groups in foreign countries are more easily absorbed than almost any other groups. Unless "persecuted," German minorities are as a rule subservient to any form of government including American democracy, Russian czarism, and Hungarian semi-feudalism.

¹⁵ Some combination of etatism with quasi-socialistic tendencies was a Prussian bureaucratic "tradition" of long standing (cf. W. H. Dawson, *Bismarck and State Socialism* [London, 1890]; E. A. Clark, "Adolf Wagner," *Political Science Quarterly*, LV [1940], 378-411; and H. Oncken's *Lassalle: Eine politische Biographie* [Stuttgart and Berlin, 1920]).

b) The 1931 banking crisis affected not only the entire commercial and investment banking system of Germany but also the four thousand or so savings banks, mostly municipal, and some twenty thousand co-operatives, mostly rural. Virtually all were insolvent, involving a liquid wealth of over thirty billion marks in ownership capital and deposits.¹⁶ Bankruptcy and subsequent value liquidation on such a scale *appeared* inconceivable. Hoping for foreign help, the Brüning government chose to postpone the evil day by “freezing” the credit system with the aid of international (*Standstill*) agreements and exchange restrictions. But foreign help was not forthcoming, while the gold reserve dwindled and the “flight” of foreign and home capital continued. The artificial structure had to be maintained by more and more artificiality. Restrictions grew into an array of regulations, gradually separating Germany from normal international traffic, degrading the mark to a purely internal accounting unit, and putting industry under governmental control. This unique process still waits for its historian to analyze its intricate effects. It may suffice that Germany imposed thereby a large amount of self-sufficiency upon herself, providing at the same time “sales talk” for those with vested interest in bureaucratic management and in more autarchy. The enforced independence from foreign credit made the Germans feel free to “experiment” at home, further opening the dams to the mounting radicalism. Making the Germans self-conscious about their economic isolation was also instrumental in adding fuel to the fire of militant nationalism and imperialistic sentiments.

c) The political setup of the Republic was in many respects helpful to its enemies. The Weimar constitution gave virtual dictatorship powers to the president in an “emergency” (to be declared by him) and with the indulgence of emasculated courts three chancellors utilized this device before Hitler. The latter appeared, therefore, as merely continuing on a legally permissible road—an impor-

¹⁶ The fact that the leading spokesmen of the Berlin “Big Five,” as well as the leading private bankers carried Jewish names, is not unimportant in explaining the wave of anti-Semitism subsequent to the banking crisis. Another element of no mean importance was the fact, well remembered by the lower middle classes, that after the inflation the savings banks largely “revalued” the depositors’ claims, while the commercial banks (with Jewish spokesmen!) canceled all paper-mark liabilities.

tant appearance at the outset of his rule, when the loyalty of a legalistic-minded bureaucracy was at stake. More important, however, was the fact that the Republic, to satisfy the communists, had greatly emphasized its own allegedly revolutionary break with the past, thereby officially breaking the "continuity" of the law. The law-abiding among its enemies could rationalize accordingly about embracing illegal and even "otherwise" unethical objectives.

d) To overestimate the appeal to class sentiment by the anti-bolshevik propaganda of fascism (before the present war) is probably a far less serious error than to ignore the involuntary contribution of bolshevism and "social democracy" to the victory of fascist movements (and also to anti-Semitism). What mattered was not whether there was a "real" communistic danger, as the Fascists pretended and their critics rightly denied, but whether the pretension was accepted as relevant by those to whom it was addressed.¹⁷

The short-lived communistic and syndicalist revolts in Central Europe had immense consequences. One was a bitter resentment against labor, further nourished by the wage-raising and social spending policies of the "moderate" socialists. Consequently, every major fascist movement had been welcomed and at one time or another financed by entrepreneurial organizations to break the grip of the trade-unions. All over the Continent (with the possible exception of Scandinavia) the conviction had been established that organized labor, moderate or radical, uses the democratic process to "exploit" other classes in a monopolistic fashion and that the competitive system (or other groups' monopolistic privileges) can only be re-established if constraint by majority is met by violence of the "oppressed" minority. It is important in this connection that governmental jobs, including railroads, public utilities, etc., comprise up to 35 per cent of Continental employment. The antagonism against the growing monopolization of these vast "franchises" by socialists and Catholics, who were gradually replacing the beneficiaries of the "old regime," was easily sublimated into an ethical indignation against "corrupt" democracies.

¹⁷ A typical example of completely ignoring this essential distinction, and consequently a basic factor in the rise of Italian fascism, is G. A. Borgese's *Goliath* (New York, 1936).

e) That the combination of a theoretical threat of bolshevism with the practice of a "moderate" socialism had been instrumental in rallying many nonlabor groups to some sort of fascist cause, is well known from Sofia and Budapest to Paris and Madrid. The actual or potential competition of the communists for the labor vote had resulted under leftist regimes—even in Austria under Renner-Bauer, although practically without a Communist party—in concessions to radical wealth redistribution and in piecemeal reforms, largely at the consumers' expense. This was serious enough, even if a united front had been accomplished; but in Germany the permanent feud between communists and Social-Democrats virtually sealed the Republic's fate. The socialists enlisted the old regime's aid to overcome *Spartakist* and other rebellions and organized an army from ranks essentially opposed to democracy. At the showdown between the republican government in Prussia and a quasi-dictatorship in the Reich (under Papen, 1932) even the "reliable" Prussian police, and thereby all power, surrendered to the Hindenburg clique, because the socialists dared not take chances on a civil war which might have worked in favor of the communists. Moreover, and for similar reasons, the Republic essentially preserved the old bureaucracy so that Hitler could take it over with comparatively little personnel change, either in the upper or in the lower structure of any but the municipal administrations.

f) Lastly, Germany's fateful agricultural tangle has to be mentioned. Her claim of being the innocent victim of commercial persecution by the "have" powers is refuted by the records of her own agricultural policy, reaching back to the tariffs and subsidies which federal and state governments of the Republic showered upon the East Elbean *Junkers*. President Hindenburg's estate was one of the beneficiaries; Hitler was made chancellor when no legitimate government could be formed to give more subsidies to the *Rittergüter* and to raise grain prices further, already up to four times higher than the import price, free of duty. This policy did not fulfil its purpose—the appeasement of the landed aristocracy—but it had the effect of disrupting Germany's already strained commercial relations with farm countries. It also lowered her industrial competitive power by raising the cost of living or inhibiting the wage reductions "neces-

sary" in the depression, and it bankrupted millions of peasants in western and southern Germany, caught in the scissors of rising fodder costs and dwindling markets for processed farm products.¹⁸ It is no mere accident that the Nazi party's most consistent following had been recruited among the peasantry.¹⁹ In the Third Reich racial radicalism served as ideology to benefit the party's supporters on the farm by "stabilizing" farm prices and incomes on a high plateau, in addition to a multitude of other subsidies. Of course, these autarchic farm policies became after 1936 part and parcel of the economic preparations for war.

THE ECONOMIC "LOGICS" OF AGGRESSION

For a country with high living standards but poor in natural resources as well as in "liquid capital" (credit and gold), the limitations of public works as a substitute for foreign trade are even more patent than elsewhere. In the face of unsatisfactory export volumes and prices, some other procedure of getting the raw materials was needed. Armaments promised to bring favorable commercial treaties. That did not necessarily mean war. Whether or not the Nazis "wanted" war is not relevant to our issue. Nor do the ideological pretexts matter which they used. The relevant thing is that the attempt to force industrial exports by the threat or use of arms had to lead to conflicts and conquests, or else to failure.

The attempt to substitute public works and armed pressure for competitive exports is fraught with economic fallacies. Hitler's public works (1933-35) did not create the self-perpetuating prosperity which they were supposed to initiate according to the doctrine of pump-priming (*Initialzündung*). The "multiplier" by which the national income is supposed to rise over and above the governmentally spent amount did not go a long way. The original expenditures had to be topped by more and more public works to keep the

¹⁸ Cf. J. B. Holt, *German Agricultural Policy, 1918-1934* (Chapel Hill, N.C., 1936).

¹⁹ The racial philosophy of Hitler's version is typical of a certain "peasant mind" which is inclined to transfer breeding experience from husbandry to humanity. The biographers of Hitler and the historians of Naziism generally underestimate the significant role of the farm problem in Hitler's rise to power and of the farm following in the Nazi ranks.

upturn going.²⁰ But unproductive investments on a vast scale, absorbing already in peacetime up to 70 per cent of the national income, depressed the living standards as well as the export capacity of the country. The necessity of more regimentation and the problem of substitutes for vital materials arose. All these consumed in turn so much of other raw materials and of labor as to create more, rather than less, scarcity.

Second, Hitler's policies, while strengthening Germany's arms, destroyed much of her markets and all of her potential credit. The reduction of exports to Russia within six years from some seven hundred million to about forty million marks is one example. The raising of American antidumping rates against German commodities is another. Germany's exchange regulations, self-sufficiency policies, and dumping practices led to one commercial conflict after another. Heavily unbalanced budgets due to wholesale armaments, plus the internal and external aggressiveness of the Third Reich, created such antagonism as to destroy all possibility of new credits. By 1936 the country had almost ceased to be part of the international economic and financial community. This meant that she could not buy any more raw materials except for "cash." Hence the necessity of clearing, payment, and barter agreements to establish a permanent equalization of exports and imports against each individual foreign country. Up to 90 per cent of Nazi Germany's foreign trade had been forced into this system of "strait-jackets," adopted by other countries in retaliation against Germany. Hence the popularity of the outcry for colonies. (The answer of the Allies that colonial products could be bought by anyone sounded cynical, since the German means to purchase dwindled.)

A third pitfall arose from the geographic situation of Germany and the character of the countries which she was able to "bully" into economic submission. They are essentially poor countries with underdeveloped or little resources and with untrained populations. The control of the entire area from Poland to Turkey and Greece,

²⁰ Cf. H. Priester, *Das deutsche Wirtschaftswunder* (Amsterdam, 1936); C. W. Guillebaud, *Economic Recovery of Germany* (London, 1939); K. E. Poole, *German Financial Policies, 1932-39* (Cambridge, Mass., 1939). For Italian parallels cf. G. Demaria, *Cambi e clearings nella politica autarchica* (1939).

even if it could have been achieved without a devastating war, would not have offered Germany the basis for prosperity for which she was striving. That area of one hundred million population or so lacks most of the minerals and all plantation products Germany needs. Even its comparatively meager resources need development by large-scale capital investment, i.e., by the provision of agricultural implements, mining machinery, etc., on long-term conditions. Germany could not sink vast amounts of iron, copper, etc., in such investments without promptly receiving new raw materials. Consequently, even in 1938, after five years of losing export outlets toward the West and after strenuous efforts, Germany's trade with *Mittel Europa*, including Poland and Turkey, rose from some 4 to only 12 per cent of her total trade. Germany's markets are in western Europe and overseas, not in the Balkans. England was her greatest single customer. Only comparatively rich countries can afford on a large scale the high-quality products of German industry. No expansion by threat or force could make either raw materials grow on poor land or create purchasing power among poor people.

By 1938 the Nazi economic system was headed for a breakdown sufficiently complete to threaten political collapse by extinguishing the loyalty of the masses (and of the army), without which neither a democracy nor a dictatorship can survive. War had to be risked to keep the system going, to fulfil the virtually unlimited economic expectations which Naziism had aroused, and to avoid the loss of the nation's voluntary and forced savings almost totally sunk in unproductive military equipments and in the preparations for self-sufficiency.

CHICAGO, ILLINOIS