Hjalmar Schacht and Brüning paved the way for Hitler's takeover of Germany

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To go to the roots of Germany's transition to Hitler under the Heinrich Brüning chancellery, one must return to the immediate aftermath of World War I. What emerged from the 1919-21 Versailles conference was nothing less than a *new world order*, as the dominant power in the negotiations, Britain, imposed its own political and financial designs, to be consummated by Mussolini in Italy, and Hjalmar Schacht and Adolf Hitler in Germany, and the Bank for International Settlements.

The countries newly created at Versailles as well as the vanquished nations were placed under "surveillance" by the Bank of England-controlled Financial Commission of the League of Nations. The immense amount of debts loaded onto them could only be managed by resort to British or American loans. The pound sterling (and to a lesser extent the dollar) were deemed "as good as gold"; national central banks held their reserves in pounds, and had to accept the advent of British "experts" to run their business from inside.

Based on the fraud of Germany's sole guilt for the outbreak of the war, the Allies confiscated the Central Powers' (and especially Germany's) foreign assets, merchant fleet and navy, and colonies, and imposed the immense burden of reparations: a large part of coal and iron production was to be shipped free of cost to the Allies, industrial capacity exported and several hundred billion gold Reichsmarks paid out in annuities, payments reaching well into the 1960s

The intent of the British was summarized in the famous statement by one of Lloyd George's aides: "We will squeeze [Germany] until the pips squeak." John Maynard Keynes added, as an ostensible criticism, "We have not yet seen the effects of slavery on the white race." Germany as a major industrial power was to be destroyed once and for all; Eastern, Central and Southeastern Europe would not be permitted to industrialize under German guidance. The wealth of continental Europe was instead to be sold off.

From a British standpoint, however, there remained built-in instabilities beneath the Versailles system: there was the rising industrial might of the United States, which London did not contol; American industrialists wanted to industrialize the world, including the U.S.S.R. France was pursuing grandiose "Imperial" designs toward Central, Eastern, and Southeastern Europe.

And London had to contend with the strong German nationalism represented by industrialist Hugo Stinnes and the Reichswehr [armed forces]. When the Rapallo Treaty was signed in 1922 between that faction and the Soviets, the threat had to be demolished.

First, the British, acting through the Reparations Agency, their watchdog on the German economy, placed their pawn Hjalmar Schacht—a protégé and intimate friend of Bank of England Governor Montagu Norman—at the head of the Reichsbank as the dictator of German credit. His assignment was to smash Stinnes and the industrial faction, and to ensure that whatever surplus was produced in the German economy was faithfully shipped to the victors. Second, in 1925, Winston Churchill returned the pound to the gold standard [which it had left in 1914], a policy not unlike that of Margaret Thatcher: the pound was enormously overvalued, at the sacrifice of the British economy, so that it could continue to dominate world finance.

The third precondition was to smash the U.S. republican, industrial spirit of independence. That was the aim of the 1929 Wall Street stock market collapse.

The 1929 conjuncture

Anyone who claims that the 1929 crash was the inevitable outcome of a speculative frenzy is incompetent; and anyone who pretends that the crash resulted from "overinvestment and overproduction" is a dangerous criminal. The 1929 crash was produced, gradually and deliberately, by the Bank of England and its governor, Montagu Norman.

As a result of Britain's Thatcher-like policy, the pound had, by 1929, fallen into severe trouble. International capital was flowing toward the only fast-growing economy, America. By early 1929, Montagu Norman was clamoring for U.S. authorities to contract credit "with a view to breaking the spirit of speculation . . . provoke liquidation . . . prostrating the stock market . . . cutting at the root of the present situation."

How could a half-ruined British economy dictate terms to the United States? As one later governor of the

U.S. Federal Reserve, George Roy, said of the man who then ran U.S. financial and monetary policy, New York Federal Reserve chief George Harrison, "He lived and breathed for Norman." The Federal Reserve System itself had been created by the anglophile Warburg family, and continued to be run by them and their close allies, the Meyers of Lazard Frères.

Before Black Thursday, Oct. 24, 1929, masses of British capital had started leaving Wall Street and the dollar, to the point that sterling effected a spectacular recovery in the course of October, in preparation for the crash. One knowledgeable witness, London *Economist* editor Josiah Hirst, testified:

> I recollect at a London gathering of economists early in 1929 a discussion of the stock exchange boom in New York. . . . We all agreed . . . that a slump or crash was then probable. . . . The rise of the London Bank [of England] rate to 6.5 percent on Sept. 26 precipitated the stock exchange crisis and slump of October. Whether the action by the Bank in raising its rate was right or wrong need not be discussed here. . . . The mob of small speculators held on till the last moment, whereas many of the big speculators, being better informed and impressed by the selling movement from London and the continent, began to liquidate in September.

Hours *before* the panic that erupted on Wall Street and throughout America, Norman cabled to Harrison: "Recent liquidations in your stock market . . . have been satisfactory and *have helped to re-establish international position.*" Whose position was clear. As Stephen V. O. Clarke recently wrote in *Central Bank Cooperation,* published by the New York Federal Reserve, "The New York stock exchange crash came as a great relief and Norman expressed surprise that [the pound] had not been forced off gold."

In the next four years, U.S. GNP was to drop nearly 40 percent, and unemployment rose to 25 percent of the labor force. As the value of stocks collapsed, deposits were massively withdrawn from the banks; all outlays were channeled into debt payments and purchases of goods stopped. Production ground to a halt. U.S. imports collapsed from $4.4 billion in 1929 to $1.4 billion in 1933, with disastrous consequences for exporting nations. U.S. capital exports, which had been irrigating the world economy, stopped entirely, and U.S. banks started repatriating money. American lending to Europe decreased by *76 percent.* World deflation was on.

Germany was worst hit of all. Between 1928 and 1930, industrial production slumped by 11.5 percent, capital formation plummeted by 59 percent, and unemployment soared from 8.4 percent to 15.2 percent of the work force.

Until then, Germany had steered an uneasy but not fatal course. Not only was the physical economy bled by reparation payments, but the Reichsmark (RM), a perenially fragile currency, was kept on a short leash by London, as 2 billion marks were paid out each year as reparations, and 1 billion in debt service. In order to conduct investment at all, Germany took up huge amounts of external debts, which the City of London ensured were mostly short-term. Up to half of the major banks' deposits were in foreign money which could be called in on a one-day delay, and half of Germany's foreign liabilities, RM 15 billion, was short-term external commitments.

Schacht pulls the plug on the Weimar Republic

Social Democrat Hermann Müller became chancellor in 1929. At that time, Hitler's National Socialist German Workers Party, the NSDAP, was, so far as the population was concerned, a fringe party garnering 4 to 5 percent of the vote in regional elections. The real political game was being played elsewhere—particularly by Reichsbank President Hjalmar Schacht, who, since 1924, had undertaken guerrilla warfare against government economic policy, demanding budget cuts and a stop to foreign indebtedness, and using the vast powers of the independent central bank to influence things in this way; as Montagu Norman pushed the button on the New York market, he had also activated his intimate friend Schacht.

While extreme right-wing magnate and Deutsche Nationale Volkspartei (German National People's Party—DNVP) head Alfred Hugenberg, who controlled much of the German press, agitated against the reparations (with Schacht's covert support), the Reichsbank president published a memorandum in December 1929 which lambasted the economic and budget policy, shattering government authority and confidence in the Reichsmark. When the finance minister, Social Democrat Rudolf Hilferding, sought a large loan from New York Credit markets, Schacht blackmailed the authorities, saying that his decisive influence would not be brought to bear in New York unless the budget were massively cut, taxes increased, and a greater part of expenses devoted to pay off the debt.

Hilferding resigned—but most parties were demanding a change in the Reparations Agency-dictated Reichsbank Law. The Social Democratic Party (SPD) Reichstag Executive published a resolution on Jan. 16, 1930: "They unanimously decided that parallel government by the Reichsbank as practiced by Dr. Schacht through the misuse of the independent position of this institution cannot be tolerated. . . . [The Reichstag must] decide how, by alteration of the Reichsbank law,

Hjalmar Schacht (l) with Bank of England Governor Montagu Norman.

the freedom of the legislature in regard to the Reichsbank can be adequately ensured."

These words, however impotent, were wholly justified. Schacht was set to put into motion the machinery that would terminate the rule of law in Germany. A decision had been taken to replace the Weimar Republic with fascism.

Schacht tendered his resignation to President Marshal von Hindenburg on March 7, 1930. The next day in Paris, *Le Figaro* commented that Schacht wanted "to become the uncrowned king of Germany." As a result of his departure, the Weimar Republic entered into a chronic crisis of instability. On March 27, the Müller cabinet resigned.

The *Ersatzkaiser* Hindenburg called in a figure more to his monarchical liking, Center Party politician Heinrich Brüning, who himself dreamt of a monarchical restoration. Brüning purged his party of its moderate wing, and entered office with the threat of using Article 48 of the Constitution, the article which would enable him to rule by decree and entirely bypass the Reichstag and its proceedings. And as soon as the parliament manifested some reluctance to comply with Brüning's whim—on the subject of a bill slapping a tax on civil servants' salaries—the chancellor made good on his promise, imposed Article 48, and issued the first of the now-enabled emergency decrees which sealed the fate of parliamentary democracy. The Republic was dead.

Brüning's savage deflation policy

The new Chancellor was to receive from Hitler the epithet of *Hungerkanzler*—the chancellor of hunger. His decrees—a total of 43 in 1931 alone—imposed taxes on income, on business turnover, on sugar and beer, on any form of economic activity; civil-service incomes were cut by nearly one-quarter; state investment was halved as compared to 1929. Public spending, which had totaled 21 billion marks in 1929, was reduced to RM 17 billion in 1931, and RM 14.5 billion in 1932. Overall, wages were forcibly cut by 20 percent, all to "restore confidence."

When the Reichstag attempted to abrogate the decrees and stop this quasi-dictatorship, Brüning dissolved the parliament and called for new elections. On Sept. 14, 1930, the NSDAP gained 6.4 million votes (18.3 percent) and 107 seats, drawing much of its advance from agrarian-Protestant regions: the Junker aristocacy had ordered its political machines to shift votes to the Nazis, which were to be used as a scarecrow to compel the largest single party, the SPD, to tolerate Brüning out of fear that worse might be in store. The Social Democrats lost quite a great deal of the unemployed vote to the Nazi party, which also drew large forces from the right-wing and monarchist parties. *The Nazis had emerged as an option.*

On election day, Hjalmar Schacht sailed to London and New York. While his own (not necessarily truthful) account states that only then did he read *Mein Kampf* and take an "interest in the movement," an official Nazi Party publication of 1935, *Unsere Reichsregierung* (*Our Reich's Government*) by Sadila-Montau, reports that Schacht "traveled to the United States to win friends for Hitler." In the United States, Schacht gave speeches and lectures in no fewer than 50 cities, and at the prestigious Columbia and Yale universities, with Germany's weakness as the leitmotiv, helping to erode whatever "confidence" existed in the German currency. Schacht, in more discreet discussions with financier friends, was in fact reviewing the options available for a Germany purged of Communists, Social Democrats, labor unions, nationalist industrialists, and patriotic officers, within a new economic order Montagu Norman et al. were planning, based on the just-created Bank for International Settlements in Basel.

What the new order prescribed for Germany was that Brüning's rule by emergency decree could only be a transition. Brüning's deflation was "adjusting" the German economy to the world depression; it brought industy to its political knees, destabilized the republican parties, and shifted the minds of the unemployed masses toward a radicalism which was Hitler's for the picking. Upon Schacht's return to Germany, his speech to the Bremen Chamber of Trade on Dec. 3, 1930 set the new tone: "Nicht reden, handeln! Deutschland, nimm dein Schicksal selbst in die Hände!" ("Do not debate, act! Germany, take thy fate into thine own hands!")

The July 1931 bank crisis

Brüning went on piling up new emergency decrees. Unemployment was relentlessly soaring, topping the 4 million mark. Anglo-American financiers publicly applauded Brüning's methods; Harvard University held seminars to study them.

Before the next phase would be allowed to unfold, Schacht went on organizing the political backup. In early 1931, through the mediation of Deutsche Bank board member von Strauss and Hermann Göring, Schacht quietly became an economic policy adviser to Hitler. In February, he proposed to Brüning that Hitler and the NSDAP should be taken in the majority and the government. And when that did not occur, Schacht went on a public rampage internationally, making speech upon speech from Switzerland to Sweden to the effect that Germany would soon stop paying reparations, and the mark was a suspect currency—which successfully invited massive outflows of foreign investments.

After two years of depression, the international financial system received a fatal push, as everyone knows, at one of its weakest links, Austria. The minute foreign deposits started to abandon the Austrian Kreditanstalt, on rumors that it had gone into trouble, the whole pack of financial cards started to topple. Norman and Harrison had insisted that they alone were capable of ruling the world economy; they proceeded to demonstrate their absolute irresponsibility, and their criminal designs. Austria had to wait almost three weeks for a small short-term loan to be extended by the BIS and the central banks.

Meanwhile, between May 17 (the day the Austrian panic broke out) and June 17, the Reichsbank lost half of its gold reserves to investors switching out of marks. German banks' deposits were bled. By mid-June, Reichsbank President Hans Luther had to approach Norman for a loan aimed at strengthening German foreign-exchange reserves. A few days later, U.S. President Hoover abruptly announced that he had extended a one-year moratorium on Germany's reparations payments. Were the Anglo-American central bankers ready to play fair with Germany, fairer at least than they had with Austria?

When rumors flooded the German markets early in the month of July that a major concern, the large textile firm Nordwolle, was suffering gigantic trading losses, conversations between Montagu Norman and the Federal Reserve's Harrison indicated that other plans were in store. Harrison told Norman that he was "very skeptical about the idea of a credit [to Germany].... [He] felt the chief difficulty was a flight from the Reichsmark by German nationals, and the Reichsbank should resort to much more drastic credit controls." Norman replied that he thought that "the difficulty is that the Germans need Dr. Schacht there.... Luther does not seem to have the force necessary to turn the trick." To Norman and the City of London Germany under Brüning had been sufficiently weakened for the next phase to start.

The details of the banking crisis itself are public knowledge, in painstaking detail. Until the second largest bank, Darmstädter- und Nationalbank (Danat-Bank) officially announced that it stopped its payments on July 13, 1931, a tragic farce went on in a frenzy of Berlin meetings held at the chancellery, the Reichsbank, and the private banks. The chairman of the Deutsche Bank deliberately leaked to the press that Danat-Bank was in severe trouble, a leak the *Nationalzeitung* of Basel published in big headlines on July 6. The foolish Deutsche Bank official expected to get rid of a major competitor; he succeeded, he and his bank started rumors that Dresdner Bank too might go under.

Luther of the Reichsbank refused, throughout the crisis, to make any liquidity available to Danat or the banking system as a whole. He would stick, as an observer put it, to the Reichsbank's "textbook imposition of its restrictive policy," what today's Bundesbank would call *Stabilitätspolitik.* Not as an excuse, but as an explanation, it must be added that Luther's defense of central bank independence at the expense of German democracy was dictated by his international friends. Adviser Marcus Wallenberg, the famous Swedish banker, as well as Harvard's Oliver Sprague, Norman, and Harrison, led Luther to believe that there would be "unlimited common central bank action" as soon as the BIS could review the matter, if only Luther and the

Dr. Erich Solomon

Brüning introduces his austerity budget in February 1931.

German government "maintained and restored confidence"! That meant, let German banks go under.

When Luther's deputy, Dreyse, desperately called the Federal Reserve for immediate help the day before the crisis broke out, Harrison repeated: "You are not doing anything against capital flight. Apply a tough restrictive policy, squeeze the system, and apply exchange controls." Dreyse objected weakly that this would "finish off the banks." Harrison replied: "No matter what—squeeze!" Paul Warburg, chairman of the International Acceptance Bank (today part of Chase Manhattan Bank), heading the international consortium that usually lent money to Germany, vetoed any loan.

Only those not privy to Anglo-American strategies were surprised to see Hjalmar Schacht sitting next to Brüning at the decisive crisis meeting at the chancellery on July 12. The predictable result of that meeting was acted out the next day: throughout Germany, depositors and savers scrambled to cash in their money. All banks shut their teller windows by midday. The stock exchange was closed. Terror spread from Germany outward. In Warsaw, Riga, and Budapest, the stock markets also shut down. On the same day, the much-expected BIS meeting took place—and decided to lend nothing to Germany. It took days before a key prop to the future autarchy of the Nazi regime, exchange controls, was decreed by Brüning. The World Economic Conference held in London on July 20 simply made the situation official.

Brüning meanwhile played out his role with further austerity as local and state governments were stripped of their constitutional powers, all through *Notverodnungen*—the emergency decrees. As one of the most profound analysts of the Schachtian-Nazi economy, de Gaulle's economic adviser Jacques Rueff, wrote in his *Age of Inflation*, "When Hitler assumed power, he found already established the system that would enable his regime to function and endure."

The Depression paves the way

In the aftermath of July 1931, over 23 percent of German labor was unemployed, on its way to 30 percent—over 5.5 million. Compared to 1928, the index of industrial output was down 28 percent, basic chemicals output down 29 percent, car production down 43 percent. Exports sank 20 percent, crude steel output 17 percent, railway freight 32 percent; income tax revenue dropped 34 percent. Capital formation, which had stood at RM 7 billion in 1928, now was *negative by almost RM 1.5 billion.* The "autocannibalization" of accumulated wealth, the essence of Schachtian economics, had begun. Living standards and existing industry and infrastructure were to be used to the marrow of their potential yield, without expending "maintenance costs," be they food, education, or capital repairs and improvements.

With millions of unemployed in increasingly tense and bloody political confrontations, on Oct. 11, 1931, the highly respectable Schacht appeared with Adolf Hitler, Hugenberg, the Stahlhelm and kindred fascist thugs at the rostrum of the Bad Harzburg "nationalist" meeting. There, Hugenberg called for Brüning to resign in favor of a national-unity government, and Schacht launched once more a resounding tirade against government policies which were essentially of his making, declaiming that the currency was being misused to cover up the bankruptcy of the state, the banks, and the currency.

Having made Hitler *salonfähig* (acceptable in the drawing room), Schacht called for a "resolute Führer." In the same vein, he set up the Keppler Circle of bankers to organize support for Hitler among business leaders. With him were in particular Kurt Freiherr von Schröder, of the multinational private bank of the same name, head of the Anglo-German Fellowship, a director of Montagu Norman's BIS, and a future SS general; Fritz Thyssen, the only industrialist of the lot; Gottfried von Bismarck-Schöningen; and representatives of Commerzbank, Dresdner Bank, Westfalen-Bank, and others. By January 1932, Hitler was able to address the extremely exclusive Düsseldorf Industrie-Club, the Ruhr's top 300 businessmen.

Schacht's and the Keppler Circle's program was presented a few weeks later by Schacht. It included the remarkable following points:

- Education toward religious and patriotic sentiments, placing the welfare of the whole over the needs of individuals;
- An end to the eight-hour day and "any restrictions on work";
- Replacement of governmental social benefits by individual charity;
- Job-creation programs;
- Development of a strong defense preparedness;
- Autarchic measures as a lesson to trade partners;
- Pursuit of production and resettlement in colonial territories.

Schacht saves Hitler

On May 18, 1932, Hitler again addressed the Keppler Circle at the prestigious Berlin Kaiserhof Hotel. On May 30, Hindenburg dismissed Brüning. Franz von Papen, a creature of the Junkers and monarchist Bavarian forces, replaced him; new elections were called.

The backbone had not yet been destroyed in the German population: in the elections of June 1932, only 196 of the 230 Nazi members of the Reichstag returned. As is well known, the NSDAP as a party was on the verge of financial disintegration. Goebbels noted in his diary: "Schacht absolutely supports our standpoint. He is one of the few who quite steadily side with the Führer." Schacht himself told the Nazi newspaper *Volkischer Beobachter* on Nov. 24 that "there is only one man who can now become chancellor, and that is Adolf Hitler." Self-styled as Hitler's "indispensable collaborator," Schacht wrote to a desperate Führer: "I reserve no doubt that the course of events can have but one outcome, and that is your chancellorship. It appears that our effort to gain an array of support from business circles has not been in vain, while I believe as well that heavy industry will scarcely join the cause: they are well named 'heavy industry,' owing to their clumsy slowness of motion."

Why did heavy industry refuse to go along with Hitler—contrary to the accounts by Marxist propagandists and Anglo-American historians?

Reichswehr General von Schleicher was made chancellor in November 1932. What he represented was a tough group of nationalist—and anti-Nazi—industrialists and officers, including industrialist Otto Wolff, who was later jailed by Hitler; Krupp official Tilo von Wilmowski; Klöckerwerke's Kraemer; General von Hammerstein-Equardt, chief of staff of the army; and Reichswehr intelligence official von Bülow. Schleicher, who was closely cooperating with Soviet Marshal Tukachevsky at that time in Berlin, based much of his economic program on a massive push given to East-West trade, with Germany gearing its industrial production to industrialize Soviet Russia; a rebirth of the Rapallo policy was intended.

Schacht and the bankers perceived that these German patriots were threatening to undercut over 10 years of planning. On Nov. 10, Papen asked von Schröder to arrange a meeting with Hitler, to deal with the "Bolshevik" Schleicher cabinet. On Jan. 4, the meeting took place at Schröder's home in Cologne.

The senile Hindenburg, ever committed to Junker monarchist interests, rendered a last service before sliding into his coffin. On Jan. 30, Hitler was Germany's chancellor. Schacht asserted in Nuremberg 12 years later that "there was only one other possibility, one alternative, and that was military rule." In 1945, Sir Winston Churchill was asked by a member of Parliament why Britain had refused to support German generals plotting putsches against Hitler, both in 1938 and 1944. Churchill said: "Because His Majesty's Government thought that what government would have replaced Hitler was even worse for His Majesty's interests."

On March 16, 1933 Hitler appointed Hjalmar Schacht to succeed Hans Luther at the Reichsbank.

Under Hitler, the police state was now free to finally destroy the labor unions and the nationalists, whether military men or industrialists, in order to monopolize and hellishly misuse the patriotism of the German population.

Schacht's economic program had been written in 1926 by his friend J. M. Keynes (the 1936 German edition of Keynes's *General Theory* specified in its foreword that Hitler's policies were ideal for Germany); Schacht, the leading member of Graf Coudenhove-Kalergi's Pan-European Union, was now able to set up the Nazi war machine which his London controllers intended for use against the Soviet Union and France, as the prime tool of the new world order, the culmination of their Versailles system.