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Nazi Economic Policy

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Nearly every day brings new reports of the collapse of a large financial institution or the impending bankruptcy of a major company. Plans for bailouts and government intervention are in the air. Even those who profess devotion to free enterprise have wavered. Are we not faced with an emergency that calls for immediate action to "save" capitalism?

Faced with this situation, we need to be more resolute than ever in defense of the free market, with no government restrictions whatever. If we do not defeat these measures, we face grave danger. The record of National Socialist Germany during the 1930s shows how quickly government intervention leads to full-scale socialism. Ludwig von Mises warned of this many years ago.

When President Paul von Hindenburg appointed Adolf Hitler German Chancellor on January 30, 1933, people did not know what to expect as regards the economic policy of the new regime. There were disturbing signs that the National Socialists had radical reforms in mind. The "unalterable" 25 point 1920 program of the party proposed, among other things, "that all unearned income, and all income that does not arise from work, be abolished"; "the nationalization of all trusts"; "profit-sharing in large industries"; and "an agrarian reform in accordance with our national requirements, and the enactment of a law to expropriate the owners without compensation of any land needed for the common purpose. The abolition of ground rents, and the prohibition of all speculation in land."

In these days of frequent condemnations, sometimes, I regret to say by professed libertarians, of Wal-Mart and similar chains, point 16 of the program is worth noting: "We demand ... the immediate communalization of large stores which will be rented cheaply to small tradespeople."

Other signs pointed to a radical program as well. Ferdinand Zimmerman, who worked as an important economic planner for the Nazis, had been before their rise to power a contributor under the pen name Ferdinand Fried, to the journal *Die Tat*, edited by Hans Zehrer, and a leading member of a group of nationalist intellectuals known as the *Tatkreis*. Fried strongly opposed capitalism, analyzing it in almost Marxist terms. In an evaluation of Fried's book *Das Ende des Kapitalismus* (*The End of Capitalism*), for a possible English translation, Isaiah Berlin referred to

an unconditional acceptance of Marxio-Sombartian premisses with regard to the death of individualism, growth of mass production, collectivism, etc., and from these the natural conclusion is drawn that since collectivism is coming anyway, it might as well be dealt with efficiently and fairly by being converted from trust-collectivism into State-ownership of the means of production.



All this of course is the German Social-Democratic Marxism ... (Letter from Isaiah Berlin to Geoffrey Faber, January 4, 1932, in Isaiah Berlin, *Letters, 1928–1946*, Henry Hardy, ed., Cambridge University press, 2004, pp. 638–39)

Wilhelm Roepke wrote a devastating contemporary criticism of Fried, now available in translation in his *Against the Tide* (Regnery, 1969). One of the best scholarly accounts of Fried's views, which includes some discussion of his activities under the Nazi regime, is in Walter Struve, *Elites Against Democracy: Leadership Ideals in Bourgeois Political Thought in Germany, 1890–1933*, Princeton University Press, 1973).

Yet at the inception of the regime, many speculated on whether these radical measures were more than propaganda. It was well known that the party had right and left wings; people wondered whether anticapitalist views were limited to the party's left. Probably the most prominent on the party's left were Gregor Strasser and his brother Otto. Dr. Joseph Goebbels, later notorious as the minister for propaganda, was also an ardent leftist. Gottfried Feder, the principal author of the 20-point program, famous for his denunciations of the "tyranny of interest" became an economic planner in the government.

But why think the left might not prevail? Hitler had in meetings with industrialists before taking power given assurances that he was not hostile to business. (Contrary to the Marxist view of the Nazis, Hitler was in no sense a tool of big business. As Henry Ashby Turner has massively documented in *German Big Business and the Rise of Hitler* [Oxford University Press, 1985], the great majority of business contributions before 1933 went to other political parties.) The minister for economics, Hjalmar Horace Greeley Schacht, was no radical; and Hitler himself refused to devalue the German currency. Perhaps, then, he was not to be identified with the views of the party's left. Further, Hitler did not immediately assume total power. Quite the contrary, he headed a coalition cabinet. Conservative nationalists such as Franz von Papen, the vice-chancellor, thought that they would be able to keep Hitler under control.

This of course changed when Hitler used the crisis brought about by the burning of the Reichstag building to secure passage of the Enabling Bill, giving him dictatorial powers. (Contrary to a popular belief, the Nazis did not start the fire themselves. See on this Fritz Tobias, *The Reichstag Fire*, Putnam, 1964.) But though the Nazis were now free to govern as they pleased, this proved not to be a victory for the party's left. Hitler purged the radical SA in the famous Night of Long Knives, and Gregor Strasser was among the other victims of that bloody event. Goebbels of course remained influential; but while he retained his leftist economic views, he subordinated himself completely to Hitler. Gottfried Feder left his position in the government; thereafter, he worked at a university.

What, then, would be Hitler's economic policy? Would he impose the "unalterable" program or would he follow a restrained, probusiness course? In fact, he did neither. His policy was rather one of improvisation in response to the immediate situation. (A.J.P. Taylor controversially argued in *The Origins of the Second World War* that this was also true of Hitler's foreign policy.) But in so acting, he illustrated a key point that Mises often stressed: any intervention in the free market necessitates further interventions, because the initial measure will fail to achieve its goals. If the interventions continue, full state control of the market will rapidly ensue. The end result will be not capitalism, but socialism. As Mises put it in *Human Action*,

All varieties of interference with the market phenomena not only fail to achieve the ends aimed at by their authors and supporters, but bring about a state of affairs which — from the point of view of their authors' and advocates' valuations — is less desirable than the previous state of affairs which they were designed to alter. If one wants to correct their manifest unsuitableness and preposterousness by supplementing the first acts of intervention with more and more of such acts, one must go farther and farther until the market economy has been entirely destroyed and socialism has been substituted for it.

Exactly this process took place in Germany after 1933. As Adam Tooze has noted, Hitler in 1932 indicated his interest in job-creation programs, and this of course required government spending. But once in power, his interest shifted from job creation to rearmament. This required even more government spending; and armaments rapidly increased.

The Nazi party did not adopt work creation as a key part of its programme until the late spring of 1932, and it retained that status for only eighteen months, until December 1933, when civilian work creation spending was formally removed from the priority list of Hitler's government ... [Work creation] was in sharp contrast to the three issues that truly united the nationalist right ... the triple priority of rearmament, repudiating Germany's foreign debts and saving German agriculture ... It was Hitler's action on these three issues not work creation that truly marked the dividing line between the Weimar Republic and the Third Reich. (Adam Tooze, *The Wages of Destruction*, Viking, 2006, pp. 24–5)[1]

The Chicago School economist Burton Klein, in *Germany's Economic Preparations for War* (Harvard University Press, 1959), long ago pointed out that Germany in 1939 did not have enough arms to launch a world war: German armaments were sufficient only for smaller conflicts.

In effect, Germany had embarked on a Keynesian policy: government spending became increasingly important in guiding the economy into the military channels that Hitler wanted. John T. Flynn noted that Franklin Roosevelt followed a parallel policy, after his programs of domestic spending failed to extricate America from the Depression.

Here he [Roosevelt] was with a depression on his hands [with] the pressing necessity, as he put it himself, of spending two or three billion a year of deficit money, and most serious of all, as he told Jim Farley, no way to spend it ... Here now was a gift from the gods ... Here now was something the federal government could really spend money on: military and naval preparations. (*The Roosevelt Myth*, Fox & Wilkes, 50th Anniversary Edition, 1998, p. 157.)

Keynes himself viewed the Nazi efforts with favor. In his preface to the German edition of *The General Theory*, dated September 7, 1936, Keynes indicated that the ideas of his book could more readily be carried out under an authoritarian regime:

Nevertheless the theory of output as a whole, which is what the following book purports to provide, is more easily adapted to the conditions of a totalitarian state, than is the theory of the production and distribution of a given output under conditions of free competition and a large measure of laissez-faire.

As Donald Moggridge points out, the published German version (but not Keynes's draft) also said,

Although I have thus worked it [Keynes's theory] out having the conditions in the Anglo-Saxon countries in view — where a great deal of laissez-faire still prevails — it yet remains applicable to situations in which national leadership is more pronounced. (Donald Moggridge, *Maynard Keynes: An Economist's Biography*, Routledge, 1995, p. 611.)[2]

Once this program had begun, the dynamic to which Mises called attention developed in inexorable fashion: one intervention led to another, until the entire economy was brought under government control. Businesses who were reluctant to follow the plans of the New Order had to be forced into line. One law allowed the government to impose compulsory cartels. By 1936, the Four Year Plan, headed by Hermann Goering, changed the nature of the German economy.

On 18 October [1936] Goering was given Hitler's formal authorization as general plenipotentiary for the Four Year Plan. On the following days he presented decrees empowering him to take responsibility for virtually every aspect of economic policy, including control of the business media. (Tooze, pp. 223–24.)

Of course, under a system of planning, international trade must be subject to strict control. The accretion of interventionist measures to which Mises called attention operated in this area also:

The German economy, like any modern economy, could not do without imports of food and raw materials. To pay for these it needed to export. And if this flow of goods was obstructed by protectionism and beggar-my-neighbour devaluations, this left Germany no option but to resort to ever greater state control of imports and exports, which in turn necessitated a range of other interventions. (Tooze, p.113.)

One type of trade interventionism was especially characteristic of the Nazi regime. After trade with the United States had drastically shrunk, Schacht made a series of bilateral trade deals with countries of southeastern Europe. These agreements involved particular commodities, with the rate of exchange between the German and foreign currencies "fixed at a level different from the actual rate of exchange ... the barter agreements gave Germany a kind of monopoly of the trade with the countries of southeastern Europe which could not fail to link these countries politically with the Reich." (*Human Action, Scholar's Edition*, pp. 797, 799.)

No longer could the economy be described as a capitalist one. True enough, the forms of private ownership were preserved. The government did not nationalize the means of production, as in Soviet Russia. But the ostensible owners could not set prices on their own volition. The government made all essential decisions. As Mises said,

The second pattern [of socialism] (we may call it the Hindenburg or German pattern) nominally and seemingly preserves private ownership of the means of production, and keeps the appearance of ordinary markets, prices, wages, and interest rates. These are, however, no longer entrepreneurs, but only shop managers (*Betriebsführer* in the terminology of the Nazi legislation). These shop managers are seemingly instrumental in the conduct of the enterprises entrusted to them; they buy and sell, hire and discharge workers and remunerate their services, contract debts and pay interest and amortization. But in all their activities they are bound to obey unconditionally the orders issued by the government's supreme office of production management. This office (the *Reichswirtschaftsministerium* in Nazi Germany) tells the shop managers what and how to produce, at what prices and from whom to buy, at what prices and to whom to sell. It assigns every worker to his job and fixes his wages. It decrees to whom and on what terms the capitalists must entrust their funds. Market exchange is merely a sham.

Contrary to the claim found, e.g., in Franz Neumann, *Behemoth* (Harper, 1944), Nazism was not an example of "totalitarian monopoly capitalism."

Today many people call for drastic measures to cope with the recession. Paul Krugman, e.g., in *The Return of Depression Economics and the Crisis of 2008* (Norton, 2008) says "there will have to be an assertion of more government control — in effect, it will come closer to a full temporary nationalization of a significant part of the financial system."

The rapid transition to state socialism under Germany during the 1930s illustrates the dangers of such a course.

