

SCHACHT'S ECONOMY VERSUS HITLER'S FOREIGN POLICY:
RECOVERY, MILITARY BUILD-UP, AND BLUFF

by
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PREFACE

My purpose in making a study of German economics in the period between world wars is really three-fold. Interaction of these three factors holds the key to the paper and the thesis it defends.

Initially, I examine the Nuremberg Trials for the purpose of establishing some background for the current belief in German war guilt, and in particular, the case against the German economy. The second phase deals directly with the German economy in the 1930's and two of the men who guided it within this period. The last phase examines Hitler's foreign policy in relation to the economic capabilities of Germany immediately preceding the war and structures the evidence examined into a very different conclusion.

I would like to thank Dr. Lowell Satre and Dr. Martin Berger who guided me through the problems of writing a thesis and whose critical analysis was essential in putting together the finished product. I also must mention the patience shown by several young ladies who served as my typists, and one in particular, Miss Amy Horvat, who has suffered through the first and second drafts as well as the final paper.

CHAPTER 1

INTRODUCTION: ROAD TO NUREMBERG

The war that took place at the beginning of the twentieth century was a war to end all wars. This, at least, was the hope of most of its participants. The hope unfortunately was not realized, and in the long run it created more problems than it solved. Within two decades the world would be involved in another war of immense proportions. It would begin as an unfortunate mistake in judgment and would end in the destruction of another German Empire.¹ In the interim between wars, Germany had re-structured her economy and in the process, had regained the status of a world power. Germany's position as a world power would ultimately end with the Second World War. The ending of the conflict would create the setting for a series of miscarriages of justice called the Nuremberg Trials.²

Many factors are to be considered in estimating the capability of any nation to make war on her neighbors. An estimation of such capacity must include the political and social situation within it. The significance of the economic measures instituted in Germany can

¹A remarkable assertion which hopefully will become less remarkable as this thesis proceeds.

²This statement is a conclusion based on the trial transcripts and the knowledge of justice as we as a society now believe it to be. The conclusion is my own and I stand by it.

only be appraised properly within these political and social situations. In the Nuremberg Trials, an accurate estimation of such a capacity would have been of great help in sorting out what had really taken place in Nazi Germany. The internal functions of Germany were complex and the hurried research of the prosecution into these functions necessarily lacked the thoroughness needed for historical research. Historians, however, have later used the prosecution's case to substantiate their theories on German economics and its part in causing the war. The prosecution's lack of thoroughness gave these historians the wrong impressions of the German economy and its preparations for war.

Germany's economic measures were adopted while the Nazis were directing their vast propaganda apparatus to promote a new militarism in Germany. This militarism was of great importance in the evolution of a new German nationalism. Along with the rise of this new nationalism, the Nazis' strength continued to grow. This internal Nazi strength seemed to be the driving force of German power. The creation of a large economic-industrial complex within Germany allowed the Germans to use this power as a threat in their quest of political and material objectives. These objectives were used by the prosecution at Nuremberg, which charged that the measures which created this complex constituted in the field of economics and government administration the same preparation for aggressive war which dominated every aspect of the

¹The large economic-industrial complex was responsible for such threats because of the initial armament production which this complex had created and the continued supply of arms to the German military.

Nazi state.¹ The aggressiveness of these objectives and measures will be shown as something else entirely as the paper abandons such arguments in favor of a different thesis.

The prosecution held that German industry and the economic system which developed around it were responsible for the resulting war.² This paper will examine that argument and offer a defense for the German economy by disputing the validity of such charges. I hope to show through what was actually done in the economic field that the measures Germany undertook were not aggressive in nature as the prosecution charged, but necessary in rebuilding German industry and the German economy in general. After Schacht's removal, Goering's programs were meant to convince the nations of Europe of Hitler's intentions concerning the political objectives of the new Nazi Germany. The idea behind these programs was not to aim Germany for a real war, but to give the appearance of preparation.

The argument of this paper embraces the period before the outbreak of the war, although comparisons with later periods will be made to verify evidence in my case. The Germans wanted to establish a stable economy, free from runaway inflation such as they had previously experienced. The economy of Germany was not a conspiracy for aggressive warfare and the industrialists involved in the economy were not conspirators. The guilt of the industrialists after the war began is

¹Nazi Conspiracy and Aggression, United States of America, (Washington, D.C.: Government Printing Office, 1946) The Prosecution's Case, I, 349. (To be noted hereinafter as NCA.)

²NCA, I, 349.

a debate in itself and will be avoided in this discussion. I will instead concentrate on the economy in the pre-war German state. By establishing the position of the German economy at the outbreak of the war, I hope to show support for A.J.P. Taylor's thesis of Hitler as the shrewd diplomat willing to carry out bluffs in an attempt at getting as much as possible from the other European countries without giving up anything in return. This thesis can be found in Taylor's book, The Origins of the Second World War.¹

Before presenting my basic arguments, it is important to examine the industrialists and their support of the Nazi party to gain a better understanding of the measures which were taken at that time. This can be accomplished by sketching briefly two periods, the pre-Nazi period in Germany before 1932 when the Nazis lacked national power, and the Nazi rise to power after that date. The elections of 1932 were the turning point for the party as voter support of the Nazis gained for them the status of being a respectable party. The Nazis then warranted the attention of the industrialists as a party to be reckoned with and a party to whom they wished to contribute.² In the period before 1932, the industrialists contributed to many different parties, which included some major as well as some minor political factions. The industrialists' main contributions went to the parties most likely to be involved in the decision-making process in Germany.

¹(Greenwich: Fawcett Publications, Inc., 1961)

²Henry A. Turner Jr., "Big Business and the Rise of Hitler," American Historical Review, LXXV (1969), 60.

This pattern of contribution was logical in that the industrialists would want to influence the parties in control to favor their views on the issues confronting Germany at the time. The Nazis, however, did not possess such a position and this caused the support of the large industrialists to be very scarce. The Nazis were considered just another reactionary group in the political spectrum of Germany and as such were only of passing interest to most of the industrialists.¹ The great majority of industrial support the Nazis did receive came from the smaller businessmen. These businessmen, at the time, were being engulfed by all kinds of problems stemming from the economy and the large industrialists who wielded the real power in the business world. Because of this, the smaller businessmen wanted some political party to align with in hope it would develop into a force that could defend them.²

These small middle-class businessmen helped the Nazis to obtain their respectability in the 1932 elections by their votes at the polling places as well as their small monetary contributions to run the Nazis' modest campaign. The new respectability that came with this new-found electoral punch in 1932 enabled the Nazis now to woo the large industrialists to their cause.³ On the eve of the 1932 elections, Hitler waited to see if the German swing to the political right would be as great as the projections had indicated, and if this swing would

¹Ibid., 61.

²Geoffrey Pridham, Hitler's Rise to Power, (New York: Harper & Row, 1968), 213.

³Turner, "Big Business and the Rise of Hitler," 64.

bring his position closer to the top of the political spectrum. On January 30, 1933, Hitler would have the answer. On that date, he was appointed Chancellor of a right-wing coalition government which included two other Nazi ministers and various Nationalist and non-party conservative figures.

On the invitation of Goering, approximately twenty-five of the leading industrialists of Germany, together with Hjalmar Schacht, a man this paper will examine in depth, attended a meeting in Berlin on February 20, 1933.¹ Since the election of 1932, the industrialists had been re-evaluating their contributions and had given the Nazis a fair share of the money provided. Yet, in this February meeting, Hitler made a play for the entire amount of the industrialists' contributions for the next election. Hitler promised those attending the meeting that if they would support the Nazi party in the coming elections, it would be the last election to which they would have to contribute. Among those present at the meeting were Gustav Krupp, head of a munitions firm, Alfried Krupp, A.G.; four leading officials of the I.G. Farben Works, one of the world's largest chemical concerns; top representatives of the United Steel Works of Germany; Dr. Stein, head of an I.G. Farben subsidiary; and other leading industrialists.² These men were to form the basis for Hitler's economic support in the elections of 1933.

During the meeting, Hitler talked of the elections and the possible alliance between his party and the other major right-wing party, the Deutsch-nationale Volkspartei. This alliance, however, only

¹NCA, I, 352.

²Ibid.

lasted as long as Hitler needed it.¹ The industrialists supported the alliance in the coming elections and because of this, Hitler owed them something. With the elections of 1933, there were initial signs that the voters were reacting to the dissolution of the Reichstag with the same feelings of aversion they had shown the previous autumn. But the mood of the electorate gradually changed with the realization that this election could be decisive. The Reich Government announced that this would not be the first of yet another series of elections, but rather the last election until the government had succeeded in solving the country's critical problems.² The most critical problem facing Germany was her economy. Hitler promised the voters an end to unemployment if he was given a strong mandate. This mandate would allow Hitler to move against the economic problems that plagued not only the workers, but also the industrialists that now supported him. These industrialists desired an economic recovery which would allow German business to prosper as payment for their support of Hitler.³ The economy would then be the important factor in rebuilding Germany into a world power. This paper will concentrate on this economy and the people that were connected with it.

At Nuremberg, the prosecution stated that in 1939 and 1940, after the Nazi aggression upon Poland, Holland, Belgium, and France, it became clear to the world that the Nazi conspirators had created

¹The industrialists wanted a right-wing alliance; and to assure himself of their total support in the coming elections, Hitler gave them the alliance, which he then dissolved after gaining power.

²Pridham, Hitler's Rise to Power, 218, and NCA, I, 353.

³Dietrich Orlow, The History of the Nazi Party: 1933-1945, (Pittsburgh: University of Pittsburgh Press, 1973), I, 419-432.

probably the greatest instrument of aggression in history.¹ I contend that the reason for the failure of these countries in stopping this "great instrument" can be found, not in the economics of Germany, but in the internal problems of those particular countries and in outside influences exerting pressure on them. Examples of such internal problems and outside pressures are illustrated by the Russian invasion of Poland, the faulty leadership of the French civil and military forces whose fear of the German threat led to France's early surrender, and the creation of sympathetic governments that tried to deal with Hitler on a diplomatic level.

¹NCA, I, 349.

CHAPTER 2

THE NUREMBERG TRIALS

During the Nuremberg Trials, the prosecution based a great deal of its case on the speeches of Nazi Major General Thomas, who was Chief of the Military-Economic Staff in the Reich War Ministry.¹ It seems that among his abilities was the talent of impressing people with figures. The general idea was to convince the Germans as well as the other European countries that Germany possessed the greatest fighting force in the world. The fear of such a force is a weapon in itself, yet the manner in which it is used is the determining factor in considering fear as an aggressive act. A discussion of German aims will be furnished in later pages of this paper, and will entail arguments dealing with the German use of fear as a form of aggression. Throughout one of his initial speeches in 1939, General Thomas had made thirty-nine infantry divisions, twenty-one air force squadrons, four battleships, and a handful of cruisers seem like an irresistible force that could not be stopped without great expense to all the major powers in the western world.² This force had a total strength of 1.4 million men as compared to a 3.2 million-man estimate for the Anglo-French and

¹NCA, I, 349.

²Ibid.

Russian military forces.¹

The balancing factors were the dispersion of the allied forces mentioned above and the fear created by the German military, which in most cases was based more on bluff than on real force. The German General Staff knew the real power of the German military forces and constantly warned Hitler against any risky military adventures, but Hitler knew how to use the art of bluffing much too well to take their advice. He was able to keep his forces out of direct confrontation with a strong European alliance of military force until the Polish blunder. Larry H. Addington, in his book The Blitzkrieg Era and the German General Staff, 1865-1941, concludes that the blitzkrieg developed as a functional method of waging war with forces consisting of front line units with little depth in reserve and support units.² But in reality, the blitzkrieg method was never used effectively. The reason it was not can be attributed to many factors and possibly one of these is that it was never meant as an effective fighting method, but simply as another of Hitler's psychological weapons.³ In actuality, it would have been possible to stop this "great instrument of aggression" in its tracks had enough force been concentrated on the perimeters of the

¹Estimates based on data compiled in R.W. Goldsmith, 'The Power of Victory' Military Affairs, X (1946), 87-115. If one substitutes Poland for Russia in calculating strength, figures reduce to 2.1 million for the proposed allies. The above estimates were also checked in 'The World Powers Compared' Fortune, (Nov. 1939), 21-37.

²(New Brunswick: Rutgers University Press), 47-61.

³R.M. Mattendale, 'They Cry War,' The Nation, (Nov. 1939), 483-487.

advancing German army.¹

General Thomas continued to dig a deep grave for the Nazis at the Nuremberg Trials during a lecture delivered on May 24, 1939, in the Nazi Foreign Office.² He bragged that out of the few factories permitted by the Versailles Treaty, there had arisen "the mightiest armament industry now existing in the world."³ Thomas went on to say that this industry "has attained performance levels which in part, equal the German wartime performances and in some cases, even surpasses them."⁴ The picture presented above is in essence true, but it is not the whole picture. The armament industry of the world was, at the time, at a low production level. In each of the European powers, armament production in the late 1930's was only just beginning to respond to the German build-up with any sort of accelerated production. The active armament production of Germany was then superior to any other country in Europe because of its steady activity through the 1930's. The world picture, however, provided a challenge to the German armament production in the form of Japan, who was setting some records of her own.⁵

¹Goldsmith, 'Power of Victory,' 103, and U.S. Department of Defense, Military History, (Washington, Government Printing Office, 1972), XV, 171.

²This bragging will end up haunting the Nazi defendants at the trials, as Thomas's words are used as evidence to convict them.

³NCA, I, 350.

⁴Ibid.

⁵These records refer to Japanese production of small arms, aircraft, and naval vessels which surpassed German construction in these same areas in the years of 1938 and 1939.

The reference to Germany's surpassing itself in some phases of production it had previously attained during the first world conflict can be explained with the same reasoning used to explain Germany's active armament production in the first place. The end of the first conflict in 1918 left the country in a definitely inferior position as far as weapons were concerned when compared to the other participants in the conflict. This was partly due to Allied confiscation of German armaments after the ending of hostilities, but of even more interest in considering the German armament situation was the German and Allied involvement in the second Russian Civil War. The Allies had clamped restrictive armament levels on the Germans after the First World War, while at the same time requesting German participation in the Russian action.¹ The Germans' part in the Russian Civil War was to occupy the Russian territory which they had taken in the First World War, and to accomplish this task with the arms left over from that conflict. The Allied production of armaments continued because of the necessity of supplying their own armies and the Russian White forces involved in the war.² The results of the above actions supplied the Allies with all of their immediate armament needs and a significant stockpile of arms to meet any problems they could not foresee at the time. After reaching these goals the Allies phased down their armament production to meet replacement needs as they developed.

¹For the entire story of German and Allied involvement in Russia during the Civil War, see Arno J. Mayer's Politics and Diplomacy of Peacemaking, 1918-1919, (New York: Alfred A. Knopf, 1977), 284-343. In particular, 286, 316, 318.

²Ibid.

These needs diminished as the Allied armies began to shrink to peacetime levels.

The position of Germany was obvious. The Germans would have a lot of catching up to do when they finally began to retool their armament industry and begin production. The Germans had to refurbish an entire army which was expanding to include tanks and armored vehicles. The industry took on the task of building a new air force from scratch. The technology needed for doing this created a very large industry. The Germans had the "mightiest armament industry now existing in the world" because they began this tremendous task of catching up. The question of the level at which this process of catching up was aimed will be examined next in reference to the German economy and the political aims of Hitler.¹

¹These political aims of Hitler will be examined later in the paper as it concludes, but here it is important to note that a conflict did arise between the economic program and the political program.

CHAPTER 3

SCHACHT'S RISE TO POWER

When speaking of the German economy in the period of restoration before the war, the discussion must center around the architect of Germany's recovery, Hjalmar Schacht. This man was a financial genius, and his story forms an integral part of this thesis. The discussion to follow will lay the basis for the conclusions reached at the end of this paper, and the examination of Schacht's actual measures will permit the reconstruction of the first steps of what really happened.

It is logical to begin such a discussion with the qualifications of the man. Hjalmar Schacht prepared for a career in business while in the university system. He attended the University of Kiel and received a doctorate in philosophy, although his subject area was actually political economics.¹ His dissertation topic dealt with the theoretical quality of English commerce, a topic which aided him in preparing for a banking career by giving him the chance to study England's banking system. After his oral examinations took place in August of 1889, Schacht was appointed to the Dresdner Bank where he began his banking career.²

The German entrance into the First World War interrupted this

¹Hjalmar Schacht, Confessions of the Old Wizard, (Boston: Houghton Mifflin Company, 1956), 73. (To be noted hereafter as Schacht's Confessions.)

²Ibid., 92.

career temporarily, but Schacht would return to the Dresdner Bank after the war. While Schacht was successful in returning to the business world, Germany was to fail in her return. The Weimar Republic immediately ran into economic problems. The biggest problem confronting the Germans in the early 1920's was their runaway inflation. If Germany was to survive, she would have to bring her economy under control. To assist the nation in doing just that, Schacht entered the government and assumed duties as Commissioner for National Currency on November 13, 1923.¹ He immediately began consultations with other economic leaders to draw up plans to bring the economy under control. The first move was to freeze the official rate of exchange on the mark in ratio to other foreign currencies on November 20, 1923. This action meant the German government would buy currency at the rate of 4.2 trillion marks to the dollar.² The dollar was bringing up to 12 trillion marks on the black market. This inflation, however, was not Germany's only problem. In the course of those November weeks, Germany was in a curious and quite awkward position. The country had three separate currencies existing side by side and really could not support any of them. These three currencies consisted of the paper mark, the Rentenmark, and theoretically, the old gold mark.³

Schacht hoped to reintroduce in practice the payment of debts with the gold mark through the Reichsbank. Schacht felt that the

¹Ibid., 166.

²Alfred White, "The World Currencies Exchange Rate Reviewed," Business Week, (June 1935), 42-57.

³Schacht's Confessions, 169.

inflation and the currency crisis were the two enemies of stabilization that had to be defeated. The first move taken by Schacht was in the area of the currency crisis. The Rentenmark, which was the emergency money issued by many public and private corporations, was discontinued by the Reichsbank as payment for debts owed to the bank. The success of this blow was due mainly to the fact that although the Rentenmark was introduced as a legal measure, it did not receive the status of legal tender and the distribution from a separate Rentenbank. Because of this, the Reichsbank controlled the flow of the Rentenmarks and was able to stop their use. The Reichsbank was then able to reaffirm and develop its function of sole responsibility for monetary policy.¹

Curiously enough, the gamblers in foreign exchanges had overlooked this characteristic of the Rentenmark and Schacht's second blow was directed at the black market. The buying and selling of foreign bills of exchange, particularly the dollar, was carried on for the most part by so-called term transactions. The purchase agreement was concluded at the day's ruling price, while the payment was completed only at the end of the month, the so-called ultimo. By the November ultimo, the black market dollar rate had risen to exactly 12 trillion marks to the dollar. It now transpired that many speculators in the foreign exchanges were short money to make their commitments for the November ultimo.² The Reichsbank was swamped with demands for credit

¹Ibid., 171.

²Lawrence Matthews, "The German Currency Crisis," Business World, XIX (Jan. 1923), 18-29.

which had formerly been honored without any trouble. Now, however, the Reichsbank refused to grant the speculators credit. Instead, it announced the bank's interest in buying the foreign bills at the official price of 4.2 trillion marks to the dollar, as fixed on November 20, 1923.

For many of the speculators there was nothing to do but to sell their foreign bills to the Reichsbank and take the enormous loss that came with such actions. The speculators destroyed themselves in the most part with such sales and these downfalls tended to take the pressure off the German government in providing the continuous support of the mark which drained most of their workable short and long-term resources.¹

All of the above might not have happened had it not been for the death of the president of the Reichsbank, who had opposed Schacht's proposed methods of stabilizing the currency. The opposition by the Reichsbank president was aimed more against Schacht's position in a government that attempted to force his resignation than the proposed methods themselves. His death left the way clear for Schacht to move as he did, and because of his successes, on December 22, 1923, Schacht was officially made president of the Reichsbank.² Within a short time, Schacht launched his second phase for Germany's stabilization of her currency.

This phase depended on the British for support. Schacht was hoping to establish the gold-based mark for the restructuring of the German currency. To do this, the plan called for the establishment

¹Ibid.

²Schacht's Confessions, 175.

of a new bank using foreign gold, which translated into the British supplying 100 million marks in pounds sterling as a base. But when Schacht returned from Britain he brought with him the support of a promised half-billion marks in pounds sterling.¹ Schacht was then able to accomplish what he had intended to do, which was to stabilize the German currency system. He continued as president of the Reichsbank until April of 1930 when he resigned over the German refusal to sign the Young Plan that he had initially accepted. Schacht did not completely agree with the plan, but he felt it necessary to sign the agreement to keep economic peace with the other world powers. This peace was important for Schacht in keeping these powers receptive to his plans. The Young Plan dealt with reparation payments which the German government wanted to end, and this plan's failure to be accepted in the Reichstag led to Schacht's resignation.

Other aspects of the German economy needed attention, but Schacht would not be among the economic advisors who would deal with those problems. The men who did accept the responsibility for the economy failed in their attempts to facilitate a stable recovery. For whatever the reasons, the German economy began another decline. These economic problems that continued to plague the German government became a major issue in the Nazis' campaign to build support. It was an issue that would bring the big industrialists into the Nazi camp after 1932. With Hitler's victories in the 1933 elections, Nazi

¹L.S. Thomas, "British Economic Assistance in Europe," American Economic Review, XV (1925), 49-72.

Germany came into being. It would not take long for Hitler to realize his need for new economic leaders. With high unemployment leading the list of economic problems, he moved quickly in finding economic advisors who were pro-industry. It was not long before Hitler found the men he wanted to lead Germany to recovery. One of these men was Hjalmar Schacht.

CHAPTER 4

SCHACHT AND THE NEW GERMAN ECONOMY

In November of 1932, Schacht asked Hitler whether he insisted on entry into the Nazi Party as a condition for entrance into government positions. To Schacht's relief, Hitler replied in the negative.¹ Schacht stated that he would never have accepted a subordinate position under party jurisdiction. This important conversation led to Schacht's return to the Reichsbank on March 17, 1933, as its president.² The office now, however, came with far greater responsibility, and the man holding that position became the second highest-ranking economic official in the German government.³

Schacht's first action was really a joint effort between the German cabinet and the Reichsbank. It was the first work creation program implemented by the new German government. The program was aimed at the repair and reconstruction of houses, factories, and machinery. To this program, the Reichsbank contributed the sum of one billion marks. The second joint effort to be tackled was the construction of the national autobahnen, a series of highways built

¹Schacht's Confessions, 274.

²The story of Schacht's return is partially told in Thomas Huntington's series of articles called, "Inside Germany," Life, (Mar. 1935), 19-31.

³In the German government, the highest-ranking economic official with the most power was the Minister of Economic Affairs.

for motor traffic much like our present-day turnpike and freeway system. For the project, Schacht sanctioned an initial credit of six hundred million marks which was to be repaid out of the national budget at a later date. These efforts were meant to lower the unemployment figures and stimulate the slumping economy.¹

Under Hitler, districts now received a steady supply of funds. These funds enabled the districts to carry out programs of public works, which their officials had long been interested in doing, but which had been previously rejected by the central government in Berlin. Most of the officials experienced an upsurge of positive inspiration now that they were able to produce worthwhile work in the districts under their administration.² The reports from individual districts and counties piled up. These reports indeed told the story of decreasing unemployment and in some areas its total elimination. But the efforts had two major flaws. The highway project and the public works projects were benefitting only the districts that they were located in. The benefits to the economy were only temporary and left no continuous work environment for the building trades. The immediate effects were to lower the unemployment rate and to give hope to district officials and the population in general. But these joint efforts lacked the force needed to move a lifeless economy in an upward direction.³

¹Schacht's Confessions, 278.

²T.W. Mason, "Economics in National Socialist Germany," Economics The Third Reich (New York: Quadrangle Books, Inc., 1973), 127.

³E.N. Peterson, Hjalmar Schacht, For and Against Hitler (Boston: Hunicutt Inc., Publishers, 1970), 107.

Hitler decided the economy was not performing adequately and felt a change was needed. He knew nothing of economics, but his feelings were correct. He acted quickly and called for Schacht. When Schacht arrived Hitler asked him if, in addition to his office as president of the Reichsbank, he would be prepared to take over the Ministry of Economic Affairs.¹ Schacht indicated he accepted the post after he asked one very important question. The question dealt with the Jewish business community and how Schacht was to deal with them. It was obvious that Schacht wanted nothing to do with the confiscation of Jewish businesses, and Hitler concurred on this point.² With this answer, Schacht began his procedures for the control of the economy.

In September of 1934, Schacht put into effect his foreign trade program which would be known as the "New Plan." This plan represented the centralization of trade which controlled imports and exports in all areas. In particular, the imports were regulated according to the means of payment available, and in many cases exports were used as the chief method of payment. Twenty-five supervisory centers were created to control the turnover in foreign trade and to coordinate the trade balance mentioned above.³ Foreign exchange bills payable in cash were then allocated for sanctioned import transactions in the system and made up the category of settlement on the German foreign trade ledger accounts. Trade agreements were then concluded with

¹Schacht's Confessions, 186. ²Ibid., 293.

³P.J. Allen, "Foreign Trade Statistics: Germany," Review of Economic Statistics, XX (1938), 29-42.

several foreign countries. In each case, German purchases in the countries concerned were credited to another column on the ledger called the offset accounts, which in turn saved the government from releasing any of its foreign exchange bills except for the balance due. This system was developed especially in the Balkan and South American countries to the benefit of most of its participants. In the spring of 1938, such offset account agreements operated in no fewer than 25 countries, so that more than half of Germany's foreign trade was carried on through these channels.¹ By means of this bilateral trading system, Germany was able to satisfy her requirements for raw materials and foodstuffs.

William Carr, in his book Arms, Autarky, and Aggression, claimed that Schacht's plans were aimed at stopping military criticism by satisfying their demands for raw material imports for the production of armaments.² Carr would then like readers to believe that Schacht's motives were militarily-oriented; however, with close examination it is apparent that they were not. Schacht's motives for this particular plan are clear when the entire program is examined. The moratorium on Germany's foreign debts was meant to stop the outflow of precious foreign exchange as interest payments, and did just that. The stoppage gave the economy a balance of foreign money that could be used for German currency support. This support allowed the economy to stabilize sufficiently in preparation for the next step. The second step

¹P.J. Allen, "Foreign Trade Statistics: Germany,"
29-42.

²(New York: W.W. Norton & Company, Inc., 1973), 51.

entailed the redirection of foreign trade which enabled Germany to obtain raw material imports for the development of an expanded industrial base. This new industry was not based on armaments, but instead on consumer goods for internal use and finished manufactured goods for export trade.

Schacht wanted to provide the necessities of life to the people, but yet another major obstacle stood in his way. The third step of Schacht's overall strategy was now evolved to deal with this obstacle, which consisted of serious unemployment. The first efforts of Schacht and the other economic leaders at relieving the pressure of unemployment through public works, were questioned in Kenyon E. Poole's German Financial Policies.¹ In his book, Poole stated that the effects of public works were quite questionable when considering their use as an instrument for stimulating a continuing form of private investment which would then ease unemployment.² Schacht knew quite well by the reports he was receiving from the field that the public works projects were failing to bring the unemployment rates down to a satisfactory level.

Facing serious unemployment, Schacht needed immediate help in revitalizing the job market, and moved to stimulate production in existing industries. The armament industry was used as the catalyst in producing the geometric progression effect in the industrial sector

¹The book was originally written during the period of examination of this paper and first published in 1936.

²Kenyon E. Poole, German Financial Policies, (New York: Russell & Russell, 1969), 260. Originally published 1939-40.

needed to build the economy and stimulate German industry. The reasons behind giving armaments priority did include a political objective, but it was only secondary to Schacht's primary reasons for using armaments as a catalyst.¹ Schacht's reasoning was really two-fold. First of all, orders could be distributed among the large number of existing factories spread over the entire country, and could therefore be executed in equal proportions in every part of the Reich. Secondly, orders for armaments which were dispatched to factories throughout the country gave employment to the working man in his own neighborhood and enabled him to remain with his family.² This situation just mentioned was quite different from the public works programs that had preceded the armament plan. The new highway system, for instance, consisted of road construction of a very large magnitude needing concentrated manpower, which necessitated the workmen to be transferred from their homes to their places of employment, creating considerable expense for travel and accommodations.³

The employment levels were raised to correspond with this new production as it continued to increase. The prosecution's charge that "German production was channeled in accordance with the requirements of the German war machine" is then true, but only as far as its being a catalyst in reviving other sections of the economy.⁴ The armament industry was used to "prime the pump" as it were, to begin an

¹Schacht's Confessions, 330. ²Ibid., 330.

³Poole, German Financial Policies, 205. ⁴NCA, I, 351.

upward movement in the economy. Schacht's entire program, which included manipulation of "blocked marks," elaborate clearing arrangements, and disguised export subsidies, worked in helping to turn the balance of payments deficit into a surplus by 1935.¹ The armament industry was only a part of the entire plan and each part was necessary for making the plan work. Schacht never contemplated any armament production that would lead to Germany's involvement in an offensive war strategy. Schacht's armaments were meant to defend Germany's neutrality and to repudiate a possible attack from outside powers, but nothing more.²

¹Carr, Arms, Autarky, and Aggression, 40.

²This contention is carried along all through Schacht's writings and is supported by articles found in previous footnotes (Supra, n.3, 8).

CHAPTER 5
RECOVERY AND AUTARKY

Schacht's measures led Germany out of her unstable economic condition and directed her toward an economic recovery. The planning was developed to bring Germany into a position of economic competitiveness within the world market. Such a position would make Germany a world power, and countries that hold the stature of "world power" must be able to defend their interests. This idea is substantiated in these terms: in our government, as the economic power of a nation grows, it is important that the military growth is kept in proportion with it.¹ The planning succeeded, and as Germany's economic partners grew in number, so did her military power. The rearmament that had served as the catalyst in the German economic recovery now was to be used as protection for this recovery.

The German economic indicators illuminate the picture of this economic success. The extent of the recovery is a measure of the truth in my contention that the armaments had an alternative reason for existing other than a world war, a defensive reason which Hitler exploited for his own use. The first of the indicators is the gross national product, which increased forty-seven percent from 59 billion

¹U.S. Government, Department of Defense, Readings on National Security, (Washington: Government Printing Office, 1967) II, 17.

marks in 1933 to an adjusted 87 billion marks in 1937.¹ The industrial production index increased over the same period at a tremendous rate of eighty-one percent, indicating two important factors for the over-all economy.² The first factor was a substantial rise in production output; and the second factor was an expanding industrial base. Both factors were vital for long-range economic recovery. It is important to understand that such a recovery needs one more very important ingredient to succeed. That ingredient is time. A continued stable growth is important in setting the pattern of economic security for any country, and the best way to defeat attempts at stabilization is to have a war. In Germany's case, a war from an economic consideration could not take place because of the lack of stabilization in the economy. German economic instability was directly related to the time given to the country for a complete recovery.

The traditional view, as described by E.M. Robertson in his book, Hitler's Pre-War Policy and Military Plans, 1933-1939, is an example of the over-emphasized political consideration for the war. Within my study, it is important to note that such books are based in political thought while they ignore for the most part any economic considerations. As this paper develops, the differences between the

¹ Many sources were used in verifying the statistics used as evidence in this paper. The statistics, in general, were obtained through cross-checking sources and interpolation. As all sources tended to differ slightly, an effort was made to take an average of particular data given in each case. In this note, the work used was Burton H. Klein, Germany's Economic Preparations for War, (Cambridge: Harvard University Press, 1950), 10.

² The statistical information was drawn from Klein, Germany's Economic Preparations for War, 10, and C.W. Guillebaud, The Economic Recovery of Germany (London: MacMillan and Co., 1939), 277.

economic and political aspects will become apparent and these important differences will be a key point in my thesis. The books that deal with Hitler's war aims take for granted the ideal condition of a healthy economy for a platform to support German aggression, but such a platform was not available. Hitler was handicapped by unstable economic conditions. Germany's economy was unstable because it had not had enough time to solidify and to prepare for inflationary influences that a war naturally causes within any economic system. A large-scale war simply could not be supported by such an economy, but a well-calculated bluff could be.

Unemployment, the key problem at which Schacht's original measures were aimed, declined over a period of five years from 1932 to 1937 from five and a half million people to a little less than one million people.¹ The unemployment level of about three and a half percent was a workable figure within the economy, and as long as it did not go below this level Germany would feel a steady production growth. Not only was unemployment down, but the general taxable income level (the amount of income taxed on the total population) which was placed at 12.9 million citizens in 1932, rose to 18.9 million citizens by 1937.² This increase of sixty-seven percent allowed the government more workable capital which enabled it to increase its expenditures within the economy for military and non-military items.

The general production figures show the gains the German economy

¹David Schoenbaum, Hitler's Social Revolution, (New York: Doubleday & Company, Inc., 1967), 290.

²Klein, Germany's Economic Preparations for War, 10.

actually made in industrial production. From 1932 to 1937 the total production increased fifty percent, and government investments within the industrial market increased two hundred percent from five billion marks to fifteen billion marks.¹ These increases show a continuing effort of pump-priming in the economy as an attempt was made to create an atmosphere for a steady growth period in the industry of Germany. This growth period would allow German industry to level off production and limit any inflationary tendencies that would be produced through the leveling-off process.

Germany was on the path to recovery, and had the economy been left alone the country would have had the dominant world power position she wanted so desperately. Germany, however, would not follow such a course, for her leader had other plans. Hitler saw a chance to improve his image both at home and abroad. He used the armaments industry as a pawn in the opening move of a very dangerous political chess game, with control of the European continent going to the winner. The entire game will be examined in depth in Chapter Nine. For now, however, it needs to be noted that the economic necessities of this chess game began to press on Schacht's fragile economic recovery. These necessities manifested themselves in the Second Four-Year Plan under Goering. The prosecution at Nuremburg used the plan as a basis for its case against the economy:

¹Gustav Stolper, The German Economy 1870 to the Present, (New York: Harcourt, Brace & World, Inc., 1967), 117.

In 1936, with an eye to the experience in the First World War, the Nazi conspirators embarked on an ambitious plan to make Germany completely self-sufficient in strategic war materials such as rubber, gasoline, and steel in a period of four years, so that Germany would be fully prepared for aggressive war.¹

The above charge contains the basic ingredients for the economic system that the Second Four-Year Plan was supposed to make possible after its complete implementation. The concept of autarky was the heart of this economic system that would bear the same name. The system in practice, however, resembled a restructured neo-mercantilism with raw materials entering Germany from her economic satellites in exchange for finished German goods. Autarky was intended to be a policy of national economic self-sufficiency with independence from imports being the prime consideration. In reality, the self-sufficiency was applied to a closed system of trade between Germany and her satellites, a situation which resembled a strange mutation of mercantilism and autarky in combination. This mutation allowed trade to continue as Germany stockpiled raw materials even as the war began.

The actual concept of autarky stressed the need for a country to be self-reliant in major industries and raw materials. A plan incorporating this concept would definitely be needed for a long war, but it would also have great strategic value in convincing the French and English of Hitler's bluff of war. It was here that the deviations between Schacht's measures and Goering's plan first clashed. Until the autumn of 1936, Hitler had not tolerated any interference with

¹NCA, I, 351.

Schacht's activities, but the situation changed in the closing months of the year as the chess game began.¹ Hitler publicly had to support the efforts of Goering as an important step in giving the impression of increased efforts toward self-sufficiency and armament escalation. On paper, Goering's design for the implementation of the Second Four-Year Plan fit the foreign policy overtures of Hitler and enhanced the appearance of an economy gearing for war. The European powers watched as Germany began the development of synthetic rubber and fuel in preparation for a war that was never to take place. Such a contention can be based on the economic indicators of Germany, and on the controlling factors within the economy itself. The indicators show a continued steady growth in the economy with the Second Four-Year Plan being of little consequence in affecting any change within it. The controlling factors of the economy still remained with Schacht, and his power within the economy continued strong.² It is then apparent that while Hitler publicly supported Goering's plans, in practice he still relied on Schacht to hold together a fragile, recovering economy.

Schacht went along with the Four-Year Plan grudgingly as long as it was not fully implemented and did not put any additional stress on the economy which he could not handle. The initial stages of the plan could be worked into the economy without too much harm to the system. The clash arose after the measures of Schacht had began the

¹Schacht's Confessions, 299.

²This is quite apparent when one looks at the actual economic measures that Germany took during the period, and can be backed by Schacht's own statements. (Ibid., 301)

process of leveling off the economy's growth potential. The German economy had been provided the means for a stimulated growth pattern through the armament pump-priming process, but Schacht felt that this initial stage of the economic recovery had been used to its fullest advantage, and that a higher stage of self-sustaining production was now possible. He began to shift armaments into a secondary position within the economy in order to lower its production level. The plan* that Schacht was implementing would eventually phase down the armament production levels of Germany to meet the levels of production in other European countries. This plan was a direct contradiction of Goering's plans for armament increases and the implementation of the Second Four-Year Plan.

The view of the struggle between Schacht and Goering given in this chapter is quite different from other views that have been offered. This paper will continue in this vein as its thesis unfolds, but at this point, it might be worthwhile to do a comparison between my view and one already established in order to further explain my position. The opposing view can be found in an article by Amos E. Simpson called "The Struggle for Control of the German Economy 1936-37."

In the article, Simpson gives essentially the same view of the initial Schacht take-over of the German economy, but the views begin to differ in the 1936 period when Goering entered the scene. According to Simpson, Schacht lost Hitler's favor because of constant

*The phrase "plan" means only short-range planning of economic goals. In this instance, Schacht had long-range goals, but no firmly developed plan to carry them out.

disagreement with Hitler's economic desires of self-sufficiency. Goering was moved into the economy to implement Hitler's wishes through the Second Four-Year Plan, and Schacht was kept in the cabinet only as a front for the German economy. The article's evidence is almost entirely based on the trial documents of Nuremburg and this is the weakness of the article. The following chapters will be my response to Simpson's conclusion and the evidence he used.

CHAPTER 6

SCHACHT VS. GOERING

Through a leveled off growth potential, Schacht had wanted to create a steady long-term growth rate that would allow the economy the time to create a stable system of growth. This system would allow the German people a financially secure economy free from inflation. By allowing industrial production to increase in non-armament areas, Schacht balanced the decreased emphasis on armaments while maintaining control of inflationary cycles. This control was based on keeping a workable unemployment rate which would permit a minimum amount of inflation to enter the economic system.¹ Schacht accomplished this task within his plan by releasing armament workers to enter other production areas. Schacht's entire program was geared to returning the German economy to a peacetime status, which was in opposition to what Hitler needed at the time to convince the European community of his intentions.

For Hitler's reaction in public* to Schacht's plans, a flashback which can be provided by the recollections of Albert Speer is

* I use public here in the sense that Hitler's inner-circle leaked information consistantly when it was in their best interests. These leaks normally became public.

¹ Inflation is a real fear in a recovery of such an economy because of its hyperactivity in its past history. A workable unemployment level is considered anywhere between 2.5 and 3.5 percent. Such a level is considered full employment and is needed as a hedge to inflation. This view is adopted from Contemporary Economics by Milton H. Spencer, (New York: Worth Publishers, Inc., 1971), Ch. 8, 126-136.

quite appropriate:

Some time around 1936 Schacht had come to the salon of the Berghof to report. We guests were seated on the adjacent terrace and the large window of the salon was wide open. Hitler was shouting at his Finance Minister, evidently in extreme excitement. We heard Schacht replying firmly in a loud voice. The dialogue grew increasingly heated on both sides and then ceased abruptly. Furious, Hitler came out on the terrace and ranted on about this disobliging, limited minister, who was holding up the rearmament industry.¹

The quote, if read verbatim and without some explanation in regard to the importance of the scene itself, is meaningless to my argument. For such a needed explanation, I return to Speer:

Many of those hysterical scenes that have been reported were probably carefully staged. In general, self-control was one of Hitler's most striking characteristics.²

Speer's explanation of Hitler's acting should be carefully noted, for his knowledge is first-hand and the following conclusion is based partly on Speer's analysis. The staging of an argument with Schacht was an important step in convincing Hitler's own staff and advisors that he was sincere in his plans for war. It was important because the appearance of preparation was needed internally as well as externally for the bluff to work. A leak of information on such a bluff would damage Hitler's standing in Germany as well as in the European community. Hitler could not afford to tell any of his advisors of the bluff, for they were a part of it. Of course, the most obvious effect would take place in foreign affairs if the bluff were to be exposed. The failure of the bluff would deny Hitler the

¹Albert Speer, Inside the Third Reich (New York: Avon Publishers, 1971), 145.

²Ibid.

the concessions he hoped for.¹

The proof for such a contention can be found in the economic measures that followed the meeting just discussed. Schacht did honor Hitler's wishes in part, for he did maintain the armament production levels of the peak period in 1936, and he did withdraw his plans for an industrial changeover, at that time, but he also refused to increase armament production. Hitler did not interfere with these actions and accepted the decisions of Schacht. Goering's plan called for the stockpiling of essentially-needed raw materials, but Schacht's measures were already in the process of doing just that. Schacht's foreign trade had already made Germany the center of the neo-mercantilistic system. Goering's specifications for stockpiling raw material differed from the Schacht plan in what would be stockpiled and in the extent of the supply. In this disagreement Schacht emerged victorious, which made Goering quite upset.² Hitler again privately sided with Schacht even as Goering tried to establish the Four-Year Plan as the guiding light of the economy. Hitler continued to accept modifications of Schacht's initial proposals as his economic directives and considered them as compromises which could be worked into his foreign policy. Hitler made no move to limit Schacht until he was forced to act by the needs of this policy. Hitler tried to bring Schacht and Goering into agreement on the direction of the economy, but the attempts

¹This holds true, however, only if the "Allies" or other European nations would believe such leaks. Hitler could not have known that the other nations of Europe would disbelieve the leaks if they would happen, so his fear would be justified in this case.

² Schacht's Confessions, 341-351.

poorly countered the growing disputes. In 1937, Goering pressed for more control over the economy and Schacht stood squarely in his path.¹ Hitler had to now choose between them.

Schacht was a conservative with quite a selection of liberal and inventive ways to deal with economic problems that plagued Germany. Goering, on the other hand, lacked any real understanding of the economy and believed the Second Four-Year Plan to be the course for Germany to take. He believed that war was necessary to obtain German economic superiority over Europe. Goering wanted to establish himself in a position of economic leadership within Germany and through such a position, to create a personal industrial empire of his own.² Goering cared little about Schacht's fears of inflation and concentrated most of his efforts in the direction of war preparations.

Hitler needed Goering to strengthen his hand in foreign policy, yet he needed Schacht to control the economy. It was a very perplexing state of affairs. If Hitler stayed in full support of Schacht's plans, he would have to give up the concessions he desired in Europe. If Hitler would give his support to Goering, he would turn the economy over to untrained hands, but he would have the appearance of an economic-military build-up that he needed for his foreign policy moves. Hitler's decision was to approve Goering's plans and try to keep Schacht from leaving the cabinet. By doing this, Hitler tried to give

¹ Ibid., 345.

² Frederick Kuh, "Goering Prophecy" The Nation, V. 150 (Jan. 1940), 360, and NCA, I, 210-215.

temporary control to Goering while keeping Schacht as a hedge against any economic trouble which might develop.¹

Hitler knew of Schacht's ability in economics through experience with him and he hoped that Schacht could repair any damage done to the economy by Goering after he had gained the concessions he wanted. Hitler's decision to approve Goering's plans was a serious mistake, for Hitler could not keep Schacht under his control. As time passed, Schacht would become harder to deal with as he and Goering continued to battle over the economy.² In this struggle armaments continued to be the key. In fact, it was over the question of armament increases that Schacht resigned his post as Minister of Economics in August of 1937. Hitler delayed accepting the resignation in hope that a compromise could be worked out. He ordered Goering to meet with Schacht but the meeting accomplished nothing, and on November 26 of that same year, Hitler accepted the resignation. He then compounded his initial mistake by allowing Goering to take over Schacht's position as Minister of Economics, thereby giving him the upper hand in the control of the economy.

Hermann Goering now tried to consolidate his power and push his proposals for complete control of the economy. His goal was to prepare Germany for war, but again Schacht frustrated these proposals by standing in their way as President of the Reichsbank. From this post, Schacht was able to block Goering's schemes by controlling monetary

¹This could be the big reason for keeping Schacht in the cabinet. The idea that Hitler kept him around just for show leaves something to be desired.

²Schacht's Confessions, 341-351.

policy even though Schacht's overall control of the economy had been broken. Schacht refused to loan the government money for armament production and argued strongly against any type of deficit spending for such production as a substitute for the loan. Schacht fought vainly to make Hitler listen to economic reason, but Hitler could not be reached. In January of 1939, Hitler made the final decision in the case of Hjalmar Schacht. He allowed Schacht's term to expire as President of the Reichsbank and then replaced him.¹ In parting, Schacht warned of the problems ahead, but the warning was ignored. Germany had become involved with the creation of Hitler's bluff.

¹Ulrich Von Hassell, The Ulrich Von Hassell Diaries (West Port: Greenwood Press, 1971), 32. Heretofore referred to as Von Hassell Diaries.

CHAPTER 7

FLASHBACK TO NUREMBERG

The story of Schacht and his measures within the economy was the basis for a good portion of the prosecution's case against the German economy.¹ Schacht, however, only supplied a small portion of the evidence presented at the trial, and more of the prosecution's case was based on other evidence supplied by individuals who possessed much less of the true picture of what was really taking place within the economy. An example of this type of evidence can be found in the following sequence of the prosecution's case:

The military objectives of the German economy were clearly stated by General Thomas in a lecture on February 28, 1939, delivered at the Staff Instructor's course. He stated: The National Socialist State, soon after taking over power, had reorganized the German economy in all sections and directed it toward a military viewpoint, which has been requested by the Army for years.²

This revelation is full of inferences, but really lacks any concrete evidence against the economy. For instance, in the above statement by General Thomas, it is inferred that the military gained control of the economy or at least gained some kind of hold over economic determinations after the National Socialists took

¹The Nuremberg prosecution believed Schacht had rebuilt the economy for war and used his economic measures as evidence.

²NCA, I, 351.

power. This favored position, of course, was not the case.¹ Such revelations, however, can be found as evidence all through the prosecution's case. In fact, the evidence that was used throughout the case was quite enviable in several negative aspects.² The prosecution based its argument on hearsay evidence in many of the cases dealing with economic segments, using second and third parties to relate pertinent facts in each of the cases. The second negative aspect of the evidence deals with the documents used. The sorting of the primary trial documents alone had to be an impossible task given the time limitations. These documents had to be examined and listed to prepare for the case against the Germans in great haste. The significance of each document could therefore not be properly determined and this caused many misleading entries to be recorded as fact.

Evidence that did not fit in the prosecution's case was ignored or was mis-interpreted and added to the more useful information. Such evidence was really not enough for a substantial case in any form of court procedure which would resemble a fair trial, but substantial evidence was not needed to convict the pre-judged guilty defendants. The prosecution really had nothing to prove. The verdict had already been ascertained by Germany's loss in the war. The jumbled facts and misleading information assembled by the prosecution were enough however, to defend a thesis of Germany as the

¹Schacht controlled the economy and gave the military only what he felt was necessary. The military had very little to do with the economic decisions made.

²It was enviable, in the respect that a prosecutor's case would be so much easier to prove if testimony comparable to that provided at Nuremberg was considered to be evidence in any other court of law.

infamous aggressor. The economics of Germany were tied to the thesis of aggression through military relationships, and the military seemed to be directly tied to the economy. The prosecution contended that the army was placated and kept happy by Schacht's economic measures. It concluded that the program Schacht instituted was deliberately designed and executed to provide an instrument for aggressive war.¹ Historians using such a conclusion and combining it with other added evidence of the same nature, have arrived at the now-popular view of German guilt, a view that ultimately has led to historians' acceptance of the thesis of conspiracy in the German economy. The rebuilding of this economy was the key factor in the prosecution's case against Schacht. In the end, Schacht was acquitted of all the charges, but the program that had led to the German economic awakening was not.

¹NCA, I, 351.

CHAPTER 8
GOERING AND THE ECONOMY

With Schacht gone, Goering became the economic czar of Germany. His armament program could now be implemented in its entirety and the Second Four-Year Plan became top priority within the economy. The plan was meant to make Germany self-sufficient in major raw materials by stockpiling and by producing synthetic substitutes, but it failed to meet the demands required of such a broad plan. In fact, when the war began, Germany was still importing large quantities of raw material. Iron ore was being imported for seventy percent of Germany's steel industry, while sixty-five percent of all petroleum and rubber production still depended on imports.¹ Copper production relied on imports of close to eighty percent for supplying the raw copper needed in its processing.²

The Second Four-Year Plan did, however, accomplish some negative goals while it was in operation. For instance, it did manage to de-stabilize the balance of trade, which allowed marks to leave the country at much greater rates than had previously been the case. This imbalance caused the first inflationary cycle to begin in 1937. The increased armament production that came later only added to the problem by pushing a full employment economy past its production

¹Stolper, The German Economy 1870 to the Present, 159.

²Ibid.

limits. In such a case, the increased armament production was really significant only in the added monetary outlays within the economy. The real production of armaments only rose slightly during Goering's reorganization of the economy. Schacht summed it up well when he said, "the Four-Year Plan achieved comparatively little in the way of positive results, save that there was a great deal of unnecessary to-do over everything."¹ This commotion, however, was exactly what Hitler wanted.

Schacht had been able to maintain the balance between armament and industrial-consumer production, but Goering did not understand the need for such a balance. Because of this, Goering dealt an unnerving blow to the German economy in attempting to produce more armaments while holding other production levels even. Without knowing it, Goering had taken a growing economy and tossed it into the grip of a destructive hyper-inflation. Such an inflationary cycle occurs with increases in the general price level as full employment is approached. Thereafter further increases in total spending result in pure or hyper-inflation as the general price level rises without any increases in output.

Evidence for such an inflation can be found in the same analysis of the period of time after Schacht as was done for the accepted thesis of the German war economy. The statistics of the period have been interpreted to mean that the increased spending for armaments as 1939 approached was due to a large increase in the production level.

¹Schacht's Confessions, 338.

But such figures also could indicate a substantial rise in armament costs, which would also account for the larger budgets needed by the military. There was initially an increase in production, but as Goering pressed the overworked economy, it went into a tailspin. He tried to reverse his course by leveling off the production of other industries to compensate the new load in armaments. This move bought time, but it could not repair the damage done to the economy.¹

The state of hyper-inflation was masked for a time by the rather bright economic picture of Germany.² This picture soon dissolved into bleakness as the measures instituted to save the economy failed. Goering had believed that through government control of the economy, inflation could be avoided. Unfortunately, Goering had again failed to understand the workings of the economy. The Economic Ministry under Goering created stop-gap measures which resembled partial price and wage controls dealing with the major sectors in the economy. The steel, chemical, and fuel industries with their related areas made up the bulk of the controlled sectors in the plan's practical application. And it was these same sectors that benefitted most from the measures instituted under this economic program. Corporations were allowed to implement high profit margins while keeping the employees'

¹ It is an economic phenomenon that after entering a period of hyperinflation, returning to a non-inflation period by reversing the measures taken is almost impossible and will only make the problem more serious. Spencer, Contemporary Economics, and Caves, World Trade and Payments.

² The statistical data of an economy is always slow in showing change initially and in the case of Germany this is especially true. Statistical information provided by Klein, Germany's Economic Preparation for War, and Stolper, The German Economy, 1870 to the Present.

wages relatively even throughout the period. The consumers suffered a loss of buying power as a result of such policies, in that wages remained constant and prices rose in relation to the government's new demands and the corporations' own greed.¹

The regulations governing the implementation of the "controlled" economy were for the most part ineffective, and led to an inflated currency level which eventually destroyed all the plans for autarky that had previously been urged.² The unstable currency level led to even higher prices for armaments and other goods within the economy. But such increases worked perfectly into Hitler's plans, for the other European nations misread the price increases as meaning escalated production levels. These levels were not denied by Hitler as he saw another weapon in his arsenal of fear. Goering's entire program weakened the German economy to the point where any drawn-out conflict would end in a disaster for the German economy. The bluff of Hitler had to work now, for the means of conducting a war were no longer economically possible for the Third Reich.

¹Guenter Reimann, The Vampire Economy (New York: Vanguard Press, 1939), 10-115.

²The abandonment of such a program is not totally conclusive, but leads one to such a conclusion.

CHAPTER 9

THE BEGINNING OF THE BLUFF

The economic instability that Schacht had warned of had come to pass. Goering had taken an advancing economy and stopped its progress by driving it down with every economic move he made. Goering was not an economist and he had trouble understanding the implications of his measures for the German economy. His awkward attempts at economics, however, fell right into place as far as Hitler was concerned. The gap in Hitler's plans left by Schacht's refusals to cooperate was filled quite nicely by Goering's blunders. As explained in the last chapter, the large rise in prices within Germany on military items made it appear as if she was increasing armament production levels and preparing for a major invasion to take by force what she felt was actually hers.

Hitler used the fear of this invasion against the Europeans as a psychological weapon. He created the impression that Germany's preparations for war were so immense that they would devastate the continent if war occurred. It was therefore imperative to compromise with the German leader or face this devastation. To achieve this impression, Hitler presented to the rest of Europe padded armament figures and a variety of weaponry in prototype stages as proof of what Germany had developed to defend her interests wherever they happened

to be. These "improved" armament levels were Goering's contribution to Hitler's bluff.¹ The armament levels along with all other military preparations were greatly publicized in Germany as well as the rest of Europe. Schacht referred to such publicity in his memoirs, but he did not understand the reasoning behind it.² In this respect, Schacht was in the same position as the rest of the world, for Hitler was the only "genius" behind such a dangerous bluff.

The German people believed Hitler's threats as much as the other Europeans. They believed Hitler's preachings of racial superiority and the Germans' innate right to rule the inferior peoples of the world.³ Such preaching went along well with Germany's military program to make the other European nations fearful of what she could do if she were provoked. General Thomas spoke with conviction in 1939, when he said that Germany was an unstoppable force, as did all other military spokesmen indoctrinated into Hitler's "elite" military machine.⁴ Only one man knew Germany's part in this diplomatic chess game and that man was Hitler.

This last point may seem difficult to prove, but actually it is not. The idea behind a "chess game" approach is an important factor in proving this contention. In chess, each move made provides alternative options for the adversary's own movements, and although

¹In Goering's economic programs very little was accomplished besides spending money. Proof for this can be found in T.W. Mason, "Some Origins of the Second World War" The Origins of the Second World War, (New York: MacMillan and Co., 1971), 116, and 'World Powers Compared,' 21-37.

²Schacht's Confessions, 256.

³Von Hassell, Diaries, 131.

⁴This doesn't necessarily mean they believed it, but they did preach it.

one can guess at what this next movement might be, it is almost impossible to guess the entire strategy of either player at the time the game is in progress. In many cases, a strategy for a particular game develops as the game proceeds and with each move, the direction of strategy can change. This paper applies the same theory to Hitler's actions, and by using hindsight, these actions can be reconstructed to show a bluff carried one step too far.

CHAPTER 10

HITLER'S POLITICAL STRATEGY: DIFFERING VIEWS

An examination of three major positions taken by historians on the period this paper encompasses might be useful in establishing the position of this thesis. With this in mind, the examination will begin by indicating the various approaches that brought specific authors into this study. The examination will also contain a refutation of two forms of the traditional view that suggests German economic war preparedness. To limit the state of confusion that such a refutation would create by taking on each and every opposing argument, this paper will examine selected studies from each view. The amount of time involved in categorizing the works is well spent in considering the needs of a balanced paper, and the selected studies give a good representation of the views of the period.

The traditional view is established in four major works consisting of Otto D. Tolischus' book, They Wanted War, William Carr's Arms, Autarky, and Aggression, E.M. Robertson's Hitler's Pre-War Policy and Military Plans 1933-1939, and Guenter Reimann's The Vampire Economy.

The traditional view can be divided even further by examining each approach in relation to the overall concept of war guilt. The Tolischus and Reimann books were contemporary studies within the period, with Reimann's book being published in 1938 and Tolischus'

book in 1940. Reimann's book gave a superficial overview of the German economy as it appeared to the world in 1936-37 and it presented the "war guilt" thesis as a foundation for claiming economic conspiracy in preparations for war.

The Tolischus book established the German "war guilt" concept immediately after the conflict began and was one of many books with this same theme which played a part in the mass propaganda attack aimed at securing support for the Allied cause. The attack, however, was never called off even after the ending of hostilities, and secured itself in history by taking the form known as the Nuremberg Trials. The "war guilt" concept has been restructured in two more recent books by Carr and Robertson. The two books form the same general conclusion of German war guilt, although the authors proceed in different ways. The earlier study by Robertson closely follows the Nuremberg Trial evidence and uses Mein Kampf in establishing the "blueprint" theory.

In opposition to the traditional concept, the revisionist view is well handled by A.J.P. Taylor in The Origins of the Second World War, which is a recent study published in 1961. This view will be examined in relation to the more traditional concepts already discussed. A compromise view is established by Laurence Lafore's book, The End of Glory, which is an encompassing study with several directions of approach supporting its conclusions.

Before this paper can analyze these views, it is necessary again to return to 1936 and relive the events of history which will establish the basis of the arguments to be presented. By coordinating

the economic evidence with the historical events, the arguments presented will be put in perspective.

In March of 1936, Germany reoccupied the Rhineland and Schacht's plan for rearmament had begun. In the same year, the world experienced the beginning of the prelude to the Second World War, the Spanish Civil War. In the field of diplomacy, two important agreements were concluded that year, the Rome-Berlin Axis and the Anti-Comintern Pact between Japan and Germany. In November of 1937, Italy joined the Anti-Comintern Pact and the axis power alignment was complete. Hitler, in that same year, held the important and infamous "Hossbach Survey" meeting. This particular meeting was important to Hitler, for it proved how well the bluff was working.

In 1938, Schuschnigg turned over Austria to Germany, and the dismemberment of Czechoslovakia began. By 1939, the last remaining sections of Czechoslovakia were taken by the Germans, and on the first of September they invaded Poland. The reaction of England and France to this invasion would begin the Second World War, and Europe would once again be conquered by a single power, much as France had done under Napoleon in the Nineteenth Century. To analyze Hitler's conquest, we must return to the events of 1937, for it is the conduct of Hitler and Germany in this year that seems to be the key for the events that were to follow.

The year appeared peaceful enough with all sections of the economy and the government running smoothly, but what seemed to be happening on the surface of Nazi Germany was usually the opposite of

what was really going on beneath the calm facade. This was especially true in 1937. It was in this year, it now appears, that the most important decisions were made, and for reasons not directly tied to ideology, but instead connected to reasons of greed. The reasoning behind the actions that followed was not part of a detailed plan, but instead, it was dependent on short-range motives, timing, and technique. In Hitler's case, what was involved was the great extension of German boundaries after 1937, leading to the outbreak of war and the eventual short-lived German dominion over most of Europe. The traditional interpretation, related by Tolischus and the other authors, has been that the German dominion was created from a schedule, brilliantly and almost completely conceived in advance, and executed in accordance with a timetable only slightly adjusted to circumstance. This interpretation is often called the "blueprint" theory.

There was a good deal to lend support to this theory in the way of logical inference and documentation.¹ Hitler did much on his own to create the illusion of irrepressible planning and used it to his advantage. At the time, it looked as if, with only the minor exception of the 1934 Austrian coup, Hitler's great ventures were always successful. This in itself suggested long-range planning and super-human insight. There was, it seemed, a logical progression from one step to another. First, there was the internal consolidation and economic recovery through rearmament. This was followed by an elaborate diplomacy to divide and disarm opponents. Finally, the specter of

¹Otto D. Tolischus, They Wanted War (New York: Reynal & Hitchcock, 1940), 51.

war, which seemed to be planned for the moment when Germany's advantage would be optimal, if not total. Because of this logical inference, the traditional view has been accepted.

Tolischus and the traditional group, along with Lafore, have similar stories to this effect. The authors conclude that the text and purpose of this program has been provided in Mein Kampf, and proof of its actual existence is provided in the Nuremberg Trials. Hitler puts forth his assertion of Germany's destiny to rule Europe with a particular emphasis on the elimination of decadent France and the destruction of barbaric, Slavic Russia. He also calls for the removal of democracy and the supplying of Germany with "living space." These ideas were formed into a program to supply the Fatherland and its citizens with land and resources for developing their full potential for superiority by taking over vast areas of Southern and Eastern Europe.¹

After the war, when most of the German archives fell into American hands and were made available to the public, the records did indeed show a very careful series of plans drawn up in advance for the subjection of Czechoslovakia and Poland, and for the eventuality of war with the Western Powers. The records showed some other evidence too, that did not entirely square with the idea of a blueprint, and certainly did not demonstrate any link among events in the way of a consistent plan, integrating the achievements before 1937 with those afterward.² But for people deeply impregnated with the myth of

¹Tolischus, They Wanted War, 52.

²Ibid., 54.

blueprinting, these inconsistencies were generally explained away or ignored in terms of minor digressions, and the economic flaws were subjugated to the position of immaterial evidence.

The first major attack on this blueprint interpretation appeared in 1961, in the next book to be examined, The Origins of the Second World War, by A.J.P. Taylor. In his analysis, he rejected the notion of a blueprint and also the related notion of a great and highly articulated revolutionary movement with deep roots in the past, and a deep harmony with major tendencies of the age, skillfully led by Hitler.¹ Taylor refuted the notion of the Nazi Third Reich as an altogether new phenomenon in the history of human organization and he claimed Hitler was essentially a contemporary leader with contemporary aspirations.

As Taylor points out, according to the record the Austrian crisis was launched by Schuschnigg, not by Hitler. In fact, Hitler tried to slow Schuschnigg down, but failed. According to records, it was the British government, not Hitler, who took the lead in dismembering Czechoslovakia. With the crisis over the partition of Poland, the British government in 1939 gave Hitler the impression that they were more concerned with imposing concessions on the Poles than with resisting Germany.² At every turn, Britain and France refused to stand up to Hitler and say no. The British insisted on negotiating with him. Hitler, according to Taylor, was an improviser and an

¹A.J.P. Taylor, The Origins of the Second World War (Connecticut: Lawcett Publications, Inc., 1961), 209.

²Laurence Lafore, The End of Glory (New York: J.P. Lippincott Company, 1970), 181.

opportunist, without any idea about what he was going to do next. Instead of being the master of an entirely new and wholly unassimilable revolutionary movement, Hitler was merely a somewhat extravagant leader of an old-fashioned national state who behaved like all other leaders of national states, in a world whose governance was their responsibility.¹ Hitler simply took all that he could from Europe without paying a price, and he continued this practice as long as England and France were willing to give.

The most impressive of the purposes of the National Socialism doctrine was the principle that the proper sphere of the state was to integrate all human activities into a highly planned and controlled system for serving it and the nation and race it in turn served.² Taylor dismissed this as a propaganda ornament invented for the old-fashioned political purpose of securing popular support, and in this respect, he is completely right, for never has there been such a disorganized group of greedy individuals able to do so much with so little. The appalling treatment of Jews and dissenters by the barbarous Nazi police system found in the concentration camps was strictly internal policy, and Taylor dismissed it as irrelevant to German foreign policy.

In international affairs, Hitler was a figure not basically different in motives and methods from Bismarck, William II, or any other statesmen of the past. The British leaders, as stated earlier,

¹Taylor, The Origins of the Second World War, 124.

²Tolischus, They Wanted War, 54.

who thought they could negotiate with him as with any other national leader, were quite right, although they did not do it very skillfully and did not have the courage to act on their convictions to the logical extreme. Such actions might have proved successful and prevented the war.

On this last point a most important scholarly controversy developed, particularly around the significance of a document called the "Hossbach Survey" memorandum. The document was a record of a meeting held during a lull in German foreign behavior and it was first made public during the Nuremberg Trials.¹ It had generally been interpreted largely as one more item in the endless display of evidence for the blueprint interpretation. At the trial, this was a recurrent theme of the prosecution.

Taylor thought otherwise, for he observed that Hitler engaged in his usual incendiary speech for which he was famous. The speech consisted of his own fantasies about eventualities that did not, in fact, really happen, for it was a speech designed to help carry out his bluff. Taylor contends that the meeting was designed to secure the support of the men involved -- all of whom had serious reservations about Hitler's activities anyway -- for a rearmament program which was opposed by Hjalmar Schacht, the architect of Germany's economic recovery.² His interpretation followed the account given by Herman

¹Taylor, The Origins of the Second World War, 214.

²Ibid., 217.

Goering in his testimony at the postwar trials.¹ Taylor, however, fails to see the economic circumstances that provided the need for a bluff because of his reliance on Burton H. Klein's book, Germany's Economic Preparations for War.

Klein's data is generally correct in content, although it does reflect the inflationary rise in the German economy after 1937.² Some writers and historians have questioned the accuracy of these inflated statistics and the conclusions drawn from this data. Taylor's view is questioned because of his reliance on Klein's work. The historians who support the traditional view use "corrected" statistics which have had the inflationary differential removed. This removal is supposed to give a more accurate picture of the German economy. The battle over whose statistics are correct still continues.

The historians involved in the controversy over this point have literally missed the real one. The statistics on either side are really not important for what they reveal in factual data, but their importance lies in what they indicate. The difference in the statistical data indicates a double-digit inflation which can cripple an economy. With a crippled economy it is most difficult to wage an offensive war of any magnitude, yet a bluff could still work well if the damage was not apparent.

Taylor's general view is then correct, but he fails to understand the economic conditions of Germany and the totality of the bluff.

¹NCA, II, 57.

²Klein, Germany's Economic Preparations for War, 10, and Alan S. Milward, The German Economy at War (New York: Oxford University Press, Inc., 1965).

Taylor does conclude, however, that Mein Kampf was not a blueprint of destruction and was not a determining factor in Hitler's direction of German foreign policy. Lafore, on the other hand, contends that the visions of Mein Kampf gave direction to German foreign policy and that economic stringencies only determined their timing in relation to each sequential step. This view goes quite a bit further than the ideas set forth by Taylor, and fails to understand the impact of economic measures and associated problems within Germany.¹

Lafore contends that Hitler's sense of personal destiny was the motive force of all the major decisions, and that to some extent he lived in a fantasy world. He continues by saying that in sporadic ways Hitler was already showing the detachment from reality that finally turned Germany's difficult military situation into a madhouse after 1942. The above view is tempered, however, by Lafore's following comments. The psychological reasoning intertwined in Lafore's view does not prevent him from noting a more rational Hitler. He sees Hitler as exceedingly shrewd, for he knew what lies to tell and which ones people would believe. Hitler used this shrewdness when dealing with the British before the war and he was certainly aware of the pressures as well as the requirements of his personal destiny.

So in a sense, Lafore buttresses the foundations for this paper's bluff theory. He continues by saying that while most of the particular contingencies and plans which Hitler envisaged in November of 1937

¹Lafore's view is supported in part by Alan Bullock, "Hitler and the Origins of the Second World War", originally found in the Proceedings of the British Academy, LIII (1967), 190-212.

never developed, it does seem likely that he turned from improvisation to long-range planning at the time. Yet Hitler could not have really begun to plan because of his lack of control over the economic problems already discussed. According to Lafore, Hitler's power expressed as German power was felt to be considerable by the other European countries, and because of this, he could force events to happen. Lafore contends that although the plans never did happen in exactly the way Hitler foresaw, he was quick at ordering the necessary changes to correct the plans, and his subordinates were quick and skillful at carrying them out. It is plausible to suppose, according to Lafore, that from then on he made not a blueprint, but a decision that the time had come to solve the Nazis' problems by territorial expansion, and that this decision was accompanied by the understanding that a European war might result from his policies and must be prepared for. He prepared for it by developing the machinery that could deal sharp, decisive blows without straining the economy.¹ Lafore's views agree with those of Taylor in this area.

Lafore summarizes by saying that in the light of later analysis, a new reading of Hitler's memoranda to his Service Chiefs suggests a new hypothesis. He talked constantly of plans for a general war in all of them, but before November of 1937 the plans are defensive.² In June of 1937, when Hitler was detailing his program for the annexation of Austria and an attack on Czechoslovakia, he envisaged

¹Alan S. Milward supports such a view in his work, The German Economy at War, 72-79.

²Laurence Lafore, The End of Glory, 182.

possible armed reactions from France and how to counter them. But in November the tone changed, and by April of 1938, in discussing how best to prepare for the forthcoming war to destroy Czechoslovakia, Hitler ruled out a surprise attack on the grounds that it would produce a hostile world reaction.¹ In other words, Hitler no longer had contingency plans for defense against France.

The lull of 1937 ended almost immediately with the new year when two things happened aimed directly at preparing the way to larger revisions in the European order. According to Lafore, one was that the German Army, the last institution in Germany to retain its integrity and its independence, was humiliated and subordinated to Nazi control; the second was the annexation of Austria.²

Lafore's view takes into account T.W. Mason's interpretation, which rejects the notion that the fifth of November meeting may be judged as the action of an old-fashioned national leader, to which the internal structure of National Socialism and German society was irrelevant.³ The meeting, Mason believes, was decisive because "it evidenced that moment in history when the internal dynamics of German Society and economic change led Hitler to the conclusion that territorial expansion, which might involve war with the west, was indispensable to the regime."⁴

¹Ibid., 183. ²Ibid., 184.

³T.W. Mason, "Some Origins of the Second World War," Past and Present, (Dec. 1964), 105-125.

⁴Ibid., 106-107.

Lafore also uses a recent study by a German historian, Hans Jacobsen, which has complemented Mason's thesis.¹ Jacobsen's research has convinced him that the change that took place in 1937 was merely a development into coherent planning of intentions that had been Hitler's driving motive all along. Mason gives statistical evidence to support his thesis and Jacobsen reaches the same thesis through psychological imperatives. In both, the general conclusion is the same. The mounting pressures and mounting power combined to make definite planning expansion at once expedient and profitable.²

With all the evidence presented, I feel the question of whether Hitler was a madman or a statesman is best answered by A.J.P. Taylor. The statistical data presented by Mason was correct, yet he ignored the economic problems indicated by his own statistics. This paper's interpretation of the data is entirely different when compared to Mason's thesis.³ The data Mason provides can be interpreted in an altogether different light for quite a different conclusion. Statistics can prove what you want them to prove and statistical history is not yet exact enough to support reliably any argument alone. Statistical data has one important factor missing, the human deviation.

In Jacobsen's psychological reasoning, human deviation is accounted for in part, but the reasoning goes too far in its explanation

¹H.A. Jacobsen, The National Socialists' Political Mentality, reviewed in History Today (April 1969).

²Laurence Lafore, The End of Glory, 185.

³T.W. Mason, "Some Origins of the Second World War," 116-117.

of Hitler's motives.¹ Jacobsen tries to explain too much in psychological terms, which takes into account vast speculations which can be challenged for accuracy. (As an example, Jacobsen contends that Hitler went power-mad in 1937.) At this point, it is possible to challenge Lafore's view and prove it wrong. He has used these two over-extended views to support his contention of Hitler as a long-range planner after 1937, which will prove to be very wrong.

The traditional view lacks both the human factor and economic analysis. The view portrays Hitler as a diabolical master planner who seemingly could control other's minds. This is the only way to interpret the traditionalists' view of Mein Kampf as a blueprint of destruction. It negates any thought that the other leaders of the world had any will of their own. For a plan such as the traditionalists propose would mean that Hitler knew years in advance what the English and French would do in certain situations, something he could not possibly have known.

The more plausible answer to all these views is the one presented by Taylor.¹ He views Mein Kampf as propaganda, along with all the incendiary speeches of Hitler. Taylor takes into consideration the human factor and he writes of the time in a way that convinces one

¹Laurence Lafore, The End of Glory, 184-186.

²This plausible answer has found disfavor with several historians, but in my view, the economics of the situation favor such an answer. One of the most displeased of the group is H.R. Trevor-Roper and his reply to Taylor can be found in "A.J.P. Taylor, Hitler and the War" Encounter, XVII (July 1961), 83-99.

that he has captured some of the real history of the events that led up to the war. The Taylor view is one that I can partially support, for it shows the stupidity of the moves, the irony of fate, and above all, the understanding of history that so many seem to avoid. Yet, Taylor still does not go far enough in his analysis of what happened. He fails to see the totality of the bluff and the faltering economy that made it so essential.

CHAPTER 11

THE CONCLUSION: A NEW THESIS

The first myth that must be dealt with is that of Hitler as a monstrous, evil genius. In my thesis, Hitler is considered as a contemporary leader who will face contemporary problems and solve them in the same manner as other German leaders might have, given the chance. He was not a man bent on the destruction of the world, but instead was the head of a country which felt betrayed and angered over the imposed settlement reached at Versailles. Hitler used this anger to ascend to the summit of Germany's political power, and once there he promised to make Germany a world power. His task would be complicated by the economic crisis that plagued the German economy.

In fact, Germany had suffered economic turmoils with staggering consistency from the end of the First World War until the early 1930's. In these turmoils, one man stood out in the field of economics above all others - that man was Hjalmar Schacht. Prior to gaining power, Hitler had promised an economic recovery in return for his appointment as chancellor. But Hitler lacked any skills in economics, so he turned to Schacht for help and wisely surrendered to him the reins of the economy. Schacht instituted programs that turned the German economy around and directed it toward a stable growth pattern which Germany needed to advance economically.¹

¹This conclusion is supported by the Von Hassell Diaries, 32-33.

The stability of the economy, however, was quite fragile in its structure and had to be handled carefully. Schacht knew the situation and kept tight control on the major phases of the economy.¹ As Schacht attended to the economic recovery, Hitler was strengthening his political power within Germany. To the industrialists, Hitler promised stability and expansion, while continually preaching to the German people their role as the master race. He promised that one day the Germans would take their rightful place as the leaders of the lesser peoples of Europe, and that Germany would be the center of European strength. The position of leadership could be obtained in several ways. The traditional belief is that Hitler wanted a physical domination of Europe accomplished by military intervention, but I disagree, and with support from two sources, economics and diplomacy, I propose an entirely different conclusion.

Germany could have gained domination through three types of control: economic, diplomatic, or physical. The first two choices are easier to accomplish compared to the final choice, and in the long run, much safer. The domination would be aimed at the easiest areas of assimilation, and such a proposal in the European sphere would establish the Eastern European nations as the prime target for any type of domination. Hitler therefore turned his attention in that direction, and after gaining power his desires in this area increased. Schacht also directed his foreign trade to the Eastern European bloc and through this trade he was able to begin Germany's economic domination of the area.

¹Von Hassell Diaries, 24.

The other large European countries feared Germany's increasing economic strength and Germany's improving position as a major power. The German demands for the return of land confiscated from them by the Treaty of Versailles now began to take hold in the minds of the leaders of other nations. These same demands were ignored in the years before Hitler's rise to power. But now it seemed as if Hitler had led Germany out of her economic problems and had rebuilt the German military network of land, air, and naval forces into what some leaders thought was an unbeatable force meant to engulf Europe. These two appearances were false, for the economic recovery was far from complete and the military power of Germany was developed more in the minds and imaginations of other nations than in actual fact. The Germans possessed great potential in weaponry, but the potential was never realized, and in reality the German military force was rather conventional in hardware and technique.

Hitler used the imagination of other nations to create a spectre of destruction and he used this fear to pry concessions out of the French and British. Hitler was never quite sure how much he could gain for Germany, but he never stopped trying. The bluff of power was Hitler's success and his failure. For in taking the rest of Czechoslovakia, which Hitler felt was necessary to prevent a Communist takeover there, he had greatly angered the British Prime Minister to whom he had promised Czechoslovak independence. The Prime Minister, Neville Chamberlain, felt betrayed and refused to forgive Hitler for going back on his word.¹ When Hitler continued

¹ Ibid., 43.

the bluff by demanding Danzig, he pushed Chamberlain to the limit, and when Hitler invaded Poland Chamberlain answered him with the beginning of World War Two. The bluff of war had worked for Hitler, but it had set him on a course of destruction and he would not or could not turn back. Hitler's failure to understand Chamberlain's feelings cost him the chess match, for his bluff was called.¹

The bluff had worked on fear: the fear of another continental war, the fear of German economic and military power, and the fear of the menace of Communism. The use of fear was a physical as well as a psychological weapon in that it controlled certain phases of the physical events in Europe during the 1930's. The emotion of fear was part of a maze which seemed to guide European foreign policy and to allow Hitler's bluff to work as well as it did. The rest of the maze included guilt and hope as partners with fear to form an uncontrollable force that would ultimately end in war.² The guilt factor was tied to the lingering effects of the Treaty of Versailles and was a chief factor in creating a self-doubt within England over the correct foreign policy needed to deal with Hitler and Germany.

This indecision on the part of the English allowed the proper atmosphere to evolve for the practice of appeasement. The aspect of hope deals with Western countries and the desire for German expansion eastward. This expansion would inevitably lead to a direct and violent confrontation between Fascism and Communism, which might solve

¹Ibid., 39-40.

²The force did not necessarily have to end in war, but it did. If Chamberlain had not responded to Germany's invasion of Poland, a world war might have been avoided.

the Western powers' problems concerning both Germany and Russia. Such a confrontation was the most expedient way of destroying two major threats to Western Europe, for it would surely lead to a war that would weaken both combatants drastically. The factors of fear, guilt, and hope had divided England, but by the time of Chamberlain's declaration of war, the country stood united, and England would enter the Second World War grudgingly.

Hitler's bluff was not planned out and it was developed as situations arose. The lack of any preliminary or secondary planning rules out any aspect of conspiracy in the political and the economic sense. The Nuremberg Trials were then totally inaccurate in dealing with conspiracy charges because there was never a conspiracy. The acceptance of Hitler as a master of the bluff explains his actions in foreign policy. The initial concessions granted the Germans gave Hitler confidence to attempt even more in the area of foreign affairs. The psychological pressures of the bluff continued to exert power as more concessions were granted to Hitler without any major actions on his part.¹

Hitler's power threats were bluffs and they consisted of small, feeling advances which probed the possibilities of gain. If the advances would meet resistance, they could be pulled back and another direction could be taken. The bluff was geared for the above tactics and developed much the same way as a pre-conceived plan because of the lack of resistance Hitler met in his demands. The bluff was a plan in

¹The pressure only gave more strength to the bluff as England and France envisioned Germany's power increasing.

only the loosest of definitions and really only can be seen by looking back on the events this paper discusses. The "plan " was constructed by developments created by Hitler and the other contemporary leaders of the time period.

Hitler did indeed propose extensive demands in Mein Kampf, yet these demands only lived as long as Hitler needed them. Hitler's demands, in truth, were what many other Germans were demanding, and Mein Kampf reflected such demands. Hitler fed on German desires to gain power, and once he had gained this power a whole new set of priorities could be established. New priorities were not established however, because the Western nations were willing to give Hitler nearly all of his fondest wishes in an attempt to placate him.

The Hitler image had been created. He was a master politician who promised the people exactly what they wanted, and after power was his, he could have broken every promise if necessary. The need, however, was not there. A master politician has many attributes which allow him to control a situation to his advantage, and he is a master of deception skilled in the art of the bluff. Hitler was this skilled master politician.¹ He was able to see a direction developing and use it to his advantage. Hitler was able to gain in foreign diplomacy because the men he dealt with lacked the skills that he himself possessed. The charge of conspiracy is based on Hitler's meetings with military personnel and Nazi leadership, yet Hitler

¹I base this conclusion on The Kersten Memoirs by Felix Kersten, 23-38, 65-73, and 83-87, and the Von Hassell Diaries, 104-137.

was the only man really talking. No one counseled him on his "plans" for it was not a conspiracy, but instead it was a bluff.¹

The logic of the thesis of the great Nazi war machine was faulty in several instances, and for the major bulk of this paper I have tried to expose them. The most prevalent faults are in the field of economics, and they deal with the factors important in a nation's ability to make war on her neighbors. The first of these factors is supply, and Germany's stockpiles were in terrible condition at the beginning of the war because of mismanagement. Guenter Reimann in his work of that period, The Vampire Economy, supports my statement; when the Nazi Reich embarked on its expansionist drive, stocks of raw materials, foreign currency, and gold were at a low ebb, and it was impossible for the German war machine to survive without the material confiscated from the invaded countries' capitals which replenished their decreasing supplies.²

The second factor is a strong economic base which will be stable enough to support a war effort. Again after Goering's attempts at economics, Germany's economic base was far from stable.³ The third factor is reliant on the first two factors and can be called economic harmony. This third factor allows a country to plan and prepare facilities for war. It also allows for the smooth flow of

¹The above parallels A.J.P. Taylor's thesis in The Origins of the Second World War, 208-268.

²Guenter Reimann, The Vampire Economy (New York: Vanguard Press, Inc., 1939), 256.

³Von Hassell Diaries, 83.

material to the needed areas of the war effort. Economic harmony in an overall view is the coordinated effort between all economic phases of a country, and such coordination is essential to a war effort. This economic factor was impossible in Germany's confused state of affairs.¹

The traditional approach taken in German history of the period stresses the "blitzkrieg" and L. Addington in The Blitzkrieg Era and the German General Staff argues that supply problems can be ignored because of this war technique, which would produce a short war not dependent on large amounts of supplies. In response, I must answer that the idea of a "blitzkrieg" was never successfully used in a real test against a prepared opponent. France had failed to prepare for the actual attack that came. The defenses of France were at the Maginot Line, and they became disorganized when Hitler's forces moved through Belgium and into France.² The real test against the Russians ultimately ended in failure for the war technique, and whether the Germans really felt it would be successful is not important at this point. Hitler had to use all of his forces out of economic necessity, and this necessity worked as part of the bluff.³ The "blitzkrieg" was part of Hitler's psychological war with Europe, and might have been created to support a bluff of war that Hitler ultimately used.

¹Ibid.

²I base this conclusion on support from the U.S. Department of War, Office of Strategic Planning, Allied Defense of France: War Survey Study (Washington, D.C.: Government Printing Office, 1940), 42-44, 51-58, and 61-75.

³Guenter Reimann, The Vampire Economy, 256.

Many historians would conclude that such warfare using the aspect of fear is aggressive, yet in reality fear is internal rather than external. Aggression, however, is an external force that involves a physical act against another object. Taking all of the threats and pressures brought to bear on the ultimately conquered countries and examining them will reveal that aggression by Germany did take place, but the real downfall of the Eastern European countries can be attributed to fear. It was fear that stopped action against Germany when she moved against these countries. The element of fear only works if the target of the tactics believes the threats, and in Hitler's case, his recipients did. Hitler never moved against England or France until war had been declared, yet both countries feared that possibility for most of the 1930's after Hitler's rise.

The "blitzkrieg," according to Addington, was a successful method of attack for the German army. Yet, the German military was far from being in total agreement with Addington's statement.¹ In the diplomatic world, German diplomats warned against any western attack by Germany. The fear of these diplomats only added to the military's division over the "blitzkrieg" and Hitler's foreign policies in general. The reports from the German diplomatic gentry warned that if the German army would attack France it would be destroyed. According to diplomatic reports, the German army would be permanently held up and bled to death in front of the Maginot Line.

¹Von Hassell Diaries, 137-152.

A powerful Franco-Belgian and English army would encircle the German flanks and ensure the German downfall.¹

These reports would tend to persuade Hitler to limit his actions to the Eastern European countries and leave the Western powers alone. Hitler obliged these diplomats without even trying, because he always meant to go east. The pressure on Poland was the next step of the bluff. Hitler wanted Danzig and the corridor returned to German control and if Hitler had gotten these, he might have stopped. Poland refused to negotiate with Hitler. The German invasion of Poland was launched and England retaliated by declaring war. Hitler was shocked at the English move. War with the Western powers was the last thing Hitler wanted, and for two and a half weeks he tried to negotiate an end to a war that had not yet begun.²

¹Kersten, The Kersten Memoirs, 83.

²Freda Kirchwey, "War and Rumors of Peace," The Nation, XXXIII (1939), 457-469.

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