

How the German trade unions could have stopped Hitler

by Gabriele Liebig

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Today's economic crisis has two faces: first, the imminent collapse of the world financial system, which will be triggered when one or more banks, or entire countries, having turned themselves into gambling casinos in their quest to become "emerging financial markets," experience a serious payments crisis. The other face, is the withering of the real, physical economy, setting new records almost every day in mass unemployment, bankruptcies, and government budget shortfalls caused by dwindling tax revenues.

The phenomenon is a worldwide one. The cause, and the chief distinguishing characteristic of the crisis, is rampant financial speculation: An ever-growing mountain of unsecured financial paper is ruining the productive economy. Less than 1% of all financial transactions worldwide still have anything to do with the actual exchange of physical goods; the rest is pure speculation. This, in turn, has favored the formation of a parasitical swamp which, to an ever greater extent, is sucking capital out of the real economy in order to prop up the speculative economy.

The process is occurring in many guises: For example, when speculative funds lure investors with promises of over 20% annual gains, who is going to keep investing in new industrial workplaces, which could never generate such returns? Or, take the multibillion-dollar bailout packages for bankrupt banks, where taxpayers' money is being used to plug up the holes in bank balance-sheets caused by high-risk speculation gone bad? And here we should also mention the government economic austerity programs which, in order to compensate for the rising preponderance of such financial services in government budgets, are making deep cuts at the expense of citizens' living standards and of public investment into material (transportation, energy, water, etc.) and social (health, education, scientific research) infrastructure.



Nazi financier Hjalmar Schacht (center) at the Nuremberg Tribunal. Historians' failure to examine the economic debates of 1930-32, is responsible for the fact that so many people labor under the absurd belief, that Schacht and Hitler were the inventors of work-creation as an economic policy. In fact, a broad alliance of social forces, centered around the trade unions, had put forward work-creation measures that would have prevented Hitler's rise to power.

There's a method to this madness: the policies being enforced by international financial institutions, namely, *reflation* on the speculative side (cheap central bank money for liquidity-strapped banks, tax breaks, etc.), which in turn must be balanced out by *deflation* on the real economic side (budget cuts, reductions in welfare programs, wages, and salaries). Similar "adjustment programs," which, for many years now, the International Monetary Fund (IMF) has been inflicting upon many developing countries, and which often expressly forbid any large-scale investment into the real economy, have led to a sharp decline in exports into these countries. In Germany, for example, 700,000 export-dependent jobs have been lost since 1991.

German unemployment figures have been skyrocketing since 1991; with each new year, another 100,000 more people become unemployed. It is impossible not to compare this with developments in the 1930s (although here we won't go into the far more refined statistical tricks being used today to conceal the true extent of unemployment). This parallel to the 1930s is shockingly clear; and yet, nothing is being done to stanch the flood of newly unemployed, not to mention taking effective measures to create new jobs. And it's not hard to see why: The unemployed are an integral part of the "globalizers'" strategy: Using mass unemployment as their cudgel, the globalizers want to do away with the nation-state, and push through massive reductions in living standards. Their argument is the same as the one used in the 1930s: In order for us to be competitive on the world market, we must

produce more cheaply, and therefore we are going to have to drastically cut wages and social services.

Just as it was back then, so, today, it is clear that in a democracy, cutting social services and wages down to the level of the Philippines, or even of Portugal, is not feasible, so long as labor remains at least partially organized into trade unions. Therefore, once again, from the camp of the "Conservative Revolution" we hear a growing din in favor of using the "big club," doing away with the nation-state, and with trade unions and democracy as well. "I'm not saying that we must move directly from a social state into a police state," but "*welfarism* is an idea whose time has passed. . . . For many of 'our people,' life in the late twentieth and early twenty-first century will be repulsive, brutal, and short as well," wrote Peregrine Worsthorne in the London *Sunday Telegraph*.¹

1. Peregrine Worsthorne, "A Police State Beats a Welfare State," *Sunday Telegraph*, July 23, 1995.

Writing in the same newspaper on May 21, 1995, under the title "The Right-Wing Path to Oppression," Worsthorne declared: "Furthermore, the degree of belt-tightening required of this country [Great Britain] before it could hope to compete with Asia is going to be incomparably greater than anything demanded in the 1930s. William Rees-Mogg talks blithely of reducing public expenditure to not more than 25% of national income. . . . More capitalist stick, less welfare-state carrot—that is the pattern for the future. To govern under such conditions . . . will require a different class of ruler to anything available today."

And on Feb. 4, 1996, he wrote under the headline, "The Big Stick May Be the Next Big Idea": "It is not easy to write about the politics of fear. . . . But since to a large extent politicians are paid to do the dirty work we do not want

Key names and dates

March 28, 1930: Heinrich Brüning becomes chancellor, but lacks a parliamentary majority. Governs by emergency decree.

1930: Wladimir Woytinsky publishes “The Flood of Economic Insanity,” an article denouncing the austerity policies of Chancellor Brüning.

Jan. 26, 1932: Woytinsky-Tarnow-Baade (WTB) job-creation plan is released to the public.

May 30, 1932: Brüning government falls; Franz von Papen becomes chancellor. He represents the landed gentry of east Prussia, but has no base of support otherwise, and has no majority in parliament.

July 1932: Parliamentary elections. Nazis win 37% of the vote—far short of a majority, but they are still by far the biggest party in the Reichstag.

November 1932: Parliamentary elections. Nazis lose 2 million votes compared to July, but remain the largest party in the Reichstag.

Dec. 2, 1932: Von Papen government collapses. Von Papen had asked for emergency powers. Kurt von Schleicher becomes chancellor, heading Germany’s third minority government in a row. Repeals von Papen’s emergency decrees.

Jan. 4, 1933: Von Papen and Hitler meet secretly to plot the downfall of the Schleicher government.

Jan. 23, 1933: Schleicher tells President Hindenburg that he doesn’t have a majority in the Reichstag, and asks for emergency powers to rule by decree. Hindenburg refuses.

Jan. 28, 1933: Schleicher resigns. Von Papen is entrusted by Hindenburg with forming a government involving Hitler.

Jan. 30, 1933: Hitler is named chancellor of Germany, with von Papen as deputy chancellor.

Basing himself on similar sentiments, Hjalmar Schacht, beginning in 1930 or even earlier, set his sights on establishing a totalitarian dictatorship under Adolf Hitler. One of the people who helped him bring Hitler to power, was Montagu Norman, head of the Bank of England. Peregrine Worsthorne is Norman’s stepson, and is a great admirer of his stepfather.

Schacht and Hitler calculated that social chaos and worldwide economic crises would increasingly discredit the bourgeois political parties, while the great masses of the popula-

to do ourselves—such as imposing taxes, rationing scarce medical resources, locking people up . . . a reputation for nastiness ought to be an asset rather than a liability.”

tion would become increasingly radicalized, thus paving the way for a totalitarian regime in Germany. Today, we are threatened with the same thing, but on a global scale: Increasingly unpopular austerity measures are not only dismantling the state’s social safety-net, but are threatening the very existence of the nation-state. The elimination of jobs through globalization goes hand-in-hand with an unparalleled assault on the nation-state, which they would like either to split (e.g., Italy), privatize (e.g., the former colonial states of Africa²), or else force its leaders to renounce their sovereignty in favor of supranational, dictatorial authorities who are not answerable to any democratic constituency.

There is an alternative

This must be prevented; and it *can* be prevented, provided that some of today’s most influential governments take the initiative, and—if possible, before the great financial crash which is bearing down upon us—take steps to reorganize the bankrupt world financial system. Such emergency measures, which have long been proposed by Lyndon LaRouche, can be thought of as a worldwide bankruptcy procedure, regulated by national governments.³ This reorganization will function if, and only if, it goes hand-in-hand with the implementation of *great infrastructure projects involving many nations*, which will create many millions of new, productive jobs, and which will revive the goods-producing economy. The foreign-policy context for such projects is the development strategy of the “New Silk Road,” or the “Eurasian Land-Bridge,” as we have discussed in more detail elsewhere.⁴ The most tried-and-true method of start-up financing for such large-scale, job-creating projects, is *national bank credit*, flanked by financing applied according to the method practiced by the Kreditanstalt für Wiederaufbau (which played a key role in rebuilding Germany after World War II), whereby the state subsidizes the difference between standard loan in-

2. Robert Whelan, of the London Institute of Economic Affairs, proposed in a recent issue of the institute’s journal *Economic Affairs*, that the countries of Africa ought to lease themselves out to multinational corporations, on the model of the East India Company. In such a colonial “lease agreement,” the lessees would lease all future state revenues for a period of 21 years, at a fixed-ceiling rate of interest.

3. See “Dringlichkeitsgesetz zur Wiederbelegung der Volkswirtschaft” (“Emergency Legislation to Revive the National Economy”) and “LaRouches wirtschaftlicher Fünf-Punkte-Notplan” (“LaRouche’s Five-Point Emergency Economic Program”) in the *EIR* German-language study, “Maastricht ruiniert Europa” (“Maastricht Is Ruining Europe”), Wiesbaden: “Executive Intelligence Review”-Nachrichtenagentur, May 1996. For English-language sources on LaRouche’s recovery program, see Committee to Reverse the Accelerating Global Economic and Strategic Crisis: A LaRouche Exploratory Committee, *The LaRouche Program to Save the Nation: Reversing 30 Years of Post-Industrial Suicide* (Leesburg, Virginia: October 1995), and “Five Emergency Measures,” *EIR*, April 26, 1996, p. 72.

4. *The Eurasian Land-Bridge: The ‘New Silk Road’—Locomotive for Economic Development* (Washington, D.C.: Executive Intelligence Review, January 1997).

terest rates and the special, low interest rates attached to long-term development credits.

Such an alternative was available back in the 1930s, too: A broad alliance of social forces, centered around the General German Trade Union Alliance (Allgemeine Deutsche Gewerkschaftsbund—ADGB), put forward a plan to reorganize the world financial system and to create jobs through public work-creation measures, all of which was to be financed by credits created by the Reichsbank. With this policy, the “Reformers,” as they were called, wanted to defend the Weimar Republic against the extremism of the National Socialists and of the Communists, both of whom were sowing the fertile soil of the misery of Germany’s working people.

The story of how the Reformers tried, and failed, to foil Hitler’s rise to power, is one of the most moving chapters in the history of this century. But it is also a story which, up to now, has been largely concealed behind a veil of silence. Indeed, our refusal to examine the economic debates that were going on during 1930-32, has been responsible for the fact that so many people today labor under the absurd belief, that Schacht and Hiltner were the inventors of work-creation as an economic policy.

But, known or unknown, the fact remains that the Reformers attempted to avert the Nazi catastrophe, and, under three successive governments—Heinrich Brüning, Franz von Papen, and Kurt von Schleicher—put forward a quite reasonable concept for reviving Germany’s prostrate economy. According to their plan, a comprehensive job-creation program would function as the “starter” to set the motor of Germany’s economy running again. The Reformers included economists in the tradition of Friedrich List, trade unionists and industrialists, highly placed government officials, and even bank directors; but it was the trade union umbrella organization ADGB that played the most crucial role. With its 8 million members, the ADGB was the largest mass organization in Germany, representing 80% of all organized workers. But the ADGB’s importance was not limited to publicizing and supporting the Reformers’ work-creation policy; it was mostly the ADGB which shaped the program in the first place.

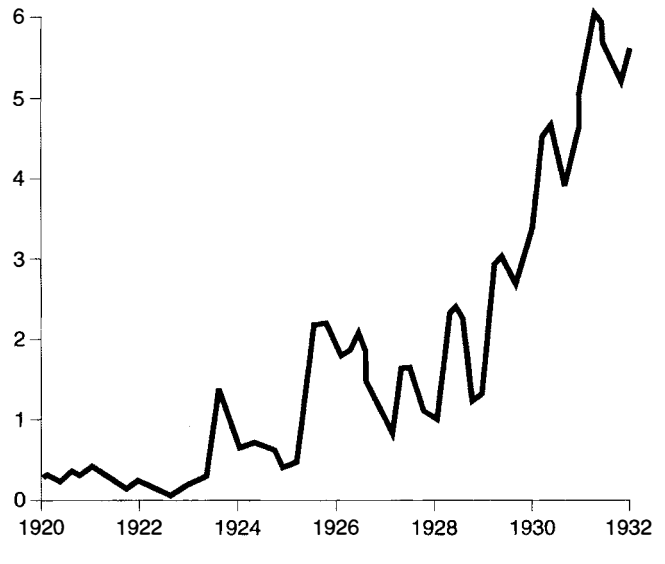
The Reformers’ intellectual leader was Wladimir Woytinsky, head of the ADGB’s statistical department. Woytinsky had come to Germany in 1922 from Russia, seeking asylum from the Communist regime. The son of a Jewish professor of mathematics in St. Petersburg, he had actively participated in the anti-tsarist revolution of 1905, but in 1917 had joined the resistance against Lenin’s seizure of power. He took over as head of the ADGB’s statistical department in 1929.

It was an *international program to halt the world economic crisis*, that Woytinsky and the ADGB inserted into the public economic debate in the spring of 1931.

Fight against the ‘cutback mania’

The program of Woytinsky and the other Reformers, proceeded from their recognition that the deflation policy of the

FIGURE 1
Unemployment in Germany, 1920-32
(millions)



Brüning government would inevitably only worsen the crisis. The deflationary withering of the world economy was already looming on the horizon in 1930, when ADGB head Theodor Leipart urged Woytinsky to take on the unemployment problem in depth. Soon thereafter, an article by Woytinsky on “The Flood of Economic Insanity” appeared in a number of trade union journals, in which he drew the battle lines against the policies of price- and wage-gouging being pursued by Chancellor Brüning and his orthodox economic advisers.⁵

In a series of articles, and in a book published in 1931,⁶ Woytinsky explained the fundamentally different character of this world economic crisis, in contrast to earlier conjunctural crises. In this crisis, he said, the “automatic capitalist mechanisms” do not work, and the situation cannot be rectified by cutting prices. Moreover, protectionist measures will only further exacerbate the process of economic decay. This downward deflationary spiral (see **Figures 1 and 2**) can only be reversed by taking *anti-deflationary* measures—specifically, by creating additional purchasing power, in coordination with the world’s leading nations. This additional purchasing power would have to be applied productively, toward the creation of new jobs in public projects.

Woytinsky advised the trade unions to make this policy proposal into the centerpiece of their demands: End the “cut-

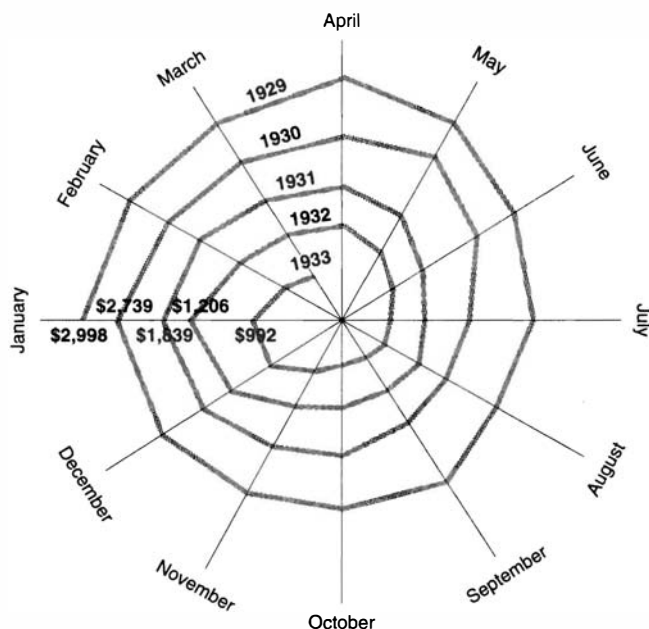
5. The article appeared in *Volkswirtschaftliche Beilage des Betriebsrates*, Hanover, No. 12, 1930; and in *Betriebsräte-Zeitschrift*, Stuttgart, No. 1, 1931.

6. Woytinsky, *Internationale Hebung der Preise als Ausweg aus der Krise*, Veröffentlichungen der Frankfurter Gesellschaft für Konjunkturforschung (Leipzig: Hans Buske Verlag), 1931.

FIGURE 2

World trade,* January 1929 to March 1933

(millions \$)



* Monthly imports of 75 selected countries.

back mania” in wages and social services, and implement a job-creation program, financed through additional credit creation! On March 9, 1931, the ADGB’s leadership held a meeting on this subject, where both the chairman of the woodworkers’ union, Fritz Tarnow, and William Eggert, the ADGB’s job-creation expert, spoke out in favor of an international program to halt the worldwide economic crisis. There, Woytinsky was given the green light for his keynote article in the ADGB’s theoretical journal, *Die Arbeit*, which kicked off the public debate over the ADGB’s “active world economic policy.” With this, Woytinsky had furnished the basis for a new policy for the trade unions, and for the Social Democratic Party (SPD), although, as we shall see, the latter did not take kindly to it. One passage from his 27-page article reads:

“Labor organizations that rely on the self-healing forces of the capitalist economic order, run the risk of slowly bleeding to death. For some years now, Germany’s working people have been waging a difficult, defensive struggle, and the worse the crisis becomes, the more unfavorable the conditions will become under which that fight is waged. Our labor organizations have lost their freedom to maneuver; no longer can they choose either the time or the objective of their conflict with the adversary. They are forced, each time, to fight whenever and wherever it best suits the other side.

“Ultimately, the trade unions and the Social Democracy

will have no tactic left, save that of choosing the *lesser evil*. . . . The tactic of the lesser evil will gradually devolve into the tactic of merely postponing the date of our own execution.

“Up to now, the party and the trade unions have succeeded in keeping their apparatus intact. But what do they—and, with them, the entire German working class, the entire German people—expect, if they have to continue, year-in, year-out, in the same direction they have been moving for the past 12 months, in the absence of any immediate prospect for an improvement of economic conditions? Targetted, far-reaching measures to revive the economy have never been more necessary than they are right now. The labor movement needs an *economic-policy action program*, which can show workers and other layers of the population, that the Social Democracy and the trade unions see a way out of the economic abyss. But at present, we have no economic-policy action program; all that we have, is a list of social demands, which we try our best to get adopted. We have definite positions on assorted individual economic policy questions. But a *program*, this we don’t have!”

Such a program would require, first and foremost, an “activist attitude toward conjunctural problems of our economy.” Woytinsky distinguishes between the passive, “meteorological” point of view, and the “physician’s” attitude:

“In modern economic research, especially in Germany, a passive, meteorological attitude is the norm. Economic ups and downs are observed somewhat the way the weather service looks at meteorological processes. Bulletins are published, which make it possible for people to adjust to the expected, coming shift—in the weather, or in the economy.

“But we can conceive of an altogether different attitude regarding conjunctural problems, comparable to that of the physician toward the human organism. The physician dedicates himself to curing illnesses, ameliorating the suffering that accompanies illness, and preventing its spread. Why couldn’t economic research be guided by similar goals? . . .

“The activist attitude toward crisis phenomena, is in harmony with our view, that we are currently living in a transitional period, one characterized by a transformation of the anarchistic capitalist economy, into a more highly organized form of economy.”

So, how can the “devastating effects of the crisis,” and especially the dramatic drop in industrial production, be reversed? “First, we must examine whether the forces currently paralyzing our economic activity, might not be eliminated, and whether it might not be possible to inject new factors which would spur every enterprise to expand its economic activity. In accordance with this, we must investigate the possibility of complementing the insufficient economic initiative of private enterprises, with public job creation.”

Woytinsky describes the ruinous effects of price deflation, and then lays out a detailed plan for solving the worldwide crisis. He had already presented this concept earlier, in his book *Internationale Hebung der Preise als Ausweg aus der*

Krise (Raising Prices Worldwide, as a Way Out of the Crisis). His basic idea was an agreement among nations, to increase purchasing power by means of an internationally coordinated lowering of the gold reserve requirements for national currencies. Woytinsky shows that in the past, the discovery of new gold mines had always been followed by an economic upswing, and argues that lowering the generally accepted minimum gold reserve would produce the same effect. This same idea had also been presented in a memorandum issued by the Gold Committee of the League of Nations. Such a lowering of the minimum reserve would mean, in practice, the creation of a corresponding quantity of new money, and would have somewhat the same economically stimulating effect as “an interest-free foreign currency loan . . . which the Americans would hand over to the Reichsbank as a token of good will, but which would be tied to the condition that the money be used for productive activity, and not for reducing the budget deficit!”

He energetically opposed the argument that reducing the gold reserve requirement, as recommended by the Gold Committee in Geneva, would lead to inflation—a view held by SPD economists Rudolf Hilferding and Fritz Naphtali. Woytinsky writes: “In a certain sense, all credit creation, all assumption of foreign loans, is inflationary. . . . In common usage, ‘inflation’ is understood to mean a certain condition (or malcondition) of the currency system, in which paper money becomes unmoored from its gold-value; the domestic currency unit loses any fixed relation to other nations’ currency units, and the printing press comes to replace all normal financial administration. Our own generation knows from its own experience, what this all means: A country which has already lived through inflation on a grand scale once before, will shy away from a monetary policy which might end in yet another bout of inflation.

“But it doesn’t require very many words to show that the currency and credit policy recommended by the Geneva experts, does not have the slightest thing in common with the inflationary insanity of the first postwar years. Here, namely, we are talking about a thoroughly thought-out, internationally agreed-upon, carefully regulated manipulation with an additional monetary aggregate. . . . Now, some will counter their idea, by citing the unhealthy experience of the inflation era. But, on similar grounds, in the treatment of a serious, life-threatening illness, one would rule out the administration of a medicine, solely because it is a *poison*. The physician, however, does not hesitate to use various poisons as medicines. . . . If the physician had to renounce all use of poisonous substances as medicines, he would be condemned to the same impotence as that of an economic policy which, out of fear of inflation, rejects all anti-deflationary measures out of hand.”

His article in the June 1931 journal *Die Arbeit* ends with a draft of an “Action Program for Reviving the Economy”:
“The monetary policy measures must be the cornerstone

of the action, not only for the labor organizations themselves, but also for every party and government that is thinking seriously about re-starting the economy. But the labor movement’s economic-policy action program should not end there. . . .

“1. The labor movement must commit itself to an *activist conjunctural policy*, and must throw its entire influence into the balance, in order to force the state and all public institutions to implement measures to revive the economy. . . .

“2. The economic revival policy must deal primarily with the *worldwide economic crisis*; it must be a *global* economic policy. All nations are suffering because the world economy is sick, and therefore they must all concentrate their forces upon joint action to overcome the worldwide crisis.

“3. No country is . . . harder-hit by the worldwide crisis, than Germany is; and within Germany, working people are the class that suffers most from the economic depression. In keeping with this, it is Germany which must take the initiative in forceful international policy to combat the world crisis, and the German working class (trade unions and Social Democracy) must claim and assume the role of conveyor of the idea of an activist world economic policy.

“4. The first, the most urgent task of world economic policy, is to *stabilize world market prices, something that can be achieved only in the monetary domain, through planned money-creation and injection of additional purchasing power*. . . .

“5. The international monetary policy agreement must not remain isolated from other international economic policy measures. Rather, it must lend added weight to the old demands for tariff reductions and European economic unification, as well as to the ideas of internationalization of wage policy and social policy.

“6. The funds freed up by international money-creation policies, must be applied toward job creation, and for the realization of a grand plan for European reconstruction. . . .

“7. This international economic policy shall support working people in their fight for a true wage, and for shortening the work week [to 40 hours], for workers’ social rights, for regulating the cartels, expansion of state monopolies, etc. At the same time, the party’s and trade unions’ agricultural policy must be adjusted in accordance with the task of relieving the labor market, overcoming the current depression, and preventing new crises. A stronger emphasis than before, must be placed on the necessity to reorient our agriculture toward intensive post-processing, and we must develop a public works program in keeping with that goal. . . .

“The working class, with this policy as its instrument, will be able to shift away from being forced to fight defensive battles, and into a universal, creative offensive, moving along the historical road to overcoming the mistakes and sins of capitalist economic leadership.

“And this is what the trade unions and the party, in their quest to reunite the working population, can use to counter

National Socialism on the one side, and Communism on the other”⁷ (emphasis in the original).

The ‘Reform’ debate in 1931

The first, groundbreaking discussions among the various Reformers over the solution to the economic crisis, took place in 1931; by 1932, on the other hand, after the official number of unemployed had risen to above 6 million, you could find job-creation programs on every park bench. Proposals ranged from the demand to bar all foreigners from working in Germany, all the way to the German Communist Party’s glorious demand that job-creation measures be financed by eliminating all expenditures on national defense and local law enforcement.

But in 1931, the debate was still restricted to a relatively small circle. Woytinsky had kicked off the debate in July, with his above-cited article. In September 1931, the List Soci-

ety held a secret conference on reviving the economy, attended by 30 high-ranking economic experts of various persuasions, including Reichsbank President Hans Luther and SPD economist Rudolf Hilferding. Before this assemblage, Wilhelm Lautenbach, government director in the Economics Ministry under Chancellor Brüning, presented his memorandum on “Opportunities to Revive the Economy through Investment and Credit Expansion.”⁸ At the meeting, this illustrious group rejected Lautenbach’s 1.5 billion reichsmark job-creation program, which was to be financed by notes which the Reichsbank would re-discount; but, many of the participants would change their minds about it later on.

In his memorandum, Lautenbach first described the nega-

8. Memorandum by Wilhelm Lautenbach, “Möglichkeiten einer Konjunkturbelebung durch Investition und Kreditausweitung,” in Knut Borchert, Otto Schötz (eds.), *Wirtschaftspolitik in der Krise: Die Geheimkonferenz der Friedrich-List-Gesellschaft vom September 1931*, Baden-Baden: 1991, pp. 307-325.

7. *Die Arbeit*, No. 6, 1931, pp. 413-440.

Wladimir Woytinsky, revolutionary

It is not an easy task to describe in a few words the fast-changing life of Wladimir Saweljewitsch Woytinsky (Nov. 12, 1885–June 11, 1960). His father was a professor of mathematics in St. Petersburg, Russia, and his family of Jewish origin.



As a 17-year-old high-school student, he wrote his first book on economics, which was decidedly non-Marxist in orientation, and which dealt more with the determination of market prices. Without mentioning his age, the young author sent his manuscript off to a highly regarded professor of economics, who liked it so much that he wrote his own preface and had the book printed.

While a student in 1905, Woytinsky joined the socialist movement, and actively participated in the first Russian revolution against the degenerate tsarist feudal regime. He became chairman of the student council, and, later,

president of the St. Petersburg Council of Unemployed People. It was during this time, that Count Sergei Witte, an enthusiastic advocate of the ideas of Friedrich List, and a major force behind Russia’s industrial and infrastructural development, succeeded in pushing through the adoption of the “October Manifesto”—a constitution of sorts, which held out the prospect of a constitutional monarchy, more rights for the parliament, etc. In his autobiography, *Stormy Passage*, Woytinsky admits that he was extremely skeptical about this manifesto, and considered Witte to be an opponent who had sided with the existing regime. But he also reports that as president of the unemployed council, he succeeded in negotiating an arrangement with Witte’s people, for putting a great number of unemployed people back to work on public infrastructure projects (e.g., bridge building) at a satisfactory wage. All that, however, ended with the crushing of the revolution and Witte’s dismissal.

In 1908, Woytinsky was arrested and condemned to four years of hard labor and lifelong exile in Siberia, because of his membership in the Social Democratic Labor Party. In 1912 he was released from prison, and, together with a friend, undertook a voyage of discovery through sparsely settled Siberia. It was during this period of exile, that he met his future wife, Emma, whom he married in 1917. The October Revolution ended his exile, and the young married couple returned to St. Petersburg.

Woytinsky supported the toppling of the feudal regime, but wanted to see it replaced by a democratic, parliamentary system, as the Menshevik Tseretelli was demanding. And so, in 1917, things came not only to a break with Lenin, but Woytinsky organized part of the Army to put

tive effects of the deflationary policy currently being followed by the government of which he himself was a part:

“The tightening of credit causes huge new capital losses for firms in trade and industry, renders them impotent and uncreditworthy, forces them into further cuts in production and layoffs on the most drastic scale, and, at the same time, results in a worsening of the banks’ position.”

And besides, in a capitalist economy, the most natural way to overcome crises is “not cutbacks, but rather increased output.” In contrast to other states of emergency following destruction by war or earthquake, which pose “concrete production problems” to solve in the process of reconstruction, in today’s market crisis, there is “no such thing as a positive directive, and so no industrialist has any idea what he ought to be producing.

“For, at this very moment, we have the paradoxical situation, that, despite the fact that we have made extraordinary cuts in production, demand is still continually lagging behind supply. And thus, we have chronic production surpluses,

which we don’t know what to do with. The task of finding some way to turn these surpluses into things of value, is the real, and most urgent problem for our economic policy to solve; and, in principle, it is relatively simple to do that: Surpluses of physical goods, unutilized productive plant, and unutilized labor power can be applied toward meeting a new economic need—a need which, from an economic standpoint, represents a capital investment. We can conceive of such tasks, as . . . public works, or works carried out with public backing, which for the economy would mean an increase in our national wealth, and which would have to be done anyway, once normal conditions returned (road construction, desirable improvements and expansion of the railway system, and the like).”

Since “long-term capital is not available either on the foreign or the domestic capital market,” the only remaining option, is to finance such works through the issuance of notes that are discountable by the Reichsbank. Lautenbach proposes a 1.5 billion reichsmark job-creation program: RM 1.2

up armed resistance against Lenin’s Bolshevik coup. After his defeat, he was once again thrown into prison, but after a few months was able to escape, and ended up in Georgia, where he supported the short-lived democratic Georgian government, first as editor of the newspaper *Borba*, then as economic adviser to the Georgian legation in Italy (1919-20), and then as member of the Georgian legation in Paris (1920-21).

The Woytinskys arrived in Berlin in 1922. Wladimir wrote articles for many newspapers on economic subjects. Emma was his scientific partner, and dedicated herself solely to this mission, since she was childless. In 1923, work began on the great statistical almanac *Die Welt der Zahlen (The World of Figures)*, which established Woytinsky’s reputation as an economist to be taken seriously. In 1929, he became head of the statistical department of the General German Trade Union Alliance (ADGB), and thereafter served as a member of the ADGB’s executive board. “Woytinsky remained at his post to the very last day on which the German trade union movement was alive,” wrote Alfred Braunthal (Federation of Free Trade Unions) in 1960. “When the Executive Board of the ADGB decided to accede to the Nazis’ demand that the trade unions participate in the May Day parade [May 1, 1933], Woytinsky was the only member to cast his vote against this decision. The freedom fighter who had been imprisoned by the tsarist regime, who had been imprisoned by the bolshevist regime for the same reasons, who had left his native country because he could not live in servitude, could not accept compromise with Fascism either. On the day he cast his vote against any compromise with the Nazis, he resigned

his office and sought refuge in democratic Switzerland.”¹

After stopovers in Zurich, Paris, and Geneva, where he worked for the International Labor Office (1933-35), he and his wife emigrated to the United States in 1935, where he became a U.S. citizen in 1941.

He had arrived in the America of President Franklin Delano Roosevelt, and was inspired by Roosevelt’s personality, and by the determined, if pragmatic, way the President attacked and solved the problems of the world economic crisis. In his autobiography, the things Woytinsky chooses to report and emphasize concerning FDR, says much about his own attitude.² He quotes the closing words of Roosevelt’s first inaugural address: “The only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed effort to convert retreat into advance.” Woytinsky associates this with the following passage from the speech Roosevelt was working on the day he died: “We must go on to do all in our power to conquer the doubt and the fears. . . . The only limit to our realization of tomorrow will be our doubts of today.”

Woytinsky relates an amusing story around the visit of the British royal couple to the United States. The newspapers reported that the President had told the king: “Call me

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1. Alfred Braunthal, “Adviser of the European Labor Unions,” in Emma S. Woytinsky, *So Much Alive: The Life and Work of W.S. Woytinsky* (New York: Vanguard Press, 1961), pp. 85f.

2. Wladimir Woytinsky, *Stormy Passage: A Personal History Through Two Russian Revolutions to Democracy and Freedom: 1905-1960* (New York: Vanguard Press, 1961), pp. 499ff.

billion for railroad construction, and RM 300 million for road construction. "Rationally and economically," it is "completely unobjectionable" to realize the value of previously unutilized surpluses, "by making them available, along the credit pathway, for the performance of economically reasonable and necessary tasks."

"With such an investment and credit policy, the imbalance between supply and demand on the domestic market will be remedied, and all production will once again be given a direction and a goal. If, however, we fail to institute such a policy, we are headed for inevitable, continued further collapse, and the complete gutting of our national economy, moving into a situation that will force us, in order to avert a domestic catastrophe, into taking on short-term public debt purely for purposes of consumption; whereas today, it is still within our power, to pre-empt this credit for productive purposes, and thereby to bring both our economy and our public finances back into balance."

The actual stimulus-effect would kick in, "at the point

when industries that are put into a particularly favorable situation through their delivery of materials for these public works, would be able to drastically draw down their stockpiles, and would therefore be obliged to produce more than they had been producing before."

The resulting debate also inspired the head of the (partly ADGB-financed) Berlin Institute for Cultural Research, Ernst Wagemann—one of the people whom Woytinsky had had in mind when he described the "meteorological point of view." Up to the autumn of 1931, Wagemann had been at a loss concerning how to change the economic situation, but after this, he began to make proposals similar to those of Woytinsky and Lautenbach, such as the well-known "Wagemann Plan."

Likewise, in the autumn of 1931, the Society for the Study of the Economics of Money and Credit was founded around the industrialists Heinrich Dräger and Wilhelm Grotkopp, the latter of whom can be credited with rescuing the work of the "Reformers" from obscurity, in his 1954 book, *Die große Krise (The Great Crisis)*. The society's ideas found an outlet

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Franklin; I shall call you George." And that became a very popular saying at the time.

Naturally, Woytinsky also favorably compares Roosevelt's economic policy with the deflationary catastrophe of the Weimar Republic: "Was not FDR building his nation as effectively as Brüning had been destroying the Weimar Republic? Simple people whom we met in all parts of the country called Roosevelt *their* President."

Woytinsky's first job in the United States, was with the Central Statistical Board (1935), followed by positions in various social-policy committees, and then, for many years (1942-47) with the Social Security Board, where he helped build the very system of pension and unemployment insurance that the "Conservative Revolution" wants to take down today. After that, he worked on various scientific projects sponsored by the Rockefeller Foundation, Johns Hopkins University, and the Twentieth Century Fund. Two extended lecture tours took him through the Far East and Ibero-America. He died in Washington, D.C., on June 11, 1960.

Woytinsky's economic ideas

Today, Woytinsky is often lumped in with the "Keynesian" camp. Aside from the fact that this label irritated him personally, it is also simply not true. For one thing, Woytinsky had his own original ideas, and had developed his concept of "active economic policy" years before Keynes's *The General Theory of Employment, Interest, and Money* was published in 1936. Secondly, Keynes's *deficit spending* (increasing the national debt) was funda-

mentally different from Woytinsky's concept of creating additional purchasing power through state credit creation for productive purposes. And thirdly, Woytinsky had never proposed that people should completely unproductively "dig big holes in the ground, and then fill them up again," in order to protect their purchasing power. On the contrary, Woytinsky proposed great infrastructure projects for "the reconstruction of Europe."

Although his educational background included physics, Woytinsky's *métier* was not really the science of physical economy, as Lyndon LaRouche developed it beginning in the 1950s, which investigates the connection between scientific discoveries, their technical application, and increases in living standards and population potential. Nevertheless, in a certain sense, Woytinsky does represent the social side of physical economy, which is vitally interested in furthering the technological development of industry and agriculture, and which considers this to be the indispensable means of achieving better living conditions for the population at large.

On the other hand, Woytinsky probably would not have wanted to be remembered as a "Listian," either, even though he was a member of the Friedrich List Society and, just as List before him, he had pressed for a combination of free entrepreneurial initiative and important supervisory functions being performed by the state on economic policy. Woytinsky also repeatedly emphasized the importance of education and culture for a state's economic health.

Woytinsky was, first and foremost, a "statistician," not the least on the authority of his great seven-volume opus *Die Welt der Zahlen*, which assembled economic and polit-

in Robert Friedländer-Prechtl's journal *Wirtschaftswende* (*Economic Revolution*), which was chiefly funded by Dräger. The journal's philosophy took as its point of departure, strict adherence to requirements of the real economy: "An economy, therefore, never produces money, but always exclusively commodities."⁹ Especially during 1932, numerous variants of Woytinsky's and Lautenbach's proposals were discussed in the pages of *Wirtschaftswende*.

The Woytinsky-Tarnow-Baade plan

The trade-union wing of the Reformers group was led by Woytinsky, Fritz Tarnow, and SPD member of the Reichstag (parliament) Fritz Baade. But Woytinsky was also a member of the List Society, and was later invited to appear as guest speaker before Dräger's study society.

9. Robert Friedländer-Prechtl, "Gereke-Plan," *Wirtschaftswende*, February 1933 supplement (as it went to print, Schleicher was still in the government), p. 12.

Baade was the agricultural policy spokesman for the SPD's parliamentary group. His attitude toward the real economy can be summed up by the fact that he considered it absurd, that "people should starve in front of over-filled granaries."¹⁰ For him, that spoke for the necessity to adopt an "active economic policy."

Fritz Tarnow, who headed the Woodworkers Union, had already independently laid out his own theory of purchasing power in his 1928 book, *Warum arm sein? (Why Be Poor?)*. Tarnow was convinced (in complete agreement with Gottfried Wilhelm Leibniz and Friedrich List) that excessively low wages hurt all of society, whereas realistic wages ensure adequate purchasing power and sales opportunities on the domestic market. Members of the "red trade union opposition" held up Tarnow as an object of ridicule, because he

10. Fritz Baade, "Fighting Depression in Germany," in Emma S. Woytinsky, ed., *So Much Alive: The Life and Work of W.S. Woytinsky* (New York: Vanguard Press, 1961), p. 64.

ical data, explanatory texts, and brief analyses about the most important countries around the globe. In order to assemble it, the two-person team of Wladimir and Emma did the work of an entire army of experts who are usually required to put together such a comprehensive work.

In an article he wrote on "Limits of Mathematics in Statistics,"³ Woytinsky reveals the true secret of successful statistical forecasting: One must start from the correct hypothesis. "Actually, in order to use the consumption function or any other crystal ball in economic forecasting, you must have an opinion on the trend of events. If your opinion is sound, there is a fair chance that you will pick the formula which later will be vindicated; if your judgment is poor, you will gamble on the wrong formula."

Woytinsky's disdain for the "magic of mathematics" goes further still. He believed that it was impossible to find an adequate mathematical representation of anything pertaining to the content of the statistics, the economic world and the world of human relations, because these involve living processes: "Every time we try to measure the phenomena of this world, we discover that, like all living things, they defy precise measurement . . . and yet without quantitative analysis we cannot understand and appraise them. Mathematical devices are necessary in this work, but the mathematical laws which control the Euclidean Universe cannot be extended to human relations. Their quantitative analysis requires more than mathematical skill and familiarity with the field from which the data

3. Wladimir Woytinsky, "Limits of Mathematics in Statistics," *The American Statistician*, Washington, D.C., February 1954.

come. It requires imagination and intuition. Such an analysis is an art more than a science."

Like LaRouche, Woytinsky also never propitiated "authoritative" expert opinions. The experts had all predicted that after the war's conclusion, shutting down the war economy would bring mass unemployment, flagging demand, and declining living standards. Woytinsky was the only one who, long before the war had ended, had forecast an extended postwar economic upswing, because he had seen what economic forces had been set free by Roosevelt's war mobilization and the structural changes associated with his New Deal.

Just think of it: Woytinsky loved his new homeland, and he cherished his fellow Americans for their freedom-loving culture, their vitality, their mental agility, and their willingness to change—the qualities that made it possible for the United States to emerge as the world's leading economic power in the 1950s and 1960s.

It is easy to see that Woytinsky cannot possibly fit in with today's ruling financial elite's agenda of "globalization" and "budget-cutting mania." Both the German government, and the Social Democratic opposition in Bonn, should well heed Woytinsky's warning: "A society that fails to provide normal opportunities for employment for a large proportion of its members has forfeited its right to exist, and even if it still retained that right, it would not have the power to defend itself against disruptive forces within and without."⁴—*Gabriele Liebig*

4. Wladimir Woytinsky, *Three Sources of Unemployment* (Geneva: International Labour Office, 1935).

What is productive credit creation?

According to Gabler's economic lexicon, credit creation is "the creation of money through the issuance of credit," since most of the world's money originates through the issuance of some form of credit. Banks and central banks can create credit and/or money. If a bank purchases an asset (a bill of exchange, bond, stock, etc.) from a non-bank, the bank pays for it with a claim on itself, by issuing a note to the buyer. If the possessor of this note then withdraws it from the bank, the amount of money in circulation is increased by the amount on that note. Strict limits are placed on such credit or money creation by banks, either through limiting the banks' liquidity directly, or through restricting the amount of credit they can obtain from the central bank. The central bank is therefore the ultimate source of all credit and money.

Productive credit creation differs from other sorts of credit, in that certain restrictions are also placed on its use—namely, its purpose must be to activate labor power and productive plant, which would otherwise go unutilized. For example: Whereas in mortgage credit, the real value of the mortgage, and the issuing institution's collateral, is the value of the actual house or land, in productive credit creation, the real value lies in the goods which are produced as a result of the issuance of the credit, thereby creating an added value which, in the optimal case, will be greater than the combined interest and amortization on the original credit.

Central bank credit creation, for example, occurs

through the issuance of relatively low-interest credit to banks, the purchasing of securities, or the discounting of bills of exchange. With productive credit creation, the central bank must take pains to ensure that the additional monetary aggregates put into circulation, correspond, at the very minimum, to a correspondingly growing aggregate of produced, economically useful goods. If, according to this method, a portion of the money remains unaccounted for, this means inflation, or the debasement of the national currency. Banking institutions are therefore well advised to avoid all forms of unproductive (and usually secretive) credit creation, which is what occurs, for example, when a central bank uses cheap credit to prop up bankrupt banks (as recently occurred in Japan), or to plug holes in the national budget by cranking up the banknote printing presses (as in Russia today, or in Germany in 1922-23).

Productive credit creation, on the other hand—for example, if Germany's central bank issued credit to finance the creation of new jobs on urgently needed infrastructure projects—is not only unobjectionable from the monetary policy standpoint, since it acts to stimulate the economy, but it would actually have a *deflationary* effect, since, by employing a great number of previously unemployed people, far more physical value (e.g., railways, housing, the necessary parts and materials) would be created, than the aggregate of goods which had been implicitly put up as collateral for the original central bank credit. (And this does not even take into account the savings in government unemployment and welfare expenditures as a result of these people becoming employed again, or the additional public revenues coming in from these workers, who can now pay taxes and contribute to the social security fund.)—*Gabriele Liebig*

had brought this belief in the beneficent entrepreneur, who voluntarily pays higher wages, back from his tour of America in 1925. And it is indeed true that Tarnow was promoting the principles upheld by Henry Ford, who paid his workers decent wages, so that they could afford to purchase his automobiles.

Although Woytinsky was not personally present at the abovementioned conference of the List Society, soon thereafter he signed on to the proposal for a job-creation program oriented toward the German economy alone, and for financing via the Reichsbank. He did so in close consultation with Tarnow and Baade. Whereas in a Dec. 9, 1931 memorandum, Woytinsky was still talking exclusively about international job creation through gold bonds issued by the Bank for International Settlements (BIS), only two weeks later, on Dec. 23, Baade, Tarnow, and Woytinsky presented their "Theses on Combatting the Economic Crisis" to the ADGB's executive board. In this document, the idea of international job-creation

through "the undertaking of public works on a grand scale," is complemented by a section on "combatting the crisis within the framework of Germany's own economy":

"We fear that irrationality in the world economy and in world policymaking, has already assumed such proportions, that effective anti-crisis measures on the international level will not come about as speedily as is necessary for Germany to survive. For this reason, the German Social Democracy must develop, alongside its demand for an international understanding for purposes of international job creation, a very concrete program for combatting the crisis within the framework of the German economy alone. This national salvation program must not be confined to general demands, but it must very concretely lay out the measures that the public sector of the economy must take, and also how these measures are to be financed.

"The central feature of these planned economic anti-crisis

measures, must be the employment of 1 million unemployed, in public works projects. . . . The creation of jobs will spark a revival of the consumer goods industry, thereby sucking a further, considerable number of unemployed back into employment.

“A sum of approximately 2 billion reichsmarks would be required to finance these public works projects. Whatever portion of this amount cannot be raised by any other means, must be made available via a cash loan from the Reichsbank.

“Such a one-time cash loan of a fixed amount, linked to a stipulation that it be used for labor, poses no danger of a repeat of the runaway inflation of 1922-23. The guarantee against such inflationary effects, lies not in its fixed amount and restrictions on its use, but rather primarily in the fact, that today, we have a huge amount of unutilized capacity in our productive apparatus. Consequently, increases in production can, without difficulty, follow along in the wake of planned increases in purchasing power.”¹¹

These theses were incorporated into the final “WTB Plan,” the job-creation plan of Jan. 26, 1932, issued under Fritz Tarnow’s signature:

“The plan should ensure the rapid reabsorption of approximately 1 million unemployed back into the production process. In order to achieve this goal, the Reichsbahn, Reichspost, and municipal and other bodies, must issue contracts on a scale sufficient to create employment, directly or indirectly, for 1 million unemployed persons. . . . The contractees will receive an equivalent long-term loan at a low rate of interest and amortization, against promissory notes which are paid out by Reichskredit AG (or other suitable institutes) and are rediscountable at the Reichsbank.”¹²

The year of decision

January 1932: The army of unemployed has swelled to 6 million. In his diary,¹³ Julius Leber writes that the Nazis and Communists are rejoicing: “For, their mother is misery, and the desperation of an entire people, who sees no other way out of the turmoils of a present that no longer makes any sense.” But the SPD leadership must have seen it the same way, since otherwise, it is impossible to fathom why the SPD’s top men—parliamentary faction leader Rudolf Breitscheid, party boss Otto Wels, and economic experts Hilferding, Naphtali, and Bauer—acted to sabotage the WTB Plan!

The SPD leadership’s main argument was that the

ADGB’s plan was “inflationary.” Hilferding’s attitude could possibly be explained by the fact that he had been Germany’s economics minister in the 1920s during the hyperinflation. It was at his urging, that the German cabinet had decided in 1923 to introduce the rentenmark. And yet, he was now arguing, to his Marxist audience, that anyone who wants to assist the capitalist system when it is in trouble, is no Marxist. The Communists had the same argument: The working class is not here to play “doctor at capitalism’s sick-bed.” Otto Wels took offense at the ADGB’s sudden desire to set the tone of the party’s policies. But the SPD bosses’ most stubborn resistance was against the idea of financing via the Reichsbank’s creation of additional purchasing power; and in this, they joined ranks with Reichsbank President Luther and his predecessor Hjalmar Schacht, who at that very moment was pushing full-steam ahead with his “Hitler project.”

Breitscheid and Hilferding’s ideological proximity to Schacht can be partly explained on the basis of their shared past history. In earlier years, Breitscheid had worked alongside Schacht in the Trade Treaty Association and had given Schacht propagandistic support from the left-liberal side. Schacht, for his part, cleverly built up the legend that he, and not Hilferding, was the celebrated “creator of the rentenmark” in 1923. Such details can certainly make the situation more understandable; but by no means can it excuse the SPD’s obdurately pig-headed behavior.

The conflict between the SPD and the trade union leadership came to a head at a federal committee meeting on Feb. 15-16, 1932. The SPD did not oppose the job-creation program as such, but it demanded that it be financed via a so-called “people’s bond.” It was, however, completely unrealistic to think that such a bond could ever be successfully placed on the capital market. The session ended with a compromise: The ADGB adopted the demand for a “people’s job-creation bond,” but with the proviso that those portions of the bond that could not be floated, should temporarily function “for the banks as interim financing, discountable at the Reichsbank,” for purposes of job-creation. The SPD, for its part, agreed to hold an extraordinary “ADGB Crisis Conference,” which was to be exclusively devoted to discussing job creation.

The opening shot had been fired for a broad-based campaign in favor of job creation. The Crisis Conference took place on April 13, 1932, and was a great success. Brüning did not personally attend, but he did send his labor minister, Stegerwald. ADGB chairman Leipart directly attacked the government’s deflation policy: By destroying the masses’ purchasing power, the country’s industry, trade, and retail sales were being driven into ever more dire straits, and “unemployment has grown with each successive assault on wages.” With each new emergency measure, the number of unemployed took an additional leap, and the political radicalization along with it. As for Brüning’s argument that large-scale job creation was not possible because it conflicted with Germany’s national foreign-policy interests, Leipart retorted: “It is my view, that this

11. “Thesen zum Kampf gegen die Wirtschaftskrise, vorgelegt von Dr. Baade-Tarnow-Woytinsky,” Berlin, Dec. 23, 1931, manuscript in the DGB archives at the Friedrich-Ebert-Stiftung, published in Michael Schneider, *Das Arbeitsbeschaffungsprogramm des ADGB* (Bonn-Bad Godesberg: Verlag Neue Gesellschaft, 1975), pp. 225ff.

12. “Der Arbeitsbeschaffungsplan (Baade-Tarnow-Woytinsky),” Berlin, Jan. 26, 1932, manuscript in the DGB archives at the Friedrich-Ebert-Stiftung, published in Michael Schneider, *op. cit.*, pp. 231ff.

13. Julius Leber (and Gustav Dahrendorf, ed.), *Ein Mann geht seinen Weg* (Berlin-Frankfurt: Mosaik Verlag, 1952).

overexaggerated concern about our foreign-policy interests, which is preached to us ceaselessly, has gone too far.”¹⁴

Wilhelm Eggert then presented the job-creation program. In keeping with the WTB Plan, it foresaw 2 billion reichsmarks, which would serve as the “sparkplug” for reintegrating 1 million unemployed back into the production process. The projects he named were maintenance and improvements on the road network, river levees, home construction and home repair, housing projects, and agricultural improvements, as well as contracted jobs for the national postal service and

14. Michael Schneider, *op. cit.*, p. 93.

railway. The program was to be financed through funds which would otherwise have been spent on unemployment checks; through tax revenues and unemployment insurance payments by those who had been re-employed; through additional sales tax revenues; and through the SPD’s “people’s bond,” whereby any unsold portions of the bond would be made discountable at the Reichsbank, and would serve as a basis for interim financing.

Following Eggert’s presentation, a resolution was passed to adopt the WTB Plan as part of the ADGB’s official program. It contained only one flaw: its vagueness regarding the means of financing. In *Die Arbeit* (Vol. 3, 1932), Woytin-

‘Again and again: create jobs!’

Extracts from an article by Wladimir Woytinsky appearing in Gewerkschaftszeitung No. 11, March 1932. (All emphasis is in the original.)

The past few weeks’ public discussion has cleared the air on the problem of work creation, in more than one respect. No longer do we need to poke around in the dark for the right direction: The road ahead of us is open, we know where it leads, and we know the dangers that have to be avoided. The *necessity* for work creation is no longer seriously disputed by anyone. The dispute now, is over *whether it is possible*, with the means available to the state, to carry out the action on a scale appropriate to the seriousness of the situation, and in accord with the trade unions’ wishes. In its resolution, the national committee did not give any definite figures, and did not recommend any definite plan for work creation. Up to then, the discussion had revolved around proposals made in the trade union press by individuals acting on their own responsibility.

As things stand now, the starting-point for the action must be the following, doubly depressing picture: On the one hand, huge, bottomless misery which cannot be eliminated at a single stroke, and which one can only hope to ease somewhat; and, on the other, empty government coffers, and no free energy for bold, effective measures. Therefore, we make the double demand: *Create work for the greatest possible number of people, with the least possible expenditure of money!* . . .

The magnitude [of the credit] is important, and the ADGB can take responsibility for it:

Employ 1 million workers with a total expenditure of 2 billion reichsmarks.

The choice of the object of this labor, must take into account the requirement that *the largest possible number of workers* be employed *productively*, without exceeding the indicated cost ceiling.

The central feature of the technical side of the work-creation plan, must be *road building*, namely, the maintenance, and, over and above this, the modernization of our national road network. No one doubts the need for these projects and their economic profitability; the plans have long been ready on the drafting-boards, and the wage component of the total cost is relatively high. . . .

In 1931, the road construction work envisioned by the relevant authorities, remained undone. We must now demand that in the upcoming construction season, we make up for lost time:

One billion reichsmarks for road construction!

Next to road construction, one of the most important elements of the work-creation program is *housing construction*—namely, the construction of small homes which can be easily rented out, and which are therefore a safe capital investment. The shortcoming of housing construction within the framework of the work-creation program, is that the investment cost per worker employed, is rather high. But the great advantage of this sort of work creation, is that here, in the form of a home, a *commodity* has been created, which has a commercial value; and that makes it considerably easier to finance the action. In order to rebuild or expand RM 100 million of roadway, the government must spend RM 100 million; whereas with housing construction, the state will be able to set a total of RM 100 million into motion, by making only about half that amount available to construction firms on affordable terms.

Water-control projects have the advantage of having the highest wage component of the total investment; but they cannot employ all that many people. With *irrigation works*, most careful attention must be paid to the selection of the projects to be undertaken, since here the danger that the investment will fail, is greater than with any other kind of project. We therefore conclude:

sky had detailed the way in which the unsold portions of the bond were to “serve the banks as the basis for interim financing”: “Those public bodies legally considered to be initiators of the public works, shall issue notes to those corporations that are entrusted with carrying out those works.” These notes could then be purchased by the banks, which could then turn around and “rediscount them at the Reichsbank.” The resolution of April 13, 1932, however, did not contain the crucial reference to discountability at the Reichsbank. Instead, it only said that, “Insofar as portions of the bond are not completely sold on the capital market, they shall serve the banks as the basis for interim financing

of job creation.”¹⁵

Tarnow, in particular, was adamantly opposed to compromising on the matter of the bond. And Woytinsky had repeatedly emphasized that “combatting the crisis, means creating jobs. And anyone who has pronounced the words ‘job creation,’ has already started talking about credit creation.”¹⁶

15. “Wiederaufbau durch Arbeitsbeschaffung, Beschluss des Ausserordentlichen Gewerkschaftskongresses vom 13. April zu Berlin.” *Gewerkschaftszeitung*, No. 17, April 23, 1932, cited in Schneider, *op. cit.*, pp. 235f.

16. Wladimir Woytinsky, “Wann kommt die aktive Wirtschaftspolitik?” *Die Arbeit*, No. 1, 1932, p. 24.

One billion reichsmarks for housing construction, water-control projects, economically justified irrigation works, and contracts for the national railway and postal service!

The financing

If we go with such a work-creation program, we must also be clear on how the required funds are to be raised. How will it be possible, given the present tight state of our public finances, to free up 2 billion reichsmarks? We must counter with the utmost vigor, any suspicion that we want to create the money out of thin air, or that we are somehow toying with the idea of inflation. The crucial question here, is *simply or ganization, in accordance with Reason.*

A considerable portion of the costs of work creation can be covered by government funds which would otherwise have gone for unemployment checks, as well as by taxes and revenues which will be paid by those employed in the public works.

For every person currently receiving public support, the unemployment insurance fund, the crisis support fund, and the welfare offices pay out more than RM 60 each month (including social security payments). They must be obligated to pay RM 2 per completed workday for every person employed in public works (i.e., one-third of the amount they are currently putting into emergency projects). With 1 million people so employed, and with preferential hiring of the most needy, who are currently putting the greatest burden on the unemployment insurance fund, *approximately RM 800 million in public support can be saved, and RM 200 million can remain freed up to be put toward relieving the stress on the relevant public institutions. RM 600 million is to be used for covering the costs of job creation.* To that end, tax revenues must be used, which will be drawn from those employed in the public works—taxes which, as unemployed people, they are currently unable to pay: income tax, citizens’ tax, housing rental tax, totalling about RM 200 million. The same also applies to the 6.5% deduction from gross wages for unem-

ployment insurance. By these means, *a further RM 300 million can be freed up for job creation.*

Thus, almost one-half of the expenditures required for job creation, can be made available without putting the slightest burden on the government budget, and without resorting to credits. We must go further still, emphasizing that these actions hold out the prospect of a *perceptible easing* of the load on public finances. We already spoke earlier about the easing of the load (to the tune of RM 200 million) on the agencies which must pay unemployment benefits. On top of that, they will save about the same amount because of improved employment in the consumer goods industries (secondary effects of public job creation). At the same time, new revenues from consumer taxes, sales tax, transportation tax, as well as from additional employment in the consumer goods industries, will flow into the state’s coffers. With all due caution, we can estimate the actual additional state revenues at about RM 300 million.

These considerations permit us to more precisely define the problem of financing work creation, as follows: RM 1,100 million is to be freed up, in order to employ 1 million people for one year, after which period the unemployment funds will have saved about RM 400 million, while the government will have received about RM 300 million more revenues, and about RM 2 billion in new value will have been created for the economy.

That is the deal we propose, and that is what the opponents of this action are branding as dangerous *inflation.*

To pre-empt that objection, let it be said, that the trade unions are firmly resolved to protect Germany’s currency against the danger of inflation, as we all experienced this during the postwar years. The trade unions will only agree to a definite plan for work creation, when they are rock-solid certain that it involves no danger of inflation. On the other hand, work creation *on a grand scale* is impossible without expansion of credit. The problem, therefore, can only be put as follows: *work creation based on the required expansion of credit, but avoiding any danger of inflation!*

Brüning's dilemma

Woytinsky thought that the SPD was making a serious mistake by refusing to act jointly with the trade unions to force Brüning to face the problem with his deflation policy. In his autobiography *Stormy Passage*, which was published long after he had emigrated to the United States, Woytinsky wrote, "It seems to me that I saw—physically, with my eyes—how Brüning was leading Germany to a tragic end. At a time when evaporation of purchasing power and decline in prices were the main evils, he treated the country to ever more deflation, and with each step he took, unemployment increased, the Nazi-Communist tide mounted, and the country came closer to the abyss. Yet Brüning was a man of high intelligence and irreproachable integrity. His suicidal policy stemmed from his general philosophy. He feared the phantom of a runaway inflation; he did not like the idea of pampering the unemployed by creating jobs; and he thought that a public works program was a luxury Germany could not afford."

"Brüning, however, must not be blamed too severely for his errors. He shared his false ideas with many of his advisers in his own and the Social Democratic Party. Had the latter not supported his policy, he might have abandoned it."¹⁷

Here, Woytinsky clearly grasps the Classical-tragic nature of the situation, and he is aware of the *punctum saliens* or "jumping point," as the poet and playwright Friedrich Schiller put it: the point at which decisive actions had to be taken if catastrophe was to be avoided. In this particular historic drama, there were essentially two such "jumping points." The first one came while Brüning was still chancellor; the second, as we shall see, involves General von Schleicher's last-minute attempt to avert the Nazi catastrophe.

In the early summer of 1932, Brüning was in fact on the verge of junking his own deflation policy in favor of a job-creation policy, as Government Director Lautenbach had been urging him to do. Nevertheless, his overriding priority remained to first free Germany, by diplomatic means, from the intolerable burden of war-reparations payments. In June 1931, the "Hoover moratorium" had postponed all German reparations payments for the period of one year. An international conference was to be held early in 1932, in order to finalize a complete write-off of the debt. As soon as that was out of the way, Brüning wanted to deal with the unemployment problem in earnest. But the international conference kept getting postponed, and shortly before it finally convened in Lausanne, Switzerland in June, Brüning's government was toppled—"only 100 meters from the finish-line," as he bitterly observed later on—on May 30, 1932. The specific incident which toppled him, was absurd: The large landowners' parliamentary group—the social base of von Papen, who succeeded Brüning as chancellor—accused Brüning of "agro-

17. Wladimir Woytinsky, *Stormy Passage. A Personal History Through Two Russian Revolutions to Democracy and Freedom: 1905-1960* (New York: Vanguard Press, 1961), pp. 466f.

bolshevism" because his agricultural reform had been too light-handed.

But what was the real reason why Brüning's government collapsed? It certainly wasn't his deflation policy, since one of von Papen's very first acts was to enact still more ruthless emergency cuts in social services and wages. No, Brüning was toppled just before the reparations problem was about to be finally settled, thereby clearing the way for the long-prepared turnaround in economic policy.

Already in early 1932, Woytinsky was writing in *Die Arbeit* about the possibility of such a policy-shift. The emergency decree of Dec. 8, 1931 had just lowered wages to either the level of 1927, or a maximum wage reduction of 10%; standard prices and rents for pre-war housing were likewise cut by 10%, and a 6% ceiling was imposed on interest rates. In his January 1932 article, Woytinsky admonished the SPD to finally take a decisive stand against this "cutback mania." He pointed out a very revealing ancillary feature of Brüning's latest emergency decree: "After the announcement of the Dec. 8, 1931 emergency decree, the government called in the representatives of the press, to clarify the rationale behind the momentous decisions that had just been made. The finance minister explained that this emergency decree marked *the end of the era of deflationary policy in Germany*. What the German people were currently being asked to do, he explained, had pushed them to the very limit of their tolerance and willingness to sacrifice. Wages and salaries could not be reduced any further than what the new emergency decree had done, because otherwise they may face the specter of serious threats to the state and to society at large."

The chancellor expressed his own view in similar terms: "The emergency decree is an absolutely integrated whole, from which no individual part can be subtracted. As of this moment, we are *marking an end of the deflationary policy that has been forced upon us*."¹⁸

Woytinsky called upon the SPD to fight more energetically against the deflationary content of the emergency decree. But at the same time, the decree demonstrated the possibilities available to the state, to intervene into the economy: "In this regard, the fourth emergency decree was an impressive test case: Now that it has been proven that the government possesses the power to alter, in a single stroke, and in accordance with a definite plan, not only wage rates, but also interest rates on current contracts, the demand for a forceful 'pump-priming action' no longer seems so far-fetched and utopian."

But before Brüning could complete his policy-shift with "credit expansion," he and his cabinet were dismissed, right in the midst of their preparations.¹⁹

18. Woytinsky, in *Die Arbeit*, No. 1, 1932, quoting from the *Berliner Tageblatt* of Dec. 9, 1931.

19. See Gustav Stolper, *Deutsche Wirtschaft seit 1870* (Tübingen: Mohr [Siebeck], 1964), p. 138.

Exposing Germany's 'hidden unemployment'

Below is an excerpt from a speech which Wladimir Woytinsky delivered in November 1932 at a seminar organized by Dr. Gereke, the head of the Congress of Rural Municipalities (Landgemeindetag). It was printed in Friedländer-Prechtl's Wirtschaftswende, in a special issue on job creation. Unemployment had already peaked in early 1932, and by the time the article appeared in February 1933, official figures had slightly decreased to about 5.5 million, or 26.9%. But if the hidden unemployment in 1932 is included, it was 7.6 million, or 37.2%.

The problem of our time is mass unemployment. On the basis of the unemployment offices' data, the number of unemployed in Germany is usually estimated as 5-5.5 million. This calculation is misleading: The unemployment offices don't count all the workers who have been pushed out of the regular labor process. There are about 21 million working-age people in Germany; not including sick people and young mothers, there remain 20.4 million people, who are able to work and depend under normal circumstances on selling their ability to work. Out of these, according to official health insurance statistics, about 12.8 million are regularly employed. The number of people without a regular job is therefore 7.6 million! Five to 5.5 million of them are registered at the unemployment offices; more than 2 million are not seen by them.

This "invisible unemployment" has come into existence gradually; since 1929, it has grown continuously.

Because of added restrictions on the right to unemployment support, and the vanishing perspectives for finding a job via the unemployment office, the number of unemployed staying away from the unemployment offices is increasing, because they don't expect any help from there.

At the same time, yet another form of "hidden unemployment" is becoming increasingly significant: short work. According to reports from the trade unions, 40% of the employed are currently on short work.

Thus, only one-half of the power of labor, the only source of common wealth, is currently being utilized! Such a situation can no longer be tolerated.

These stated facts cannot be countered by pointing to the circumstance that some of the unemployed—most likely the same number as make up our hidden unemployed—sometimes find some kind of employment, somewhere. It is obvious that, if 7.5 million people are pushed out of regular employment, and several million more work only part of the week in the companies, a kind of invisible economy must emerge. Off-the-books employment of all sorts, occasional services to neighbors, miserable subsistence economy in small gardens, door-to-door and street sales, and similar activities are expressions of the disorganization of the regular labor market.

Neither this miserable self-help nor the support for the unemployed in their family household can remedy their misery. Misery drives people into desperation, turning them into victims of demagoguery, and shakes the foundations of the state. The political and constitutional crisis of our time is but the shadow which mass unemployment is casting over the life of our state. The active fight against unemployment must be the pivot of government policy. In the face of the urgency of this task, all other problems have to step into the background for the time being.

From the WTB Plan to the trade-union axis

The labor movement could not, and would not have any truck with the von Papen regime. Franz von Papen imposed still harsher cuts in wages and social services, wanted to bring Hitler into his cabinet as vice-chancellor—an offer that Hitler refused—lifted the ban on the National Socialist paramilitary organizations, the SA and the SS, which had been outlawed under Brüning, dismissed the government of Prussia, and was able to govern only so long as Hitler tolerated him.

Nevertheless, the work creation program of the ADGB and of the other Reformers did set the tone of the general public discussion about a serious economic counter-program. Creation of jobs through state credit creation became the central focus of a broad-based community of interest among a plethora of private groups and social organizations, each of which advocated one of the many variants of the WTB Plan.

These included, in addition to the mass organizations—the ADGB, the Free Trade Unions (Adolf Reichwein), and the Christian Trade Unions (Adam Stegerwald)—the abovementioned Society for the Study of the Economics of Money and Credit (Heinrich Dräger, Wilhelm Grotkopp), the Institute for Conjunctural Research (Ernst Wagemann), the Congress of Rural Municipalities (Günter Gereke), the German Congress of Cities (Oskar Mulert), the SPD-allied Reichsbanner, and many more.

A few examples will illustrate the liveliness of the debate which broke out in the wake of the ADGB's spring congress: In the publication *Gewerkschaftszeitung*, Woytinsky commented on the attitudes expressed in other press outlets on the WTB Plan. One of these which he singled out, was the *Frankfurter Zeitung* (predecessor of today's *Frankfurter Allgemeine Zeitung*), which "claims the dubious distinction

of leading the chorus of opposition to work creation.” The newspaper had warned that the reaction to adopting a work-creation program would pose the “psychological threat of a run on the market, and a general rush into physical assets.” Woytinsky angrily retorted, “The paper evidently doesn’t care to recognize the threat of chronic unemployment, which drives people to despair and undermines the very foundations of social and political life. It doesn’t note the existence of such ‘psychological threats’ as the sense of insecurity that is overtaking ever greater parts of the population, the rise of political radicalism, the specter of civil war haunting our land. It apparently knows nothing about the connection between *these* dangers, and mass unemployment.”²⁰

On the industrialists’ side of the Reformers’ camp, Heinrich Dräger, in the second special supplement to *Wirtschaftswende*, called for “productive credit creation” for the purpose of work creation, on the order of RM 2 billion initially, and, if the program succeeded, another RM 5 billion later. He pointed out that not even the completely unproductive creation of RM 1 billion in 1931 “on behalf of the banks and savings institutions,” had led to the slightest price rises or inflation. It was therefore “irresponsible, to simply declare that this course [of credit creation] can only be taken if it serves as a support action for the big banks, while *branding it as a heinous crime*, when the idea is to make the plentifully available *labor opportunities* in Germany *useful* for a portion of all those who are hungering for work”²¹ (emphases added).

This debate over work creation, combined with the visible emergence of a broad-based coalition of social forces on this issue—the so-called “trade-union axis”—culminated in a marked shift in popular attitudes in late 1932, which showed up in the fact that in the November parliamentary elections, the National Socialists received 2 million fewer votes than they had back in July. Julius Leber described the mood during the campaigning in October: “The same people who, only six weeks ago, were enthusiastically braying ‘Heil Hitler,’ are today going to great lengths to ensure that no one ever again touch this sore spot in their past. For, no longer is Hitler a good guy, no longer is he simply the best; virtually overnight, he has become passé.”²²

The WTB Plan had taken the wind out of the Nazis’ sails on the unemployment issue, through the mere fact that the *trade unions* had called for the creation of 1 million socially useful workplaces. It is admittedly true, that already back before the July elections, Gregor Strasser, Adolf Hitler’s rival, had been able to push the Nazi Party, the NSDAP, into adopting and massively pushing an “emergency program” which echoed the WTB Plan on many points; but Hitler, presumably at the behest of Schacht and his powerful friends, had already

beaten it down by September, and on Oct. 22, it was explicitly withdrawn by the party’s propaganda department.²³ The Nazi Party remained deeply split, however, and the Nov. 6 election losses shook it to the core, driving Goebbels to contemplate suicide. The situation was ripe, to knock the Nazis completely from the field.

And so, the Reformers had intervened into history, and had enjoyed visible success in changing political reality. And the most clear-headed thinker in the Reformers’ group, was Woytinsky—on that, we can certainly agree with Fritz Baade,²⁴ so that it can be fairly said, that without Woytinsky, there would have been no WTB Plan; without the WTB Plan, there would have been no active trade-union program; and without the latter, no “trade-union axis” to supply the basis for an entirely new political option for getting rid of the Nazis. It was this opportunity, that former Reichswehr (armed forces) Minister Kurt von Schleicher now seized.

The ‘social general’

During the second half of 1932, General von Schleicher held exploratory talks with most of the representatives of the “trade-union axis,” to see whether they could support a government, led by him, whose centerpiece would be work creation, and which would split the Nazis and then force them out. All the talks proceeded on a promising note; but Rudolf Breitscheid, head of the SPD parliamentary faction, refused to cooperate. Wilhelm Högner, a Social Democratic old-timer, wrote later: “But the attempt to split the National Socialist Party into a Hitler wing and a Strasser wing, and to have the Social Democracy, or even the trade unions, wield influence over the mental attitude of the Reichswehr, shouldn’t have been rejected out of hand.”²⁵

Why so? Schleicher himself could not have been the cause of this recalcitrance on the SPD’s part. After all, in 1918 he had defended the Weimar Republic against being stormed by the Communists, and in 1923 he had defended the republic against Hitler’s putsch in Munich. Moreover, Schleicher had a reputation as a “social general”—some, less charitably, dubbed him “the red general”—and this was well before his famous July 26, 1932 speech (he was still Reichswehr minister at the time), in which he declared that the Reichswehr was neither “the military arm of a single party” nor “the protector of any one class or interest,” nor did it wish “to protect outmoded economic forms or untenable property relations.” And he considered it his highest duty, “to relieve misery, precisely in those layers of the population that are the poorest.”

Kurt von Schleicher was a longtime associate of those circles within the German electrical and chemical industry, which were interested in expanding trade with Russia, and

20. Wladimir Woytinsky, “Für und wider Arbeitsbeschaffung,” *Gewerkschaftszeitung*, No. 18, 1932, p. 277.

21. Heinrich Dräger, “Produktive Kreditschöpfung,” *Wirtschaftswende*, February 1933 special supplement, p. 34.

22. Julius Leber, *op. cit.*, p. 89.

23. See Avraham Barkai, *Das Wirtschaftssystem des Nationalsozialismus* (Frankfurt: Fischer, 1988), pp. 44f.

24. See Fritz Baade, *op. cit.*, pp. 65, 68.

25. Wilhelm Högner, *Der schwierige Aussenseiter* (Munich: Isar-Verlag, 1959), p. 74.

who, for that reason, had supported Walter Rathenau's Rappallo policy. Among these powerful figures in the German economy, was Otto Wolff, who had strongly advocated increased trade with China, and who advised Schleicher on economic matters. This faction of industrialists stood in stark opposition to the interests of Schacht and his benefactors in the Anglo-American financial world, and also to parts of Germany's heavy industry and arms industry, who supported Hitler, and who gravitated around the "Keppler Circle."²⁶

Later on, Hitler ordered the liquidation of Otto Wolff's trading firm—an order which was only partially carried out. Schleicher's closest confidants in the Reichswehr were Maj. Gen. Ferdinand von Bredow and Gen. Kurt von Hammerstein-Equord. Bredow, together with Schleicher, were murdered in 1934 by the SS, on Hitler's orders. Hammerstein issued a call for the Reichswehr to stage an armed protest against the murders, but he was not successful. From the beginning to the very end, he was one of the forces within the Wehrmacht who remained bitterly opposed to the Hitler regime.

This background gives at least some indication of the historically unique combination of forces assembled here, which could have succeeded in seizing the rudder at the last minute, thereby preventing Hitler's seizure of power.

Schleicher's plan was eminently feasible. First, he wanted to create jobs; and, second, backed by the Reichswehr, the trade unions, and a broad-based popular movement, he would de-fang the Nazi movement by splitting its party and destroying its paramilitary organizations. This would have required him to declare a temporary state of national emergency; but the SPD rejected this, and demanded that the head of the ADGB toe the same line. Leipart continued to negotiate with Schleicher, but he could not muster the internal strength to proceed on his own, without the party's backing. In his memoirs, Social Democrat Gustav Noske bitterly accuses the SPD leadership: "With an obstinacy unparalleled in the history of all parties, people who imagined themselves to be leaders, threw away their last opportunity to save themselves and their institutions from extinction."²⁷

As for Schleicher, after he was appointed on Dec. 2 by Hindenburg as chancellor, he kept every promise he had made to the trade unions. Combatting unemployment was declared to be the new administration's first priority. Günther Gereke was appointed as national head of the work-creation program, and he drew heavily upon the Reformers' plans. The social and wage-policy features of the von Papen emergency decrees were repealed, just as Leipart had demanded. On Dec. 15,

Schleicher delivered a policy address on radio, to explain the measures he had just taken. "Working people's incomes have been pushed way down, and any further reduction is socially intolerable, and economically pointless." But his most striking statement was this: "I am heretical enough to admit that I am neither a follower of capitalism, nor of communism. We shouldn't bash our heads in, just for the sake of some mere dogma."²⁸

Unfortunately, the attempt to split the NSDAP ended in failure: Hitler forced a resolution of the internal party power struggle in his own favor, and on Dec. 8, 1932, Gregor Strasser had to resign all his party posts. Schacht now put everything into motion, to bring Hitler to power. But if Schleicher had had the support of the trade unions, which still possessed the weapon of the general strike, and of the Reichswehr, he could have held on long enough to show the first fruits of his work-creation program.

After a long back and forth, Reichsbank President Luther finally granted a RM 500 million Reichsbank credit for the project's first tranche (the WTB Plan had called for an initial RM 2 billion). The program was put into effect by the decree of Jan. 28, 1933. But on that very same day, the Schleicher government was toppled—once again, by von Papen, who, after the war, was to sit in the dock alongside Schacht at the Nuremberg Nazi war crimes trials. And along with Schacht, von Papen was pronounced not guilty and released, since the crimes being tried at Nuremberg unfortunately did not include the crime of having brought Hitler to power.

Robert Friedländer-Prechtl, the editor of *Wirtschaftswende*, commented bitterly, that the Schleicher government "had been toppled through the combined efforts of the big landowners, big industrialists, and big bank directors, who were worried that this government would not have enough respect for the nation's most sacred institutions, but rather would implement the social and economic reforms which had long been recognized to be in the best interests of the land." The real *punctum saliens* of this tragedy, however, hinged on the issues of work creation, and of the productive credit creation without which it would not have been possible. No one recognized this earlier, or more clearly, than the grouping around Wladimir Woytinsky. Fritz Baade wrote in 1960:

"The 'Reformers' recognized the latent force of the 6 million unemployed for what it was, many years before Hitler took over the country: capital in a dynamic sense, and the most important reserve for maneuvering in fighting the depression. By abdicating its power to use this capital, the Weimar Republic delivered it into the hands of the National Socialists, who mobilized it—first for the building of the highways (*Autobahnen*) and plants for the production of synthetic raw materials, and later more and more for armament and war preparations."²⁹

28. Quoted in Friedrich Stampfer, *Die ersten 14 Jahre der deutschen Republik* (Offenbach: Bollwerk Verlag, 1947), p. 669.

29. Fritz Baade, *op. cit.*, p. 65.

26. In addition to Schacht, Thyssen, and the banker von Schröder, Hitler's group of economic advisers included Vögler (Rhenish-Westphalian Coal Syndicate), Rosterg (Wintershall AG), Reinhart (Commerzbank), Helfferich (HAPAG), and Steinbrinck (Friedrich Flick KG). See Hannes Heer, *Burgfrieden oder Klassenkampf*, Neuwied-Berlin: Luchterhand, 1971, p. 54.

27. Gustav Noske, *Erlebtes aus Aufstieg und Niedergang einer Demokratie*, (Offenbach-Main: Bollwerk-Verlag Drott, 1947), p. 311.

These are mistakes which the democratic industrialized states must not repeat today, in the midst of the current world economic crisis.

The Nazi perversion of the Reformers' concept

In January 1933, the Nazis took over not only the organs of state, but also the work-creation program that had been drafted and adopted under Schleicher. This was much worse than plagiarism. When someone steals someone else's discovery, that is a bad enough crime per se; but it is far more catastrophic, when the thief then proceeds to falsify that discovery, twisting its aim into its evil opposite.

Two equally erroneous conclusions have been drawn from the disappearance of unemployment under the Hitler dictatorship: Either people use this as an argument in favor of a new round of fascism, which, they claim, is really quite attractive, if only one leaves the Holocaust out of the picture; or, people use it as a means of demonizing the slightest deviation from neo-liberal, monetarist dogma, as "fascistic" (or socialistic).³⁰ Today we find both arguments mixed together with neo-liberal battle-cries against the "welfare state" and democracy, while at the same time, we see, to our horror, ever more elements of the Nazis' actual policies—from the rationing of health care, to the legalization of euthanasia, to the looting of convicts' labor in privatized prisons—being introduced into public discussion, or even becoming part of day-to-day policymaking.

Once and for all, therefore, we must obliterate this Janus-headed, Nazi argument about job and credit creation.

Let us recall: As late as 1932, Schacht was still opposing all proposals for work creation, and was stubbornly preaching his gospel of wage cuts and economic austerity. To "forgo, save, and work, for a generation," was the motto he pronounced in 1931 at a conference of the Harzburg Front.³¹ He would not listen to any talk of credit creation. "All projects which aim at printing additional money in any form, are to be rejected out of hand."³²

But with the Nazi seizure of power in January 1933, the Schleicher government's work-creation program was taken over as the "Gereke Plan." From the very outset, Hitler tried to pervert it into the direction of national "self-defense" (*Wehrhaftmachung*). A few months later, Gereke, after having refused to join the NSDAP, was hit with a criminal suit over alleged misuse of huge sums of money, the real aim being to get rid of him as quickly as possible. The following

30. Lord William Rees-Mogg, propagandist of the "Conservative Revolution," puts forth both arguments in the same article in the London *Times*, Oct. 17, 1996, titled "Europe's Fascist Spectre." Rees-Mogg accuses Franklin Delano Roosevelt and John F. Kennedy of promoting fascist policies, while at the same time pondering over what has always made fascism so "appealing"—neo-Darwinism, for example. He points out that Hitler, too, believed in the "survival of the fittest."

31. See Heinz Pentzlin, *Hjalmar Schacht* (Berlin: Ullstein, 1980), p. 158.

32. See Avraham Barkai, *op. cit.*, p. 43 (footnote).

year, Germany's military budget was increased tenfold. A total of RM 5.5 billion went for civilian work-creation projects, while over RM 40 billion was spent on such projects in the armaments sector.

And now, let us deal with the question of productive credit creation, which today's monetarists and neo-liberals frequently like to equate with Schacht's infamous Mefo bills. Such a comparison is grotesque. For one thing, the Mefo bills were not productive, but rather were highly "unproductive credit creation," since the end-product only benefitted the arms industry, and, unlike civilian projects such as railways or dams, contributed nothing to the economy's overall productivity.

Furthermore, the Mefo bills were a deliberate swindle. "Mefo" comes from "Metallurgische Forschungsgesellschaft" ("Society for Metallurgical Research"), which was a front-company for a number of large armaments firms, and whose own capital amounted to the ridiculously small sum of RM 1 million. With the support of Schacht (who had once again become head of the Reichsbank), the Metallurgische Forschungsgesellschaft issued notes whose total face-value was 12,000 times greater than its own capital: RM 12 billion. All the Reformers had been in agreement, that Reichsbank credits (or, notes which were discountable at the Reichsbank) must only be issued for a specific, well-defined task, with the precise amount determined beforehand, on the basis of thorough discussion. But under Schacht, Mefo bills were circulated secretly, without the approval of any government institution, and with no controls on their quantity, so that this mega-swindle could be used to conceal German rearmament and war preparations. (Today, central banks are engaging in unproductive credit creation with equal abandon, in order to delay the inevitable collapse of the world financial system.)

It was, in short, an utter perversion of the Reformers' concept of work creation. The Reformers' idea had been to revive the economy, whereas Schacht never believed in any such effect. Instead, he was intent on eliminating the trade unions, and achieving further cuts in wage-rates,³³ looting labor power through obligatory labor service, and cost cutting, even at the expense of human lives. This policy was later continued in the exploitation of foreign impressed laborers, the prison labor in the concentration camps, the elimination of lives ostensibly "not worth living" (euthanasia), and the like. This is the fascist economic policy—Nazi policy—which we must never again tolerate.

Summing up

After witnessing a Classical tragedy performed on the stage, the theater-goer does not leave the theater in a state of demoralization, but, on the contrary, leaves with renewed

33. After Hitler seized power, gross and net wage rates continued to decline, although the average weekly wage rose slightly, because of an increase in overtime. See Barkai, *op. cit.*, p. 236.

inner strength. For, he has recognized something, or has at least begun to recognize what actions the hero or heroine could have taken at the decisive moment, in order to find a positive way out of a tangled situation. Therefore, the tragic outcome of the drama of the 1930s, need not plunge us into paralyzed pessimism. For, today we enjoy the great advantage, that we can learn from it, and thereby avoid repeating past mistakes.

Better still, today we don't merely have a small group of Reformers, but rather, we have a growing international movement which is intervening in many countries around the globe with workable proposals to overcome the worldwide economic crisis—a movement in which the Schiller Institute, the German Civil Rights Movement-Solidarity, (Bürgerrechtsbewegung-Solidarität) and especially the physical economist Lyndon LaRouche, play a leading role. Over several decades, this movement has acquired a highly developed insight into strategic matters, and, thanks to LaRouche, possesses the world's most advanced knowledge of the physical-economic principles involved. Long before the outbreak of the current economic and financial crisis, it had already presented coherent international programs for mastering the crisis through economic development.

All are free to draw their own conclusions from this historical drama. But here is our own synopsis:

Today's trade union movement—in Germany as well as in other countries where independent trade unions are permitted—must not exhaust itself by fighting only defensive battles, but must also promote “active economic policymaking” in Woytinsky's sense: a clear programmatic alternative to their respective governments' deflationary austerity policy.

The chief elements of such a program are:

1. Shielding national economies from the effects of a global financial collapse: discouraging financial speculation through taxation; ensuring that national governments are well-prepared to act decisively, in the event of a financial collapse; taking internationally agreed-upon measures to reorganize the bankrupt financial system.

2. Stopping the “budget-cutting mania.” Getting rid of the largely self-imposed deflationary mechanisms, such as the ruinous Maastricht criteria, which are only making the economic and budget crisis worse, and which, if adhered to for much longer, will inevitably lead to a fascist austerity policy that will cut costs at the expense of human lives.

3. Job creation through public infrastructure projects: In Germany, for example, the Civil Rights Movement-Solidarity has proposed a program for the creation of 1 million jobs in public construction projects, which would require DM 80 billion in start-up financing. This sum would be almost entirely balanced by the resulting savings in unemployment benefits, and by the additional tax revenues from those who have been re-employed.³⁴

34. Lothar Komp's work-creation plan: “Die Alternative zu Maastricht,” in the *EIR* German-language study, “Maastricht ruiniert Europa,” pp. 23ff.



Dachau concentration camp: “Work makes you free.” The Nazi labor camp policy was a hideous perversion of the Reformers' concept of work creation.

4. Financing such programs through productive credit creation (in Germany, for example, through the Kreditanstalt für Wiederaufbau, or, if the capital markets have failed in the wake of a financial collapse, through credit provided directly by the Bundesbank [central bank] in carefully specified amounts). There is no danger of inflation, so long as the relevant financial instruments a) create new, productive jobs, b) serve to revive the domestic goods-producing economy, and, c) effect a marked overall increase in the economy's productivity and output capacity.

5. The global strategic framework for such projects today, is concentrated in the “Eurasian Land-Bridge” or “New Silk Road” policy.³⁵ Here we have the modern corollary to Woytinsky's 1931 call for “work creation through the realization of a grand plan” for “the reconstruction of Europe.”

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35. See note 4.