Lautenbach's program for German recovery

by Michael Liebig

The following excerpt, entitled "The Conference of the Friedrich List Society, September 1931," is a postscript commentary from Friedrich List: Outlines of American Political Economy *(Wiesbaden, Germany: Dr. Böttiger Verlags-GmbH, 1996). We reprint it here as an appendix to Lyndon LaRouche's "Al Gore and Adolf Hitler," for its discussion of Dr. Wilhelm Lautenbach and his economic recovery program, which could have spared Germany, and the world, Hitler's rise to power. The translation has been slightly edited, and subheads have been added:*

We take the opportunity here to include a reference to the economic and finance policy debate in Germany during the world economic crisis in the 1930s, which—in contrast to John Maynard Keynes—was directly connected to the economic policy conceptions of Friedrich List and Alexander Hamilton. The transcript of the secret conference of the Friedrich List Society of September 16-17, 1931, was published for the first time in 1991. The issue at the conference was the possibility and consequences of expanding credit issuance in order to boost German economic activity under conditions of world economic crisis. In addition to Reichsbank president Dr. Hans Luther (1879-1962), some 30 leading economists, bankers, industrialists, and economic politicians participated, including Prof. Edgar Salin (1892-1974), co-publisher of List's *Gesammelte Werke* (*Collected Works*). The keynote speech was delivered by Dr. Wilhelm Lautenbach (1891-1948), a high official in the Reich Economics Ministry and, although now little-known, an important economic theorist. He was a member of the Friedrich List Society and took part in every one of its conferences during the years 1928-32, that used to discuss priority issues of the German economy.

The remedy for an economic emergency

Lautenbach's memorandum was titled, "The Possibilities of Boosting Economic Activity by Means of Investments and Expansion of Credit."[1] He there writes, "The natural course for overcoming an economic and financial emergency" is "not to limit economic activity, but to increase it." Lautenbach distinguished two emergency situations: on the one hand, there were emergencies out of which "tasks for production ensue." As an example of this kind of emergency, he cited a war-economy the conversion from war production to peacetime production, or also the "reconstruction of Japan following the great earthquake" in 1923. On the other hand, there were economic and financial emergencies of national and international dimensions, in which it was clear, in general, that "we should and want to produce more. But the market, the sole regulator of the capitalist economy, does not provide any obvious positive directives."

The economic emergency of the second category—a Depression and/or the collapse of the financial system—was characterized by the "paradoxical condition," that "despite curtailed production, demand is less than supply and thus leads to the tendency to decrease production further." Under conditions of depression, there are normally two economic policy reactions. The first was a policy of deflation: The budget deficit is reduced by cutting state expenditures, prices and wages are lowered. At the same time, credit is restricted. If credits are not curtailed, low interest rates would lead to an outflow of foreign capital, which endangers the exchange rate and produces yet greater scarcity of available capital for the domestic economy.

Lautenbach thought it was practically impossible to reduce taxes in a depression, because the tax base had already contracted and public budgets were already strained for resources. All of these measures, according to Lautenbach, produce "new and large losses of capital for the individual entrepreneur in commerce and industry," it makes them "uncompetitive and insolvent," compels a "reduction of production and layoffs of the workforce in large dimensions," and also leads to "a deterioration of the status of the banks."

The reduction of public expenditures is doubly counterproductive, since public contracts and mass purchasing power are further reduced. The reduction of wages has an initially favorable effect upon exports, but it causes a far greater reduction in demand in the domestic economy. "The adjustment to reduced demand by correspondingly reducing prices causes losses . . . and draws additional reductions of production in its wake." The thus additionally growing unemployment, effects an acceleration of the downward spiral of the economy. Thus, Lautenbach argued, the deflationary policy will "inevitably lead to complete economic and political catastrophe."

The most urgent task

But, in a depression, there are "surpluses of commodities, unused production capacities, and unemployed labor." The use of this "largely unused latitude for production" is "the actual and most urgent task of economic policy and it is simple to solve, in principle." The state must "produce a

1. Memorandum by Wilhelm Lautenbach, "Möglichkeiten einer Konjunkturbelebung durch Investition und Kreditausweitung," in "Knut Borchert/Otto Schötz, ed. *Wirtschaftspolitik in der Krise, Die Geheimkonferenz der Friedrich-List-Gesellschaft vom September 1931,* Baden-Baden, 1991, pp. 307-325.

new national economic demand," which, however—and this is the condition—"represents a national investment for the economy. One should think of tasks like . . . public or publicly supported works which signify a value-increase for the economy and would have to be done under normal conditions in any case." Lautenbach was thinking primarily of transportation infrastructure in this connection (roads/highways and railroads).

Then Lautenbach posed the question: "Since long-term capital is neither available to us on the foreign, nor on the domestic market, how are such projects to be financed?" And he adds, that "reasonable public works are already neglected due to the empty treasury in times of deep depression." If there is no possibility to finance the projects through the (empty) state treasury, or through the capital markets, "the consequence to be drawn, ought not be, that it is not possible to realize projects of this sort."

But how? Lautenbach makes the initial observation, that "liquidity is chiefly a technical organizational issue. Banks are liquid when they are sufficiently supported by the Reichsbank." The degree of actual claims upon the Reichsbank in the credit expansion of the private banks for financing measures to create jobs and investments, was always only a fraction of the total credit volume provided for these projects. Lautenbach proposed that the Reichsbank give the banks a "rediscount guarantee" for the bonds for financing the "economically reasonable and necessary projects."

The short-term credit financing by means of discountable, prolongable bonds for creating jobs and investments, had a direct and an indirect effect. The realization of the projects, financed by credits, signified an increase of production with the productive utilization of machines, raw materials, and operating materials. The demand for capital goods would increase. The financial situation of the businesses would relax, and thus also the situation of their banks. The realization of the projects on credit would entail payment of wages to newly engaged labor, which would have the effect of generating additional demand for consumption goods.

The effect of primary credit expansion

Lautenbach proceeded on the assumption, that "the stimulating effect of the primary credit expansion" for financing infrastructure projects, would effect "a stimulating movement in total production" in the economy. The initial boost of infrastructure and investment projects would lead to the "upward conjuncture" of the entire economy. The utilization of unused capacities of production would have the effect of increasing economic productivity. The improvement of tax revenue would enable the state to shift to a long-term management of the original liquidity provided to pre-finance the projects.

To the fear that credit-financing of infrastructure projects would incur the risk of inflation, Lautenbach said that such projects are "rational and unobjectionable from an economic standpoint." These projects represented "in a material sense real economic capital formation." The credit-financing would result in the creation of real economic values. Lautenbach further emphasized that the expansion of credit and the expansion of production in infrastructure projects are disproportional. "The extent and rate of the expansion of production" grow at much higher rates than the "degree and rate of credit expansion." Here, Lautenbach was apparently thinking of a "productive multiplier effect."

In summary, Lautenbach said, "by means of such an investment and credit policy, the disproportion of supply and demand on the domestic market will be alleviated and thus total production once more provided with a direction and a goal. If we neglect to undertake such a policy, we will inevitably be heading in the direction of continuing economic disintegration and a complete disruption of our national economy into a condition in which, then, in order to avoid domestic political catastrophe, one will be compelled to undertake a strong increase of new short-term public debt for purely consumptive purposes, while today we have the instruments, by means of utilizing this credit for productive tasks, to bring both our economy and our public finances into balance once more."

Had the Lautenbach Plan of 1931 been implemented, economic and political conditions would have prevailed two years later, under which the National Socialists would not have had a chance to come anywhere near seizing power. The Israeli historian of economics, Prof. Avraham Barkai (born 1921), is correct when he writes, that a real historic chance did exist to prevent the Nazis from seizing power, "if earlier governments, economists, and politicians had freed themselves of the chains of outmoded economic and financial principles, and if they had applied anti-cyclical economic policies earlier."[2]

It ought to be obvious, that the Lautenbach Plan bears a great conceptual resemblance to the way in which the National Bank of Alexander Hamilton functioned. This plan also demonstrates a real-economy-oriented approach to problems of financing, which is typical of Friedrich List. It was certainly not fortuitous, that the Friedrich List Society sponsored this conference, with this theme, and with such a circle of participants. The strengths of List's economic policies are evident also, and particularly under conditions of severe economic crisis, when, quite directly, the social and political existence of a nation depends upon the utilization of the unused and debilitated productive forces.

It also ought to be clear, that the Lautenbach Plan was certainly no mere economic historical episode. Its relevance for today is direct.

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2. Comp. Avraham Barkai, *Das Wirtschaftssystem des Nationalsozialismus,* Frankfurt/M., 1988, p. 98.