

Recovery program could have blocked Hitler's 'legal coup'

by Michael Liebig

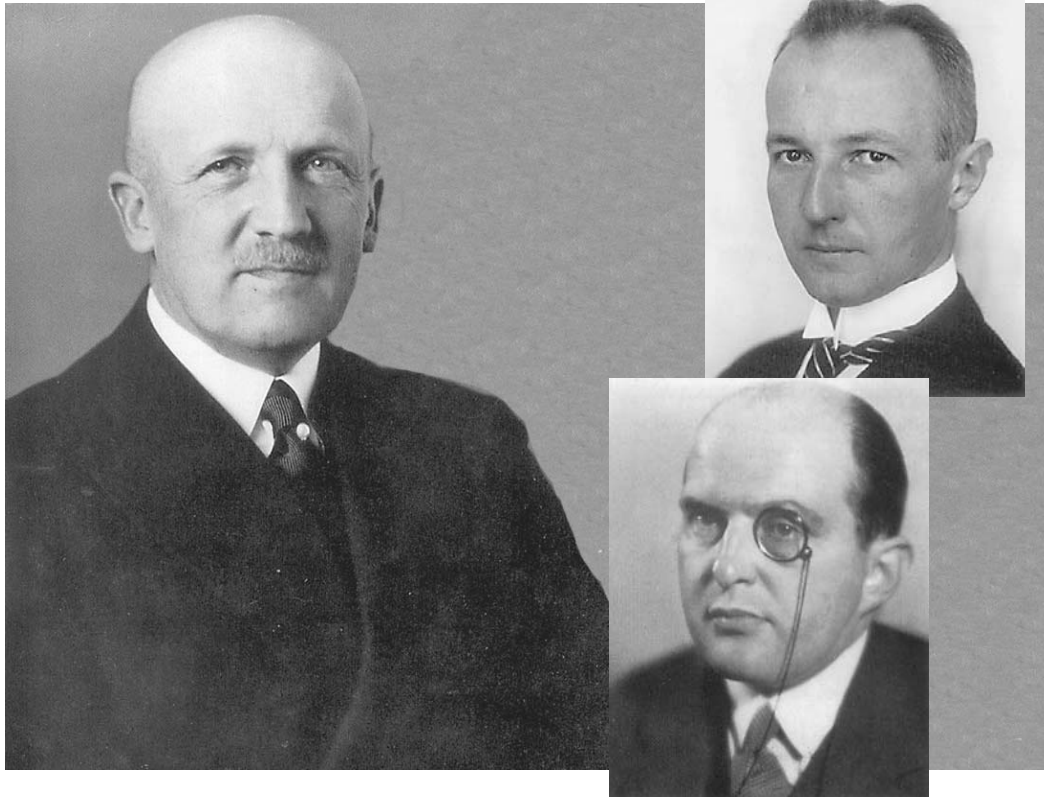
The following is the edited text of a speech given at the semi-annual conference of the Schiller Institute and International Caucus of Labor Committees, in Reston, Virginia on Feb. 14, under the title "Von Schleicher, the Schröder-Schacht Plot, and Hitler's 'Legal Coup.'" The conference was entitled, "The Road to Recovery: Defeat the New Confederacy and Al Gore," and Liebig's speech was part of a panel entitled, "Economics: The Science of Achieving the General Welfare."

In my remarks here, I want to sketch the economic and political situation in Germany in the 1931-33 period, the worst years of the First World Financial Crisis and Depression. My special focus will be the weeks, beginning Nov. 6, 1932, when the Nazi Party suffered a massive defeat in the Reichstag elections, losing 2 million votes, until Jan. 30, 1933, when Adolf Hitler took power through a "legal coup."

Within this time frame, from Dec. 2, 1932 to Jan. 28, 1933, Gen. Kurt von Schleicher was German Chancellor. This man came, literally, within inches of defeating Hitler. On Dec. 21, 1932, the U.S. Ambassador in Berlin, Frederic Sackett, met with Gen. Kurt von Hammerstein-Equord, the chief of the Reichswehr army command. They agreed that the decline of the Nazi Party was "now well under way." So sure was Ambassador Sackett that the political tensions in Germany had finally "relaxed," and Chancellor von Schleicher was in control of the political situation, that he left Berlin to go to Switzerland.¹

Here in the United States, on Nov. 8, 1932, Franklin Delano Roosevelt was elected President. On Feb. 15, 1933, an assassination attempt was made on President-elect Roosevelt, who survived uninjured, while Chicago Mayor Anton Cerman, standing near Roosevelt, was shot, and died of his bullet wounds. On March 4, 1933, Roosevelt was inaugurated President.

1. Bernard V. Burke, *Ambassador Frederic Sackett and the Collapse of the Weimar Republic* (Cambridge, Mass., 1994).



Gen. Kurt von Schleicher (left), who became Chancellor of Germany on Dec. 2, 1932, came within inches of preventing Hitler's rise to power. Among those in his faction, promoting a public works program for economic recovery, were (lower right) Erwin Planck, who later lost his life in the unsuccessful 1944 plot to kill Hitler; and (upper right) Günther Gerecke, Schleicher's Reich Commissioner for Public Works.

In Germany, on Feb. 27, 1933, the Nazis staged the Reichstag fire, the pretext for implementing a full-scale dictatorship. On March 17, 1933, Hjalmar Horace Greeley Schacht received, from Hitler's hands, the document naming him president of the Reichsbank.

Then as now: the subjective factor

We should, obviously, look back at the 1931-33 period from the standpoint of current history: the Second World Financial Crisis and Depression. I will not try to make an extensive listing of specific historical parallels between then and now. Instead, I will try to give a comprehensive, albeit sketchy *gestalt* of this historical period. I believe that, by taking this approach, we will be able to learn the most from history. I want to demonstrate here, that history is not predetermined; history takes no inevitable course, in the sense of "historical materialist" or "cyclical" interpretations of history. In reality, the subjective factor is what is crucial in history; the subjective factor determines the course of history. History is made by human beings.

The events which took place during 1931-33 in Germany, demonstrate this absolutely clearly. It was not inevitable that Hitler would take power. To the contrary, never in his political career was Hitler closer to defeat than in the period between November 1932 and January 1933. Goebbels's diaries from December 1932 are filled with depression and despair, and Hitler thought about committing suicide. The national elections on Nov. 6, 1932 brought a 4.2% loss in votes for the

Nazi Party, down from the 37.2% they had received in the July 1932 elections, the highest vote the Nazis ever got in free elections. In December 1932, the Nazi Party finances were ruined, and Gregor Strasser had started an inner-party revolt against Hitler.

So, why was Hitler not routed then? Who came to his rescue? What was lacking among his republican enemies, who had come so close to defeating him? I will try to answer these questions. And here lies the lesson of history for today.

The Social Democrats and the Communists

First, we have to clear away some illusions. It must be said that the Social Democratic Party (SPD) and the German Communist Party (KPD) did *not* push Hitler to the wall. On the surface, the Communists, who got a 16.8% vote in November 1932, were the most bitter enemies of the Nazis. Continuous, ferocious street fighting and beer hall battles between Nazis and Communists led to hundreds of deaths on both sides. The Nazi Party's prime propaganda focus was "crushing Bolshevism" in Germany, and this propaganda focus was much more intense than their anti-Semitic tirades during this period.

However, beginning Nov. 2, 1932, the Nazis and the Communists jointly organized the Berlin transport workers' strike, which lasted one week. The KPD in October 1932 issued an election program, which defined the Nazis merely as the right wing of a vast fascistic complex, which included really all parties, business groups, trade unions, the Reichswehr, and

government structures—everybody except the Communists themselves. In this fascistic bloc, according to the Communists, the Social Democrats and trade unions merely represented its “social-fascist” left wing. The Communists viciously fought any attempt to take effective measures against the Depression and mass unemployment, declaring that the working class must never play “doctor at capitalism’s sick-or death-bed.” The Communist leadership pursued a strategy which held that it would not be a disaster, if Hitler were to take power, because this would drive class conflict to its climax. Hitler would soon “expose himself” to the masses, and would be discredited. Thus, the way would be opened up for a socialist revolution, under the KPD’s leadership, which would finally liquidate the capitalist-imperialist system and create a “Soviet Germany.”²

In November 1932, the votes for the SPD had shrunk to 20.4%, compared to the Nazis’ 33% and the KPD’s 16.8%. At that time, the Social Democrats were politically marginalized, which was the result of the paralysis into which the SPD leadership had driven their own party. The army of unemployed in Germany in 1932 had swelled to 6 million, but the SPD’s top men—parliamentary faction leader Rudolf Breitscheid, party boss Otto Wels, and the party’s economic experts Rudolf Hilferding, Fritz Naphtali, and Otto Bauer—had obstructed any government-led public works policy for the SPD. Failing to effectively address the all-dominating issue of overcoming mass unemployment meant political suicide for the SPD. The SPD leadership, especially Hilferding, claimed that a sizable state-directed job creation program would inevitably be “inflationary.” Thus, the SPD effectively backed Heinrich Brüning’s austerity policy, albeit in a more “moderate” form, calling for “social justice” in its implementation. The climax of absurdity was that the same SPD leadership, nominally still Marxist, would argue that anyone who, through a state-led job creation program, wanted to assist the capitalist system when it was in deep trouble, was a no-good Marxist. Opposite to the SPD party leadership, in the German trade union movement, especially in the SPD-leaning ADGB trade union federation, there were different voices, who advocated a state-led, large-scale work creation program.³ We will come to that in a moment.

Von Schleicher’s address to the nation

We now have to turn to the man who represented the biggest threat to Hitler and the financial oligarchy, both German and Anglo-American, Gen. Kurt von Schleicher. Following the November 1932 elections, with the defeat of the Nazis, Schleicher became Chancellor on Dec. 2, 1932.

On Dec. 15, 1932, Schleicher made a radio address to the

nation, in which he said: “I have felt a very grave reluctance to accept the office of Chancellor. . . . Especially because having the Defense Minister become the Chancellor smells of military dictatorship, and because there is a danger that the combination of these two posts will drag the army too much into politics. But the consideration that doing this, will illuminate strongly the gravity of the situation in which we are, and will tend to cool down certain troublemakers, and will thus make the deployment of the army unnecessary, has convinced me to set aside my concerns over accepting the post.

“Therefore, I want to ask my fellow citizens, to see in me not just the soldier, but also the administrator of the interests of all layers of the population, for, it is hoped, only a brief period of emergency. I have not come to bring the sword, but to bring peace.

“I think I can say that, as my thoughts about military dictatorship have not just now been formed, and are well known. As I have said before, you do not sit comfortably on the sharp edges of bayonets. In the long run, you cannot rule without having the broad mood of the people behind you. Such a mood in the broad population, my government has yet to earn by its deeds. I have no illusions about the severity of this task. For the moment, I will be satisfied, if the Reichstag, which understandably has currently a hefty dose of suspicion about the government, will allow it, without obstruction and well-known parliamentary maneuvers, to realize its program. This program consists of just one point: Create work! All measures which the Reich government will implement in the coming months will more or less serve this one goal. Traveling across Germany during the past weeks, I was myself convinced, that Germans of all social layers are dominated by one thought: Give us work, and thus, the hope for an economic recovery! Really, nothing else interests us, least of all, constitutional changes and other niceties, which do not fill your stomach. In our people lives a will to create, to produce, that cannot be suffocated by any setback. In all layers of society, there is the same courage and determination, which we have seen during the war, for combatting the profound economic suffering of our time. This deserves the highest admiration, and therefore it must be the supreme law of the state leadership to support this determination and this fight, irrespective of all economic or other considerations. A mood of desperation and catastrophe must be preempted. This can only be achieved, if psychological as well as economic considerations are applied to our job creation policy (*Arbeitsbeschaffung*). That stated, it is true that in the long run, unemployment can only be overcome through the gearing up of the whole economy.

“However, one cannot comfort people who are close to despair, by elaborations that, according to the laws of economic ‘rationality,’ each economic low will eventually be followed by a high. They want to see immediate and tangible help. Therefore, we have to build the dams in time, so that the floods do not overwhelm us before a cyclical economic recovery can make itself felt. That is what we must do, even

2. Wolfgang Michalka and Gottfried Niedhart, *Deutsche Geschichte 1918-1933, Dokumente zur Innen- und Aussenpolitik* (Frankfurt, 1992).

3. Gabriele Liebig, “How the German Trade Unions Could Have Stopped Hitler,” *EIR*, April 11, 1997.

if the dams do not correspond 100% to the strict laws of economic 'rationality.' I have proposed to the Reich President, that a Reich Commissioner for Public Works be named. His task will be to search for any opportunity for work, and to design and implement a generous public works program. The commissioner must take the role of the shepherd dog against all bureaucratic or other impediments.

"No doubt, such a job creation policy incurs greater risks than a normal expansion of employment would. Thus, expenditures for luxurious purposes are categorically ruled out in our job creation program. The program must be based on existing means of production, lying idle, for purposes of maintenance and improvement. Giving contracts to private firms, is preferable to doing it under public direction. What is decisive, is that we have found a solution for financing the program, which categorically rules out any inflation. This is assured, through the collaboration of Reichsbank President Luther, whom one can call the supreme protector of the currency. Equally, the best guarantee for a gradual improvement of the still very tight financial condition of the Reich, is the justified trust that the Reich Finance Minister enjoys at home and abroad. In short, we can characterize the financial situation as follows: 'We will get through with the Reich budget, without introducing new taxes and without further cutting the wages of state employees. This means a certain progress in comparison with the past two crisis years. The Reich government will help the states and municipalities in troubled financial condition, through organizational and financial measures.'"⁴

One should note here that Schleicher's emphasis on inflation, must be seen against the background of the 1923 hyperinflation, which truly traumatized the German population, especially the middle class. Within a few months, the life's savings of tens of million of people simply vanished. The material loss, and the psychological shock, are probably difficult to imagine today, especially here in the United States.

Von Schleicher was no economist, but he understood precisely what the core problem was: overcoming the economic depression by rapidly reducing the mass army of desperate unemployed. Schleicher's Dec. 15 radio address suffices to recognize where the concept for his anti-depression strategy came from: It came from Wilhelm Lautenbach.⁵

Wilhelm Lautenbach's anti-crisis plan

Sixteen months earlier, on Sept. 16-17, 1931, a secret conference of the Friedrich List Society had been held in Berlin. The theme of the conference was the possibility and consequences of expanding the issue of credit, in order to boost German economic activity under conditions of the world economic crisis. In addition to Reichsbank President

Dr. Hans Luther, some 30 leading economists, bankers, industrialists, and economic politicians participated. The keynote speech was delivered by Dr. Wilhelm Lautenbach (1891-1948), a high-level 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 1928-32, which discussed issues of priority for the German economy.

Lautenbach's memorandum was titled "The Possibilities of Boosting Economic Activity by Means of Investments and Expansion of Credit." He wrote there, "The natural course for overcoming an economic and financial emergency" is "not to limit economic activity, but to increase it."

Lautenbach distinguishes two emergency situations: On the one hand, there were emergencies which "entail tasks for production." As an example of this kind of emergency, he cites a war economy, the conversion from war production to peace-time production, or 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 is a policy of deflation: The budget deficit is reduced by cutting state expenditures, and 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 still 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," making them "uncompetitive and insolvent," compelling a "reduction of production and large-scale layoffs of the workforce," and also leading 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,

4. Michalka and Niedhart, *op. cit.*

5. *cf.*, Wilhelm Lautenbach, *Zins, Kredit und Produktion* (Tübingen, 1952).

Lautenbach argued, the deflationary policy will “inevitably lead to complete economic and political catastrophe.” 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 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, railroads, land improvements, water management, etc.).

Then Lautenbach poses 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 to be, that it is not possible to realize projects of this sort.”

But how is it possible? Lautenbach makes the initial ob-

servation, that “liquidity is chiefly a technical organizational issue. Banks are liquid when they are sufficiently supported by the Reichsbank.” Lautenbach proposes that the Reichsbank give the banks a “rediscount guarantee” for the bonds for financing “economically reasonable and necessary projects.” Once a firm had a contract from a state agency for the realization of a project, it would get a credit line from its bank, to pay for newly employed workers. While first using existing machinery and inventories, the firm soon would also buy new and additional raw materials, and also capital goods. As the project’s realization progresses, the state agency will issue promissory notes to the contracting firm, for which the firm will get cash from its bank. The bank, in turn, will receive cash from the central bank, due to the rediscount guarantee. The central bank will prolong the promissory notes, until the general economic recovery has sufficiently improved tax revenues, so that the state can redeem the notes.

Short-term credit financing, by means of discountable, prolongable bonds for creating jobs and investments, has 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 financial situation of the businesses would relax, and thus also, the situation of their banks, and the demand for capital goods would increase. 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.

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.

As for the fear that credit-financing of infrastructure projects would incur the risk of inflation, Lautenbach says that such projects are “rational and unobjectionable from an economic standpoint.” These projects represent “in a material sense, real economic capital formation.” The credit-financing would result in the creation of real economic values. Lautenbach further emphasizes 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 says, “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

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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.”⁶

I should note here, that one well-known German economist at the time, was not invited to the conference where Lautenbach spoke: Hjalmar Schacht. The Friedrich List Society knew who Schacht and his Anglo-American banker friends were, and they knew that they were in deadly opposition to Lautenbach’s ideas. Already in 1928, the leadership of the Friedrich List Society had signalled to Schacht that he would not be welcomed in this organization. While the conference proceedings were kept confidential, news of it did leak out to London and New York. Benjamin Anderson, the chief economist of Chase National Bank in New York, wrote a vitriolic attack against the “public works” debate in Germany, denouncing it as a violation of the Young Plan provisions for the German war reparation debt.

It is equally noteworthy, that until the late 1970s, Lautenbach was well known in academic economics departments and economic policymaking circles in Germany, who knew that much of what was known as “enlightened Keynesianism” during the 1950s and 1960s, in reality stemmed from Lautenbach. Opposite to Keynes, Lautenbach was solidly anchored in a physical-economic conception of the economy. There does exist a significant corpus of economic literature on Lautenbach, mostly from the 1950s and 1960s. And the American economist and historian Charles P. Kindleberger, in his standard work on the Great Depression, gives objective and positive coverage to Lautenbach, as well as to Wladimir Woytinsky, a co-thinker of Lautenbach who worked for the German trade union movement.⁷

The trade unions’ public works program

In late 1931, economic policy concepts for a state-directed, large-scale job creation program, parallel to that of Lautenbach, began to be articulated in the German trade union federation (ADGB). The most significant economist of the ADGB was Wladimir Woytinsky, head of the federation’s statistical department, and a member of the Friedrich List Society. Woytinsky had come to Germany in 1922 from Russia, seeking asylum from the Communist regime. (After 1933, he moved to the United States and became an American citi-

zen.) The trade union leader Fritz Tarnow, and Fritz Baade, an SPD member of the Reichstag and expert on agricultural policy, supported Woytinsky.

On Dec. 23, 1931, Baade, Tarnow, and Woytinsky presented their “Theses on Combatting the Economic Crisis” to the ADGB’s executive board. In this document, the three state: “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.” Therefore, they present a “concrete program for combatting the crisis within the framework of the German economy,” the central feature of which is “the employment of 1 million unemployed, in public works projects. . . . The creation of jobs will spark a revival of the consumer goods industry, thereby drawing 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 job creation, 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.”

These theses were incorporated into the final “WTB Plan,” the job creation program, named after the initials of its three authors. The plan was presented on Jan. 26, 1932. It further elaborated the financing question: “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 institutions) and are rediscountable at the Reichsbank.”

We may add here, that the SPD leadership rejected the financing part of the WTB Plan as being inflationary, insisting on “traditional” financing through tax revenue or state bonds. The chairman of the trade union federation ADGB was Theodor Leipart, who in early 1930 had given the original assignment to Woytinsky to work out a job creation program for the trade unions.

Leipart also had regular discussions with Gen. Kurt von Schleicher. Why would one of the German Army’s most senior officers engage in a long-standing contact with a trade

6. Knut Borchardt and Otto Schötz, *Wirtschaftspolitik in der Krise, Die Geheimkonferenz der Friedrich-List-Gesellschaft vom September 1931*, (Baden-Baden, 1991).

7. Charles P. Kindleberger, *Die Weltwirtschaftskrise* (Munich, 1973).

union leader? Why would this military man, as Chancellor, present a state-directed work creation program, which no other politician—left, right or center—had dared to touch?

Von Schleicher's career

To answer this question, we have to sketch a bit more, what kind of personality Schleicher was, and who were his circle of friends and acquaintances. Born in 1882, Schleicher came from a typical, not-wealthy noble family in Prussia, in which it was almost self-evident that the sons would follow a military career. In World War I, Schleicher became the protégé of Gen. Wilhelm Groener, the central figure for logistical operations in the Supreme Army Command. On the government's side, the chief logistical-industrial administrator was Walter Rathenau. Toward the end of the war, Groener held, after Field Marshal Hindenburg, the second most important position in the military command, that of First General Quartermaster. It was Groener, with Schleicher as his "right hand," who brought about, in the weeks after Nov. 9, 1918, the "historical compromise" between the Army command and Germany's new Republican leaders, most notably the first Social Democratic President, Friedrich Ebert. This understanding between the Army and the new state leaders, prevented Germany from descending into utter chaos and civil war during the period 1918-21, and again during the hyperinflation period of 1923, with the ensuing Communist upsurges and the first revolt by Hitler on Nov. 9, 1923 in Munich.

Groener retired from the Army in 1920, and Schleicher became the head of the Military-Political Affairs Department in the Defense Ministry under Gen. Hans von Seeckt, the formative leader of the Reichswehr until 1926. From the beginning, Schleicher was deeply involved in the secret cooperation of the Reichswehr with Soviet Russia; he knew personally most of the leading Soviet military and foreign policy figures. After Seeckt had to retire in October 1926, Schleicher became the dominant "political-military affairs" figure in the Defense Ministry, who coordinated the policies among the Defense Minister, the Army leadership, the offices of the Chancellor and Reich President, who since 1925 had been Field Marshal Hindenburg, and the parliament, the Reichstag.

Schleicher also had close contacts with the two outstanding foreign ministers of the Weimar Republic, Walter Rathenau, who was assassinated in 1922, and Gustav Stresemann, who died in 1929. When, in 1931, André François-Poncet became French Ambassador in Berlin, Schleicher developed an unusually close relationship with him. Historical documents clearly show, that Schleicher advocated a "continental" strategy, with special relationships to France and Russia.

In June 1932, Schleicher became Defense Minister. Schleicher had a reputation as a "social general"—some, less charitably, dubbed him "the red general"—and this had occurred well before his famous July 26, 1932 speech, 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." Also, he considered it his highest duty, "to relieve misery, precisely in those layers of the population that are the poorest."⁸

The banking crisis in summer 1931

By 1929, the First World Financial Crisis had fully set in. On Oct. 25, 1929, the bloated Wall Street stock market crashed. But already in June 1929, it had become evident that the whole world financial system was moving into disintegration, because the complex system of German war reparations payments—the financial "fuel" on which the working of the system depended—had become unmanageable. Between 1919 and 1929, Germany had paid directly, in kind, or through private losses (confiscation of private property outside Germany), 47 billion reichsmarks. Of this, some 17 billion were formally recognized by the Versailles powers as direct financial reparation transfers. But, following the 1923 hyperinflation and the ensuing 1924 Dawes Plan, which set Germany's total reparation obligations at 134 billion reichsmarks, a major chunk of the German debt transfers was financed through credits by Anglo-American banks. Knowing that Germany could not domestically generate the funds necessary to service its reparation debts, credits flowed to Germany and, from there, back to their places of origin, namely, New York and London—just as happens today with so-called IMF bailout packages to Southeast Asia, Russia, or Brazil.

In 1931, the whole Versailles reparations-centered system collapsed, and the center of the financial earthquake was Germany. There exists a fascinating, 167-page inside account of the breakdown of the German banking system in the summer of 1931, written in 1939 by the former State Secretary in the Reich Finance Ministry, Hans Schäffer.⁹

Since the October 1929 crash on Wall Street, there had been an increasing hemorrhage of foreign, mainly American, financial investments from Germany. But the German banking crisis of 1931 started in Austria. On May 11, 1931, Austria's largest bank, the Vienna Kreditanstalt, went bankrupt, which triggered a broad run on banks in Austria, across central-eastern Europe, and in Germany. The Kreditanstalt bankruptcy triggered a massive capital flight out of Austria, which brought that country rapidly to the brink of default. Triggered by the "Austrian crisis," capital flight from Germany accelerated during June 1931.

On June 17, rumors began to circulate that one Germany's major banks, the Darmstädter und National Bank (Danat Bank), was having financial problems. These rumors, in turn,

8. Friedrich-Karl von Plehwe, *Reichskanzler Kurt von Schleicher* (Esslingen, 1983).

9. "Hans Schäffer, Marcus Wallenberg und die Deutsche Bankenkrise 1931," unpublished manuscript, Archiv Edmund Steinschulte, Wiesbaden.

further accelerated the capital withdrawals from Germany. An uncontrolled chain reaction of bankruptcies, starting from Germany, was about to engulf the whole international financial system. If Germany's banks defaulted, the whole house of cards built around the war reparations would collapse.

In this situation, on June 20, 1931, U.S. President Herbert Hoover announced a one-year moratorium on all sovereign reparations and inter-Allied war debt obligations. Had the moratorium been declared three years earlier, it might have stabilized the situation, but at this point, it came too late.

Then, on June 25, 1931, a short-term emergency credit line of \$100 million was opened for Germany by the Bank of England, the Federal Reserve, and the Banque de France. But, these actions could not stop the capital flight out of Germany, which drove the country ever closer to default. On July 6, 1931, it became clear that the Danat Bank had indeed had very serious financial problems. On July 13, the bank closed its doors. Reichsbank President Luther flew to London, asking for a \$500 million credit line. Up until July 21, senior American, British, French, and German central bank and government officials held crisis meetings in London. But, Montagu Norman, the governor of the Bank of England, declined to provide further credits to Germany, and, as a result, the others declined as well.

On July 13, 1931, the day Danat Bank closed, a bank holiday was declared in Germany, which lasted until Aug. 5. Beginning July 18, ever more extensive currency and capital controls were implemented. On Aug. 1, foreign deposits in Germany were frozen temporarily. By then, it had become clear that also Dresdner Bank, and its subsidiaries, Deutsche Orientbank and Deutsch-Südamerikanische Bank, were close to insolvency. Danat Bank and Dresdner Bank were put under state administration, and provided with emergency liquidity by the Reichsbank. Later, in September 1931, Deutsche Bank, Disconto Gesellschaft, and Commerzbank also came under state administration. Without this, and the pumping of massive amounts of liquidity by the Reichsbank into the financial system, in the dimension of at least 1 billion reichsmarks, all of Germany's leading banks would have defaulted. Please note here, that on Sept. 16-17, 1931 the above-mentioned conference of the Friedrich List Society, with Wilhelm Lautenbach's keynote address, was taking place.

By August 1931, the financial chaos in Germany began to radiate into Britain. On Aug. 24, the Labour government fell, and then the so-called National Government (Tories, Liberals, and a minority faction of Labour) under Ramsay MacDonald, was formed. On Sept. 21, 1931, Britain abolished the gold standard. By the end of 1931, the British pound had been devalued by 40%.

By that time, it had become clear that the German reparations-centered world financial system had indeed disintegrated. The pretense that this system could, somehow, be kept going, had become unsustainable. The Bank for International Settlements (BIS), about which I will say more later, declared

politely that the Young Plan had become somewhat unrealistic. Three days before the Hoover debt moratorium was to have ended, on June 17, 1932, an international conference on the Versailles reparations began in Lausanne, Switzerland. The conference ended on July 8, 1932, with the formal termination of Germany's war reparation obligations. Five years earlier, this would have shaken the world in a positive way; now it was almost meaningless, because the world economy and world finances lay in ruins.

German politics, 1930-32

Therefore, the abolition of the Versailles war reparation system meant no "happy ending." By that time, the hegemonic Anglo-American financial establishment had already concluded that the world financial crisis, plus world depression, which had been caused by the Versailles reparations system, made the installation of dictatorial or quasi-dictatorial political regimes necessary. In the country with the worst economic, financial, and social conditions, Germany, the most totalitarian system would have to be installed. The course of events in Germany between 1930 and 1932 had been such, that the "Hitler project" became a realistic option.

In 1930, the economic situation in Germany had deteriorated rapidly. Unemployment went above the 3 million level. The political effect was immediate: In the Reichstag elections of May 1928, the Nazi Party had received 2.6%; now, in the national elections of September 1930, the Nazis received 18.3% of the vote. The Communists increased their vote from 10% to 13%. The non-radical right-wing parties and the liberal center parties lost catastrophically. In March 1930, the center-left Grand Coalition government under Chancellor Hermann Müller broke apart. From then on, there were no more parliamentary governments in Germany. The Chancellors—Heinrich Brüning, Franz von Papen, Kurt von Schleicher, and Adolf Hitler—did not lead governments based on a majority in parliament. The Chancellors were named by Reich President Hindenburg, based on the provision for emergency status of the Weimar constitution (Article 48), and ruled by emergency decree. The governments were "*Präsidialkabinette*," more or less independent from parliament.

Still, parliamentary sessions were held, and a Reichstag majority could still vote down the emergency decrees. But a majority of Nazis, Communists, Social Democrats, the Catholic Center, and the right-wing parties, was an improbable proposition. Mostly, the *Präsidialkabinette* were tolerated by the Social Democrats, the Catholic Center Party, and the now small right-liberal parties. When the tensions between the Reichstag, and the Chancellor and his government, became too intense, the Reichstag was dissolved by the Reich President, which is why there were still free elections between 1930 and 1933.

Under these conditions, between 1930 and 1933, the institutional power center in Germany was the Reich President,

and this power was really based on the Army. The 100,000 soldiers of the Reichswehr, without an air force, armor, or heavy artillery, could not match the military strength even of Poland, Czechoslovakia, or Belgium, not to speak of France or Britain. But, in domestic political terms, the Reichswehr was a power factor. In the Army structure, Schleicher had gained a unique position, and he was the most political one within the Army command.

Brüning's Presidential government was toppled on May 30, 1932. He was ousted at the very moment that he began to shift away from his earlier, brutal deflationary austerity policies. Brüning's emergency decree of Dec. 8, 1931 had lowered wages to either the level of 1927, or a maximum wage reduction of 10%; standard prices and rents for housing were likewise cut by 10%; and a 6% ceiling was imposed on interest rates. After the announcement of the Dec. 8, 1931 emergency decree, Brüning's Finance Minister explained that what the German people were being asked to do, had pushed them to the very limit of their tolerance and willingness to sacrifice. Wages and salaries could not be reduced any further than the new emergency decree already had done, because otherwise the government would face the specter of serious threats to the state and to society at large. Brüning himself said, "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 to the deflationary policy that has been forced upon us."

Brüning envisaged an economic policy-shift, once the reparation issue would be out of the way by mid-1932. Indeed, that happened just six weeks after he was ousted. He was toppled and replaced by Franz von Papen, a person as shallow as he was devious. We shall soon see, what a treacherous role von Papen will play in December 1932 and January 1933. But, Papen had one great advantage: Hindenburg liked him very much. The probable reason for this, was that Papen had cultivated a close personal relationship to Hindenburg's son, Oskar von Hindenburg. As we shall see, catastrophic consequences derived from this.

One of von Papen's very first acts as Chancellor was to enact even more ruthless emergency cuts in social services and wages. He lifted the ban on the National Socialist paramilitary organizations, the SA and the SS, which had been outlawed under Brüning, and dismissed the Social Democratic state government of Prussia, to make himself the *Reichskommissar* for Prussia.

We must note here, that General von Schleicher played a highly dubious role in the transition from Brüning to von Papen. Schleicher committed a mistake of the gravest sort, by actively playing along with the political maneuvers through which Papen became Chancellor. Obviously, Schleicher thought that that was the price he had to pay for becoming Defense Minister. But it was to cost him, and Germany, dearly.

Papen was Chancellor from June 1, 1932 to Nov. 17, 1932.

On July 31, 1932, there were elections for the Reichstag. At that time, unemployment in Germany stood at 29.9%, just below 6 million. The production index (1928=100) stood at 58. The July election produced a breakthrough for the Nazis: They more than doubled their vote to 37.2% and had the largest faction in the Reichstag, with 230 deputies. As Papen governed on the basis of a Presidential decree, and there was no majority in the Reichstag for forming an alternative government, Papen stayed on as Chancellor after the July elections. But, he immediately tried to take Hitler into his government, offering him the post of Vice-Chancellor. Hitler refused, and demanded that he be made Chancellor.

On Aug. 13, 1932, Hindenburg received Hitler, who again demanded to be named Chancellor and to receive "full state power." But, Hindenburg categorically rejected this.

In the late summer of 1932, the economic situation in Germany further deteriorated. On Sept. 4, Papen introduced yet another emergency decree, imposing even more vicious austerity measures. When, on Sept. 12, 1932, the Reichstag convened, the Communists introduced a motion for abolishing Papen's austerity decree. The motion was voted up 512-42, the most massive defeat ever for a government in the whole Weimar period. In response, Papen, with Hindenburg's formal backing, declared the Reichstag dissolved. New Reichstag elections were set for Nov. 6, 1932. Hitler was confident that the new elections would bring him further gains, which would finally undermine the resistance to his becoming Chancellor and getting "full state power."

But, the opposite happened. The Nov. 6, 1932 election results turned out to be a disaster for Hitler. The Nazi Party lost 2 million votes, and 36 deputies in the Reichstag, compared to July. A weakened Hitler met again with Hindenburg, and again he demanded to be named Chancellor. On Nov. 24, 1932, Hindenburg wrote him a nasty letter, saying that a Presidential Cabinet, led by Hitler, would inevitably lead to a "party dictatorship," and that the Reich President's constitutional oath and his conscience would not allow that to happen.¹⁰

Schleicher now made his move. He saw the chance to first get rid of von Papen, and then to turn against the weakened Hitler. Papen was totally isolated, as indicated by the Sept. 12 Reichstag vote, when effectively all parties voted against him. On Nov. 17, 1932, von Papen resigned. Hindenburg, reluctantly, named Schleicher as the new Chancellor.

Von Schleicher becomes Chancellor

On Dec. 2, 1932, Schleicher becomes Reichs chancellor. He immediately repeals the brutal austerity decrees of Papen and energetically moves ahead with his public works program, as we heard earlier from Schleicher's national radio address of Dec. 15, 1932. Schleicher cannot count on the

10. Michalka and Niedhart, *op. cit.*

parties in the Reichstag backing him. He talks to all of them, including the Nazis. Individual deputies support him, but none of the party factions gives him a firm backing. He reaches an agreement with the parties, that the Reichstag will “pause” until January. But, as Schleicher heads a Presidential Cabinet, he does not depend on the Reichstag. Who, then, is backing Schleicher?

- The Reichswehr. Schleicher has the full backing of Gen. Kurt von Hammerstein-Equord, the chief of Army Command.

- Important elements in the civilian state bureaucracy, notably the State Secretary in the Chancellor’s Office, Erwin Planck, the son of Max Planck. Also important is Günther Gerecke, the influential chairman of the Association of Rural Municipalities. Gerecke became Schleicher’s Reich Commissioner for Public Works.

- The trade unions. Theodor Leipart, the head of the ADGB trade union federation, fully backs Schleicher’s public works program, which largely corresponds to the ADGB’s “WTB Plan.”

- Some elements within the Social Democracy, notably the former Prime Minister of Prussia, Otto Braun, and Gustav Noske, then chief administrator of the Hanover region. Also supportive is the Reichsbanner, a Social Democratic-oriented republican mass organization, with certain paramilitary features.

- An important group of industrialists and bankers, including:

- Otto Wolff, of the Cologne-based steel and trading firm;
- the industrialist Arnold Rechberg, with important ties to France and the Benelux countries;
- the banker Wilhelm Regedanz, with strong ties to France and central-eastern Europe.

One should not forget, also, that Schleicher has good ties to France and Soviet Russia. Right after becoming Chancellor, in early December, Schleicher met with Soviet Foreign Minister Litvinov, with whom he discussed a further intensification of economic cooperation with Russia. Schleicher’s ties to France, through Ambassador François-Poncet, were cordial as well.

I think it is useful here, to report what the American government’s attitude toward von Schleicher was. U.S. policy toward Weimar Germany was always torn between America’s genuine national interests and the interests of the Morgan complex. But, in late 1932 Ambassador Frederic Sackett was clearly positive toward von Schleicher. Basing himself on the diplomatic messages from the Berlin embassy to the State Department, Bernard Burke writes: “American diplomats, who earlier had very little positive to say about Schleicher, were impressed by the general’s determined efforts to get broad backing for his government. Sackett was won over when the general solicited the support of the trade unions. Strangely, Sackett and his staff, who surely would not support



Gregor Strasser, the Nazis’ “organization man,” until he resigned all his posts in 1932. When von Schleicher’s effort to use Strasser to split the Nazi Party failed, bankers Schacht and von Schröder moved in to provide support to Hitler.

trade union activity at home, found trade union leadership the most politically attractive group in Germany. . . . Sackett took heart as Schleicher succeeded in broadening his base of support. But nothing gladdened him more than the general’s attempt to split the Nazi Party. . . . Sackett expressed pleasure that Schleicher, who was often called the ‘friend of the workmen,’ was going to address the problem of unemployment relief as the principal goal of his cabinet. . . . Sackett approved of the general for the enemies he made. . . . Sackett betrayed his new-found admiration for the general when he pointed out that the calm was made possible by ‘the tact and skill with which Chancellor von Schleicher dealt with the situation, in striking contrast to the provocative methods of his predecessor [von Papen].’ ”¹¹

In contrast, the British Foreign Office, and British intelligence, had a thoroughly hostile attitude toward von Schleicher. John Wheeler-Bennett, the Foreign Office “Germany expert,” entertained a lasting hatred of him. Wheeler-Bennett would later become infamous for expressing his satisfaction that the Gestapo had killed the German resistance leaders of July 1944, in a memorandum to Winston Churchill. The extermination of the German resistance, wrote Wheeler-Bennett, had ensured that these German elite figures would not represent a problem for the occupying powers of postwar Germany. Already in his 1934 book, *The Disarmament Dead-*

11. Bernard Burke, *op. cit.*

lock, Wheeler-Bennett denounced von Schleicher as an evil intriguer.

The Nazi Party plunges into crisis

After its defeat in the Nov. 6 Reichstag elections, the Nazi Party was in state of depression and disarray. Schleicher intended to exploit this, and to split the Nazi Party. This might look like a very dubious proposition, but there were substantial reasons for trying it. What a wretched state the Nazi Party was in during November and December 1932, is revealed by Josef Goebbels's diaries:

Nov. 6: "We have suffered a defeat. . . . The main thing now is to consolidate the organization and to improve the mood in the party."

Nov. 10: "Back to Berlin. The strong mood in the party has changed into ugly depression. Everywhere just anger, fights, and conflicts."

Nov. 11: "I get a report of the financial situation of the Berlin party organization, it's desperate. Just ebb, debts, and financial obligations, in addition the complete impossibility to raise large amounts of money after this defeat."

Dec. 6: "The [party] situation in the Reich is catastrophic. In Thüringia we lost 40% since July 31."

Dec. 8: "In the organization, there is real depression. We are depressed because there is the danger that the party might fall apart. . . . The Führer says: If the party disintegrates, it will take me three minutes to finish all with my pistol."

Dec. 12: "It takes a great effort to keep the SA and the party functionaries on a clear course."

Dec. 23: "1932 has been a string of bad luck, just forget about it. . . . I sit alone here and I am thinking about so many things. The past was so difficult, the future is dark and foggy, all perspectives and hopes seem to have vanished."

Goebbels had very real reasons to be depressed, not just because of the horrible state of the party finances. On Dec. 8, 1932, Gregor Strasser resigned from all his party posts. Strasser had been a key "organization man" in the Nazi Party since 1924. He had pushed for some sort of "social orientation." Strasser could credit himself with having played a major role in the party's massive gains in the July 1932 Reichstag elections. It had been he, who had authored an "employment action program," as part of the Nazi election platform. He even had publicly supported the ADGB's job creation program, and positively referenced Woytinsky, who was Jewish, in a Reichstag speech. After the July elections, Hitler had banned the Strasser program, and ordered remaining copies of it destroyed.

Also, during December 1932, an inner-party revolt began to brew in various party sub-organizations, notably in Bavaria. In the first days of December 1932, Schleicher met secretly with Strasser and offered him the Vice-Chancellorship. Strasser was open to the proposal. But Hitler was informed about the Schleicher-Strasser meeting, and immediately branded Strasser a traitor. Hitler kicked Strasser out of

the party, and called a series of emergency meetings of leading party functionaries. Hitler had to threaten to commit suicide, if the party leaders would not unconditionally submit to his absolute command. Hitler's gamble only worked, because Strasser remained strangely passive. He did not stand up against Hitler; instead, he took a vacation in Italy.¹²

But, as Goebbels's diaries confirm, by Christmas, the situation in the Nazi Party was not yet back under control, even though Schleicher's ploy to split the Nazi Party through Strasser had clearly failed. But then, like *dei ex machina*, rescue came for Hitler, in the persons of Hjalmar Horace Greeley Schacht and the banker Baron Kurt von Schröder. Why would these two figures be in a position to carry through an action, which shifted a most promising situation for von Schleicher?

Schacht, Norman, and the Morgan complex

To answer that question, it is necessary to take a closer look at Schacht and von Schröder. Schacht was born in 1877 in Denmark, the son of a naturalized American father. Schacht's father returned from the United States the year his son Hjalmar Horace Greeley was born; for 30 years, he worked as a senior executive for the German branch of Equitable Life Insurance.¹³

Hjalmar became the Anglo-American financial establishment's "man in Germany" ever since, in November 1923, the Allied Reparation Commission decreed that he would become the head of the Reichsbank. Schacht was installed against the unanimous opposition of the Reichsbank staff. At that time, Schacht was on the executive board of the Danat Bank, which, as mentioned above, became infamous in the 1931 banking crisis.

On Dec. 22, 1923, Schacht formally became president of the Reichsbank. One week later, he was in London for extensive meetings with Montagu Norman, the governor of the Bank of England. The meetings between Norman and Schacht were regular, to say nothing of their almost daily correspondence and telephone conversations. As late as 1939, Norman came to Germany to become the godfather of one of Schacht's grandchildren. Montagu Norman was the towering figure of the City of London, a diabolical personality with enormous influence over the course of events, financial and political, from World War I into World War II.¹⁴

Montagu Norman had the most intimate connections to the J.P. Morgan financial-political complex, which, during the 1920s, included J.P. Morgan and Company in New York, Morgan Grenfell and Company in London, and Morgan et Compagnie in Paris. To call "Jack" Morgan, who headed the Morgan complex from World War I into the late 1930s, an

12. Henry A. Turner, *Hitler's Thirty Days to Power* (Reading, Mass., 1996).

13. Heinz Pentzlin, *Hjalmar Schacht* (Berlin, 1980).

14. F. William Engdahl, *A Century of War: Anglo-American Oil Politics and the New World Order* (Wiesbaden: Böttiger Verlag, 1992).



Hjalmar Schacht with Hitler in 1934. With backing from Montagu Norman, the governor of the Bank of England, Schacht arranged financing for Hitler's march to power.

“Anglophile,” is a vast understatement; he was an integral part of the British establishment. “Jack” Morgan passionately hated Germans, Jews, and Catholics. The Morgan complex ensured that the British Empire made it financially through the war, and he exerted the probably decisive political influence on the U.S. government for joining the war on the side of the Allies in 1917, when Russia and France were close to military collapse, and the British Empire came near to financial-economic exhaustion.

The Morgan complex stood at the center of the inter-Allied war debt structure, and consequently played the key role in erecting and managing the Versailles reparations system, the prime purpose of which was to service the inter-Allied war debt.¹⁵

The key figures in managing the Versailles reparations system were either directly Morgan executives or closely tied to the Morgan complex:

- Thomas W. Lamont, “Jack” Morgan’s right-hand man;
- Charles Gates Dawes, after whom the 1924–29 Dawes Plan was named;
 - Parker Gilbert, the Allied Reparations Agent, residing in Berlin from 1924–29, with enormous powers over Germany’s financial affairs;
 - Benjamin Strong, the head of the New York Federal Reserve, another intimate of Montagu Norman;
 - George Harrison, who succeeded Strong in 1928;

15. Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance* (New York: Atlantic Monthly Press, 1990).

- Owen Young, after whom the Young Plan was named;
- Andrew Mellon, the Treasury Secretary.

For the City of London/Morgan complex, Schacht—“their man”—ran Germany’s finances—and politics—from 1924 on, to an extent that is difficult to imagine today. The 1924 Dawes Plan, which Schacht had worked out with Norman, Lamont, Dawes, and Gilbert, stipulated that Germany had to pay 134 billion reichsmarks in war reparations over the next 36 years, of which 22 billion had to be paid by 1928. After lengthy negotiations, in 1929, the Dawes Plan was superseded by the Young Plan, which, seeming to be more “realistic,” stipulated that Germany had to pay 34 billion reichsmarks over the next 59 years, until 1988. Schacht negotiated and signed the Young Plan treaty for Germany, which included the formation of the Bank for International Settlements, for administering the Young Plan reparation payments.

However, then, in late 1929, Schacht made a seemingly odd turn-around. Suddenly, he proclaimed that the Young Plan, which he himself had signed, was an unacceptable burden for Germany, for which he could not take responsibility. On March 7, 1930, Schacht resigned as president of the Reichsbank.

What had happened? Between the signing of the Young Plan treaty in the summer of 1929, and his resignation from the Reichsbank, on Oct. 25, 1929, Wall Street had crashed. Since the crash, the credit lines extended to Germany, mostly from America, with which Germany had paid a major chunk of its reparation obligations back to London and New York, had dried up. Credits were repatriated to the United States, instead of flowing into Germany, as they had done between 1924 and 1929.

Schacht knew that the Young Plan had indeed become very unrealistic, because, in the conditions of the rapidly escalating world financial crisis, squeezing reparation payments out of Germany would become increasingly difficult, as the American “buffer credits” dried up. Secondly, as long as there was no new type of dictatorial regime in Germany, it would not be possible to enforce the necessary “fiscal discipline” and austerity, to extract more from the country. This conclusion by Schacht was not the product of his personal ingenuity; it was the view held in the top echelons of the Anglo-American financial establishment.

Schacht goes for the ‘Hitler project’

Two weeks after Schacht’s resignation, on March 23, 1930, the last parliamentary government in Weimar Germany, the “Grand Coalition” under Social Democratic Chancellor Hermann Müller, collapsed. It was replaced by the first “Presidential government,” that of Heinrich Brüning. In the next Reichstag elections, on Sept. 14, 1930, the votes for the Nazi Party exploded from 2.6% (in 1928) to 18.3%!

The next day, Sept. 15, Schacht was in London for meetings with Montagu Norman. From England, Schacht pro-



Hjalmar Schacht (center) in the dock at the Nuremberg Tribunal. He was acquitted, due to intervention by the London-based financial oligarchy—although without his intervention, the Nazis would never have come to power.

ceeded to New York, where he stayed for some weeks, meeting his friends on Wall Street. When Schacht came back to Germany, he pursued a clear and determined policy line: Get on with the Hitler project! In late December 1930, Schacht had a first personal meeting with Hermann Göring. On Jan. 5, 1931, there was a memorable evening dinner at Göring's home, which lasted for several hours. Present were: the Göring couple, Goebbels, Fritz Thyssen, Schacht, and Adolf Hitler.

A few months later, on Oct. 11, 1931, Schacht for the first time made a joint appearance with Hitler at a public event, the infamous Bad Harzburg meeting. At roughly the same time, Schacht arranged the visit to London of Alfred Rosenberg, the chief Nazi ideologue, who met Norman and the publisher of the London *Times*, Geoffrey Dawson. In Germany, Schacht systematically organized support for Hitler in the business milieu. As he himself stated, it was tough work, but he made slow progress. Schacht knew he had the full backing of the Anglo-American financial establishment, and of Montagu Norman in particular. For them, the situation in Germany, financially and politically, had become "unmanageable," unless a brutal dictatorship were rammed through. Hitler was the only credible candidate for a German dictator.

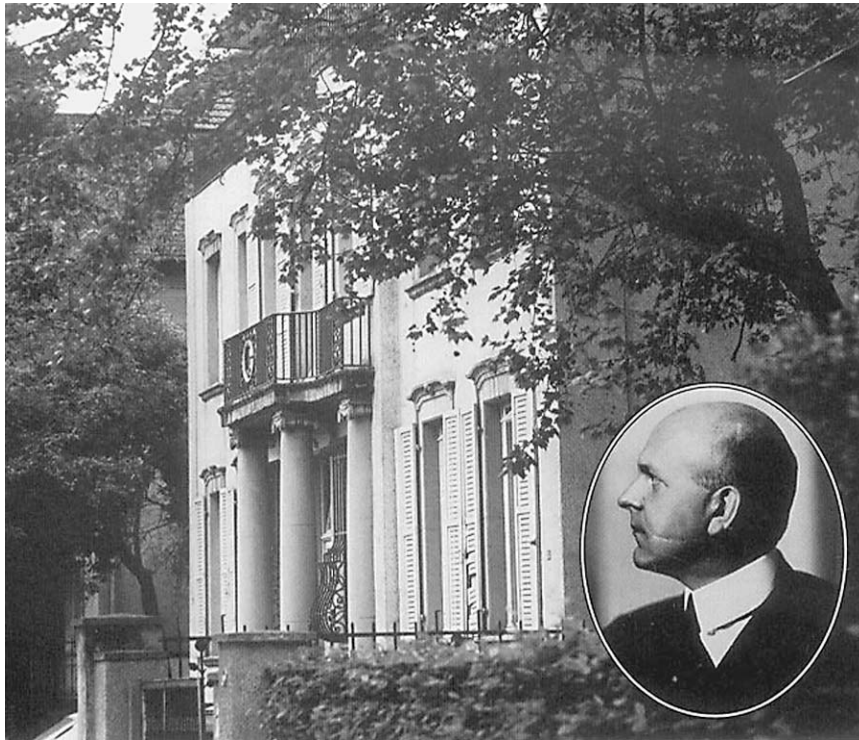
Baron Kurt von Schröder

To accomplish this strategic perspective, Schacht had in Germany an active collaborator in high finance, who equally

pushed the Hitler project: Baron Kurt von Schröder, who headed the German branch of the international Schröder financial complex. That complex included Schroeder Bank in the City of London, and the New York investment bank J. Henry Schroder. Baron von Schröder was well acquainted with the Nazi Party's finances: In November 1932, he told business friends in the Ruhr region, that the Nazis had short-term debts of up to 30 million reichsmarks. A few weeks later, Schröder had made sure that the Nazis' financial problems had improved dramatically. As we shall see, Schröder also made a decisive political intervention, to save the "Hitler project."

The third key business figure in Germany who was pushing the "Hitler project" was Fritz Thyssen, who had made financial contributions to Hitler since 1923. That financial support was greatly expanded after 1930. Thyssen was one of the mere handful of figures in the upper echelons of German industry, who did support Hitler before 1933. Hitler's first appearance before a large group of businessmen only occurred after January 1932, when Thyssen and Schacht arranged for him to address the Düsseldorf Industry Club. Among Thyssen's international financial connections, the American firm Brown Brothers Harriman of New York, played an important role.¹⁶

16. Anton Chaitkin and Webster G. Tarpley, *George Bush: The Unauthorized Biography* (Washington, D.C.: Executive Intelligence Review, 1992).



Banker Kurt von Schröder and his home in Cologne, where Hitler met secretly with Franz von Papen on Jan. 4, 1933. With the help of Hjalmar Schacht and von Papen, Schröder orchestrated a plot to bring Hitler to power by “legal” means.

The Schacht-Schröder plot

In 1948, Schacht would have the chutzpah to declare before a de-nazification court, concerning his attitude to Hitler in 1932: “The only choice was between a military [Schleicher] government, coming to power by breaking the [Weimar] constitution, or Hitler becoming Reich Chancellor. Faced with these two alternatives, and based on my whole democratic identity, I had spoken out against a military government and for the formation of a cabinet by the National Socialists.”

Back to Schacht’s and Baron von Schröder’s activities, after the Nazis’ defeat in the Nov. 6, 1932 Reichstag elections. On Nov. 12, 1932, Schacht wrote to Hitler: “Let me congratulate you for the firm attitude which you exhibited right after these elections. I have no doubt about the course of events, which will inevitably end in your Chancellorship. It seems that my efforts to get signatures for your Chancellorship in the business milieu have not been in vain, even though heavy industry is not going along, but they are called heavy industry for a reason, they are so slow-moving.”¹⁷

Then, on Dec. 19, 1932, Hitler received another letter, this time from another “liaison” to business circles, Wilhelm Keppler, who wrote: “In these days, I have met with Dr. Schacht and Baron Schröder; I presented them my assessment

17. Michalka and Niedhart, *op. cit.*

of the political situation. Dr. Schacht agreed with me. . . . Just now [Baron Schröder] called me, and told me he met with von Papen. . . . Papen sees a quick change in the political situation as being possible and necessary, and supports your becoming Chancellor. Von Papen would like to have a confidential meeting with you, to analyze what has happened and to talk with you over how to shape the political situation now. . . . It has been proposed to have such a meeting in Baron Schröder’s house in Cologne; he is absolutely reliable. Even if many see the current political circumstances as not favorable, I remain convinced that we can reach our aims without having to go for elections again.”¹⁸

What was the political situation when these letters were written? Schleicher was Chancellor, his public works program was going ahead with great political resonance. The internal situation of the Nazi Party remained critical, even though Schleicher’s attempt to split the party through Strasser had failed.

Hitler knew that he had no chance to gain a majority in elections, which would make him Chancellor. Were he to try to grab power by illegal means, the Reichswehr would move in, and crush him. The chief of the Army command, General Hammerstein-Equord, had personally told Hitler in December 1932, if you try a coup by illegal means, “I’ll give the order to shoot!”

So, and here we come to the core issue: Hitler had to get the Chancellorship by “legal” means, which meant that Hindenburg—who, twice in the past six months, had rudely rejected Hitler’s bid—would have to name him as his choice for Chancellor.

There were two persons, who might convince Hindenburg: his son Oskar and von Papen. Now we will see, how Schacht and Baron von Schröder orchestrated an operation to do just this.

On Dec. 10, Baron von Schröder met von Papen in Berlin. They discussed arranging a meeting between Hitler and Papen at Schröder’s house in Cologne, far away from Berlin, just as Keppler had written to Hitler. On Jan. 4, 1933, Hitler did meet with Papen and Schröder in Cologne. The meeting was staged in a truly conspiratorial manner: Hitler went by train from Munich to Bonn-Bad Godesberg, where he checked into a hotel. He stayed there until dark,

18. Michalka and Niedhart, *op. cit.*

and then went by car to Cologne, some 50 km away.

The talks among Schröder, Hitler, and Papen lasted several hours. Later, after the war, Schröder stated that, at the Jan. 4 meeting, he, Papen, and Hitler reached the following agreement: Schleicher must fall, Hitler will become Chancellor, and Papen will become Vice-Chancellor under Hitler. Papen would arrange for the non-Nazi right-wing parties to join a coalition government under Hitler and Papen. And, most important, Papen would work over the Hindenburgs, senior and junior. One day after the Schröder-Hitler-Papen meeting, Goebbels suddenly was no longer depressed. On Jan. 5, 1933 he wrote in his diary: "If this coup succeeds, we are not far from power. . . . Our finances have suddenly improved."

Von Schleicher's fatal blunder

In my view, the events of Jan. 4, 1933 are of decisive historical importance. They represent the *punctum saliens* of the tragedy. Schacht and Schröder, using von Papen, managed to give the political initiative back to Hitler.

But even after the Jan. 4, 1933 Cologne meeting, the course of events was not yet pre-programmed. In spite of all the secrecy, in which the Schröder-Papen-Hitler meeting was set up, the circles around von Schleicher knew in advance that something nasty was being orchestrated in Cologne. Probably the Reichswehr military intelligence tipped off the two journalists, who went to Schröder's house and photographed Hitler and Papen entering it.

Now, Schleicher had to move decisively. The Cologne plot—Schröder; the top banker, Papen, the most reactionary, anti-social politician in Germany; and Hitler, the dictator-in-waiting, had to be exposed. The "public works" issue had to be made the central issue: that Schröder, Hitler, and Papen were conspiring to de-rail the public works program, which was just getting off the ground. But, Schleicher did not do that.

Meanwhile, Papen had realized what danger derived from the fact that his meeting with Schröder and Hitler was no longer secret. He made a devious move, by asking von Schleicher for a confidential meeting, in which he would tell him what "really had happened at Schröder's house." The Papen-Schleicher meeting took place on Jan. 9, 1933, in Berlin. Papen assured Schleicher that the meeting was not to conspire against him, and that Hitler was still making "impossible" demands, which Hindenburg would never accept.

It seems that Papen's trick worked, and that he succeeded in keeping Schleicher from making an offensive counter-move. In an off-the-record briefing to selected journalists, on Jan. 13, 1933, Schleicher created the impression that he had situation under control, and that the Cologne meeting had not really changed the political situation.¹⁹ That was Schleicher's fatal mistake, because the results of the Schröder-Papen meet-

ing catapulted Hitler out of a desperate situation, right into a successful "legal coup d'état."

An evil little man: Oskar von Hindenburg

Meanwhile, Papen and Hitler were hyperactive behind the scenes. The details of the Schröder-Hitler-Papen agreement were worked out in several subsequent meetings during January, between Papen and Hitler at the Berlin residence of Joachim von Ribbentrop, then a wealthy champagne salesman. Then, Papen and Hitler worked on Oskar von Hindenburg. They, as well as Schröder and Schacht, knew, that Oskar, a "little man" without intellectual and moral substance, was the central figure, on whom everything depended. Only if they managed to get Oskar to exert sufficient personal pressure on his father, was there a chance to catapult Hitler into power. Papen saw Oskar, and old Hindenburg, almost daily. Oskar lived at Hindenburg's Presidential Residence, where Papen had unrestricted access. On Jan. 22, Hitler himself met for two hours with Oskar von Hindenburg. By that time, Oskar had already become the willing instrument of evil. He told the State Secretary in the Presidential Office, Otto Meissner: "There's is no way to get around this Hitler."²⁰

Jointly, Papen and Oskar worked over the 87-year-old Reich President Hindenburg. On Jan. 28, 1933, Hindenburg relieved Schleicher of his duties as Chancellor, and on Jan. 30, named Hitler Chancellor. Why did old Hindenburg do this? Had he not, on Aug. 13 and on Nov. 24, 1932, flatly rejected Hitler's demand to be named Chancellor? The following should be considered here:

1. It was no secret that Oskar von Hindenburg passionately hated von Schleicher, even before Papen and Hitler had worked him over. At the above-mentioned press briefing by von Schleicher, the Reich Commissioner for Public Works Günther Gerecke, who was also there, emphasized this to the assembled journalists.²¹

2. Nine months later, on Aug. 10, 1933, the Nazi-controlled Reich government donated a vast tract of state forest in East Prussia to Oskar von Hindenburg.²²

3. Oskar von Hindenburg had been in dire financial straits for several years. Moreover, Oskar's financial activities had moved into the realm of corruption and criminality. At a minimum, had his ruinous financial situation become public, it would have cost him his "honor," in terms of the honor code of Prussian nobility.

In his autobiography, *The Long Road Home*, Wall Street banker James P. Warburg reports that in July 1931, Paul M. Warburg had offered the German government an emergency

19. Henry A. Turner, *op. cit.*

20. Gottfried Reinhold Treviranus, *Das Ende von Weimar* (Düsseldorf, 1968).

21. Henry A. Turner, *op. cit.*

22. G.R. Treviranus, *op. cit.*

credit for the collapsing Danat Bank, provided that first, a thorough audit would be made. According to Warburg, then-Chancellor Heinrich Brüning was in tears, when he said that he had to reject the offer, but could not say why. Remember that, before becoming Reichsbank president, Schacht been an executive of Danat Bank, and it is quite unlikely that he would not continue to receive sensitive information from his “old” bank. Warburg further writes, that later audits at Danat Bank revealed that on the books of Danat Bank was a “mysterious, non-performing loan of 10 million reichsmarks to Oskar von Hindenburg”!

Had this become known, Reich President Hindenburg would have had to resign immediately, as, after all, his son was his closest aide and adviser. At the time, there was a saying that Oskar von Hindenburg was “the son of the Reich President, not foreseen by the authors of the Constitution.” That is why Brüning, at a moment of the worst financial crisis in July 1931, had refused the Warburg credit for Danat Bank.

In Oskar von Hindenburg’s massive debt, lies probably the real secret of what was worked out among Schröder, von Papen, and Hitler, at that fateful meeting on Jan. 4, 1933 in Cologne. And Schacht, one can safely assume, also knew about Oskar’s debts. The available evidence indicates that Oskar was the “Achilles’ heel,” which Schröder, Schacht, Papen, and Hitler diabolically used to “turn” old Hindenburg.

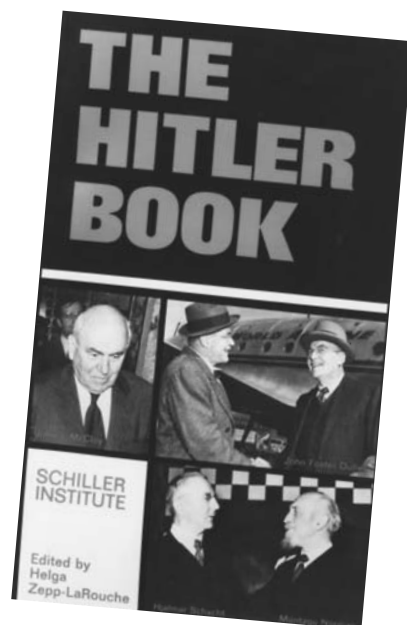
Once Hitler was in power though a “legal coup,” he acted swiftly. On Feb. 27, the Nazis orchestrated the arson attack against the Reichstag building, and this incident was then used as the pretext for declaring a full state of emergency in Germany, suspending all constitutional rights. This was followed by the March 23 *Ermächtigungsgesetz* and the various *Gleichschaltungsgesetze*, which, by May 1933, led to the liquidation of all parties—except the Nazi Party, of course—and the trade unions. By that time, Jewish citizens were purged from the civil service. Already, on March 17, 1933, Schacht had been named president of the Reichsbank by Hitler. The totalitarian dictatorship was in place in early summer 1933.

On Aug. 2, 1934, Hindenburg died, and Hitler made himself Reich President, and from that point, the Army had to swear allegiance to Hitler personally. Two months earlier, on the morning of June 30, 1934, five SS men in plain clothes had stormed into the house of General von Schleicher. They were armed with pistols and instantaneously opened fire, killing Schleicher and his wife. At the same time, Maj. Gen. Ferdinand von Bredow was shot dead.

Bredow had been for many years Schleicher’s closest collaborator in the Defense Ministry, a man with access to the Reichswehr’s intelligence files, who knew the secrets that Schleicher knew, especially those which concerned Hitler’s really powerful backers, in and outside Germany, and the way that Hitler’s “legal coup d’état” was orchestrated in January 1933.

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