“A concerted and all-embracing attack must be made on unemployment in order that the German working class may be saved from ruin.... Within four years unemployment must be finally overcome… Now, people of Germany, give us four years and then pass judgment upon us.”

Adolf Hitler, “Proclamation to the German Nation,” February 1, 1933.

“You, sir, would have been glad if Hitler had perished without my help. But the whole of the German working class would have perished with him.”

Hjalmar Schacht

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Introduction

No economic downturn in history has proved more consequential than the cataclysm that engulfed the United States and Europe in the 1930s. The Great Depression threw millions out of work and into poverty, erased hundreds of billions of dollars of wealth, and shattered the reigning economic orthodoxies. In this tumult, however, some saw—and seized—opportunity. In Germany, a clique of right-wing populists led by a strident but until then unremarkable Austrian came to power in 1933 not least by pledging to vanquish unemployment within four years. To general astonishment, Adolf Hitler and his National Socialist Party did exactly that. By September 1934 the Nazis could boast of reducing unemployment by 4.5 million, and by the end of 1936 they had engineered full employment.

The Great Depression may have given Hitler his shot at power, but his ability to stay in office was in large part a function of the success of his economic policies. Without that success, German voters would have turned the Nazis out long before the brutal apparatus of a police state made elections meaningless. Indeed, the road from recovery to all-consuming war was a direct one: To fully understand the economic resurgence in Nazi Germany is to comprehend the beginnings of the world’s deadliest and most destructive conflict.

Mainstream historiography has largely missed the substance of the Nazi economic revival. Many historians accepted at face value the claim that the regime’s program of public works (particularly the construction of the Autobahnen) provided the requisite employment stimulus. Richard Grunberger takes this tack in *The 12-Year Reich*. In 1933, he avers, the Nazis “embarked on a massive job-procurement program—public works projects, subsidized housing

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repairs and so on—which cut the peak unemployment figure of 6 million by over 40 percent within a year.”⁴ Most German textbooks deal with the recovery on similarly cursory basis. Holger Herwig’s *Hammer or Anvil: Modern Germany 1648-Present* can be considered representative; it credits the Nazis’ “two-pronged strategy” of “government-sponsored public works programs and an unprecedented rearmament program” with bringing the country out of the depression and devotes two brief paragraphs to the subject.⁵ The historiographical treatment of the recovery typically ends there. Proper comprehension of the Nazi economic miracle, such as it was, usually does not merit inclusion in most works on the Third Reich.

The author of the recovery has likewise been neglected. If Albert Speer was the architect of Nazi Germany’s war economy, then his antebellum counterpart was surely Hjalmar Schacht. Schacht presided over the Reichsbank from 1933 until the beginning of 1939, and showed extraordinary inventiveness battling Germany’s foreign exchange crises and funding the government’s deficit spending during that period. He earned himself the sobriquet of the “wizard” for these feats,⁶ and there can be little doubt that Schacht’s monetary policy served, at the very least, as the necessary precondition for Nazi Germany’s rise as a military and economic behemoth.⁷

Schacht was a very odd man out among the autodidacts, criminals, and nonentities that ran Adolf Hitler’s Germany. Why a professed democrat and president of the Reichsbank during the Weimar Republic agreed to serve Hitler remains elusive. Equally interesting, at least to the economic historian, is what engendered Schacht’s about-face between his terms at the

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⁶ Schacht took this nickname to heart, as evidenced by the title of the English translation of his memoirs.
⁷ At Nuremberg, the prosecution tried to hang Schacht for that fact.
Reichsbank about the proper role of the state during an economic downturn. And finally, what should be made of his testimony—and acquittal—at Nuremberg? The mainstream historiography has largely offered up unedifying answers to these questions, and a deeper analysis of Schacht and his financial and monetary innovation is needed to complete the historical record.

In fact, the Nazi economic recovery is worth understanding not merely because it has been poorly studied in the past. Contemporary policymakers, wrestling with persistent unemployment and anemic growth in the wake of a sharp recession, have much in common with the economic policymakers in Germany in the early 1930s. Central bankers today can learn much from Schacht: The issue is less who he worked for and more what he worked to resolve, and the tools he used for that resolution.

The West has had little positive use for anything that the Nazis engineered. Yet the economic revival that occurred in Germany between 1933 and 1938 presents an efficacious case study for contemporary economics and policymakers. There is much to be learned from it, from where it went to where it went so wrong. Hjalmar Schacht turned out to be Hitler’s indispensable man. His achievements demand attention.

The Indispensable Man

Hjalmar Schacht played an essential role for the Nazis between 1933 and 1936. J. Noakes and G. Pridham concisely articulate his contribution: “By solving the economic crisis and by evolving economic techniques to ensure the progress of the rearmament program, [Schacht] made a considerable contribution to the regime.” This description underemphasizes his

8 There are some obvious exceptions, with Wernher von Braun’s rocket theory being the most manifest.
importance. As Noakes and Pridham contend elsewhere, Schacht was the only individual who both commanded enough respect abroad and at home and possessed sufficient financial acumen to solve an economic crisis that threatened the regime’s major objectives.\(^9\) Contrary to what Schacht claims in his memoirs,\(^10\) it appears doubtful that some other figure could have replaced him during this period. Putting aside his resourcefulness, none had his stature and reputation, and such attributes were critical when the creditworthiness of Germany seemed to rest only on the bespectacled former banker’s expertise—and good name. If the survival of the Nazi regime in its early years can be ascribed to one man besides Adolf Hitler, then that individual would be Schacht.

Dr. Horace Greeley Hjalmar Schacht was an unlikely savior of reaction. As John Weitz puts it, his “place at Hitler’s side seemed as incongruous as his mélange of names.”\(^11\) Schacht had a middle class, yet markedly cosmopolitan, upbringing. Born in North Schleswig on January 22, 1877, he entered the world a German only by virtue of Otto von Bismarck’s expansionist drive.\(^12\) His mother and father had emigrated to the United States in 1871, where they were married. Schacht was in utero when his parents decided to relocate back to Germany for economic reasons—though he writes that homesickness played a part as well. His father regarded Horace Greeley, the American politician and press magnate, as a paragon of a man, and christened his son after him. Schacht’s maternal grandmother, a relative of Danish nobility, exerted her will so that her grandson bore “at least one decent Christian name.”\(^13\) The Schachts struggled for a time economically until the family relocated to Hamburg and Schacht’s father got

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\(^10\) Schacht, *Confessions*, 278.
\(^12\) Indeed, the Treaty of Versailles returned Schacht’s hometown, Tingleff, to Denmark, and it remains part of that country today.
\(^13\) Schacht, *Confessions*, 2-5.
a position as a bookkeeper with an American insurance corporation. At the age of nine, Schacht earned entry into an elite grammar school—despite producing an incorrect answer for the arithmetic section of the entrance examination—and from there began his academic career.

Schacht had a varied experience in academia. He entered university in 1895 with the intention of studying medicine, then veered toward the history of literature, and eventually settled on political economy. As he terms it in his memoirs, “In four and a half years I attended five different universities; during the first seven terms I changed my university every term (every six months) and experimented with subjects that had little to do with each other.” Schacht then became a journalist, writing briefly for a small local newspaper. This sojourn in journalism would pay him dividends later in his career. He gained an understanding of the newspaper business and recognized his own ability with the written word. As Harold James relates, in subsequent years Schacht “used his contacts with newspapers unscrupulously and on the whole skillfully.” Indeed, in 1898, he returned to university to pursue his doctorate in political economy, hoping to write a dissertation on “The Economic Significance of Newspapers”—a suggestion that his advisor rejected immediately. He instead wrote an analysis of English mercantilism.

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14 Schacht, _Confessions_, 22.
15 Schacht later freely admitted his ineptness at arithmetic. This failing was odd considering his chosen profession, but apparently he embraced it: As he told interrogators after the war, “show me a financial man who is good at arithmetic and I’ll show you a swindler.” See Weitz, _Hitler’s Banker_, 310.
17 Ibid., 53-54.
18 Ibid., 60-65.
20 Schacht, _Confessions_, 72-3.
Schacht’s dissertation, titled “The Theoretical Content of English Mercantilism,” presents some value to the historian seeking to understand the man’s way of thinking. In it, he contended that, contrary to contemporary economic orthodoxy, no theory of mercantilism actually existed; instead, mercantilism was more a pragmatic policy than a theoretical framework: “The balance of trade doctrine is no theory but a practical view which only takes out of a mass of theoretical points those which are important for practice.” As Harold James suggests, this freewheeling approach reflected Schacht’s own view that exalted pragmatism over theory. He quotes Schacht in 1935, stating that “It is an error to speak of exact methods of economics and of immutable economic law. The economist must make possible what seems impossible”—a will-centered view, of course, that mirrored that of Hitler himself. Schacht’s dissertation is noteworthy in another respect—it showcases an early example of his acidic tongue. Among the mercantilist writers, Schacht wrote, “there is not one who could boast of writing sine ira et studio; indeed often crass egotism and the lust for filthy lucre step out of their pages.”

This prickliness of character is worth touching on. Schacht had a reputation for being “maliciously self-willed,” maddening many with his disregard for the sensibilities of others. Harold James cites a contemporary who bemoaned Schacht’s “tactic of consulting everyone and then doing exactly what he pleases”; on another occasion, the same individual, while conceding that he could not object to Schacht’s policies, did stress that he objected to Schacht’s “complete failure as a human being.” Another man described him thus: “Schacht is a woman who is only quiet when she feels loved.” His contemporaries marveled at his arrogance—a manifestation of his superhuman sense of self-worth. That is not to say that none enjoyed his company. In the

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21 James, Reichsbank, 25-6.
22 Ibid., 26.
1930s, Schacht became a fixture at the dinner parties of the American ambassador, William Dodd, whose wife adored Schacht and often invited him over to replace guests who cancelled unexpectedly.\(^\text{24}\) Still, there was much truth in Hermann Rauschning’s later description of Schacht as a loner: “He was a man apart, unique, solitary, without followers or any coterie of partisans. He had no friends, only enemies.”\(^\text{25}\) This aloofness would prove fateful for Germany and the rest of the world as the 1930s wore on.

After securing his degree, Schacht began working for a think-tank funded by a group of export-oriented manufacturers, where he churned out papers advocating changes in macroeconomic policy.\(^\text{26}\) After impressing his patrons with his industriousness and intellect, he migrated to the Dresdner Bank, one of the main banks in Germany. He helmed the institution’s public relations arm for a time—using his knowledge of newspapers to good effect—and then floated around the bank with an eye toward mastering the practical side of banking.\(^\text{27}\) In 1911, at the age of 31, Schacht became an assistant director. At that juncture he served as Dresdner’s press chief, house economist, and oversaw its branch operations.\(^\text{28}\)

In October 1914, when the Great War came, Schacht undertook his first foray into public service. The result was mixed. He was approached with, and accepted, an offer to serve as the bank administrator for occupied Belgium. Tasked with finding the most efficacious way of getting the Belgians to finance the German occupation, Schacht struck upon the idea of the Belgian provinces issuing a loan to cover the costs. The Belgian leaders eventually agreed to this

\(^{24}\) Larson, Erik. *In the Garden of Beasts: Love, Terror, and an American Family in Hitler’s Berlin*, 107. Mrs. Dodd would often say, “Well, if at the last minute another guest can’t come, we can always invite Dr. Schacht.”


\(^{26}\) Schacht, *Confessions*, 81-85

\(^{27}\) *Ibid.*, 87, 93-96.

\(^{28}\) Weitz, *Hitler’s Banker*, 33.
proposal, which amounted to 40 million francs a month, and Schacht boasts in his memoirs that this move stopped the German military from merely commandeering the supplies it needed.29 A new Belgian currency arose on the back of this loan, and soon thereafter Deutsche Bank approached Schacht with a request for a large amount of occupation currency that would be discounted at a profit against German marks through its branch in Brussels. Schacht complied, and then also satisfied a similar request by the Dresdner Bank. Facilitating a huge profit for his former employer while working for the government during wartime seemed unethical to everyone besides Schacht, and he was promptly sacked once it became known.30

Schacht refers to this episode as an “insignificant occurrence” and stresses that the official inquiry cleared him of any wrongdoing.31 Nevertheless, the cloud of scandal dogged him as his career progressed in the years ahead. When he returned to the home front, he resigned from the Dresdner Bank (wholly unrelated to the incident in Belgium—he left after being passed over for a promotion to director that had been promised) and took a position on the board of the Nationalbank für Deutschland, a second-tier bank. He would finish the war in this capacity.32

Schacht’s star began to rise in earnest at the end of the war. In 1919, he showed a half-hearted interest in democratic politics by helping found the German Democratic Party, a middle-class left-wing party.33 To put it mildly, Schacht’s temperament did not suit him for electoral politicking. (He would admit as much in his memoirs: “I have never laid claim to being a politician. Quite obviously I am minus certain qualities necessary for such a career.”)34 Unable to rouse a constituency to support his own election to office, Schacht quickly lost interest in the

29 Schacht, Confessions, 120-1
30 Weitz, Hitler’s Banker, 46.
31 Schacht, Confessions, 126-7.
32 Ibid., 129.
33 Ibid., 139.
34 Ibid., 346.
party and drifted away from it. At the Nationalbank, however, events got more interesting. Schacht had hired an energetic young Jew named Jakob Goldschmidt to help run the bank. Goldschmidt proved an aggressive dealmaker, and under his influence the Nationalbank absorbed several other banks. The Danat Bank, as the amalgamation became known, grew to be one of the largest banks in Germany. Schacht, though a sharp critic of Goldschmidt’s appetite for risk, accumulated great wealth in the process, and by 1923 had vaulted himself into the top echelon of the nation’s bankers. Outshined by Goldschmidt at the Danat Bank, Schacht turned his attentions to the macroeconomic problems of the day, and earned a reputation as an authority on reparations by writing articles in the Berliner Tageblatt and the Vossische Zeitung and spreading his ideas in person abroad.

It would be the period of hyperinflation, which caused his countrymen so much agony, that would give Schacht the opportunity to chase his ambitions. Inflation, the principal cause of which was the government’s large budget deficits, reached its frenzied peak in 1923. On November 12, 1923, Hans Luther, the minister of finance, summoned Schacht and asked him to serve as the Commissioner of National Currency. Schacht accepted and immediately set out to stabilize the debased Papiermark, which on November 20, 1923 had an exchange rate with the US currency of 4.2 trillion marks to one dollar. After a week of furious action, occupied by, in the words of his secretary, endless telephone calls and smoked cigars, the exchange rate was fixed and Schacht had become a national figure. At this point, events moved quickly. On the

35 He formally parted ways with the party in 1925. See Ahamed, Lords of Finance, 103.
36 Ahamed, Lords of Finance, 128.
37 In his memoirs, Schacht notes, smugly, that the collapse of the Danat Bank brought about the worst of the banking crisis of 1931: “subsequent developments unfortunately proved that I had been right.” See Schacht, Confessions, 158.
38 Ahamed, Lords of Finance, 128-9.
39 Harold James, German Slump, 41-2.
same 20th of November, the president of the Reichsbank, Rudolf Havenstein, died. Schacht emerged as a frontrunner for the post, and on December 22 he was confirmed as head of the Reichsbank. In a little more than a month, Schacht had catapulted from private banker to national figure controlling the monetary policy of the world’s third largest economy. At this point, the German press began referring to him as the “Wizard” and the “Miracle Man.” He was a month shy of 47 years of age.

The full details of Schacht’s tenure as president of the Reichsbank from December 1923 until March 1931 are outside the scope of this study. In broad terms, he spent the bulk of his time in office negotiating reparations payments and battling speculation and foreign exchange crises. His obsession in this period was criticizing German politicians for their addiction to “luxury spending of public money.” The 1920s saw a sizeable influx of foreign capital into Germany; between 1924 and 1928, the country incurred foreign debts equal to 25 percent of its national income. The German municipalities spearheaded this “profligacy,” which they used to fund welfare spending and public spending they could not otherwise afford. Such spending—on swimming pools, libraries, sports and public pleasure grounds—struck Schacht as imprudent investments for a country recovering from war. He excoriates the politicians for their folly in this regard, concluding that because of it “Germany had disintegrated into numerous small states, communities, districts, provinces, each competing furiously with the other in borrowing.”

40 Schacht, Confessions, 164-75.
41 Ahamed, Lords of Finance, 190.
42 For an authoritative treatment, see Harold James’s The Reichsbank and Public Finance in Germany 1924-1933: A Study of the Politics of Economics during the Great Depression.
43 See Schacht’s own account of his time at the Reichsbank in Confessions, 174-236.
44 Schacht, Confessions, 237.
45 Balderston, Economics and Politics, 62.
46 Harold James, German Slump, 50-54.
47 Schacht, Confessions, 218-9.
Schacht resigned from the Reichsbank on March 3, 1930 as part of a botched maneuver to exert greater control over the financial direction of the Weimar Republic. At the end of 1928, he agreed to lead the German delegation to the Paris conference designed to finally settle the amount of reparations that Germany owed. Schacht’s machinations during and after these negotiations—which produced what became known as the Young Plan—not only suggest the malleability of the man’s economic beliefs, but also his opportunism and ambition. On the eve of Germany’s ratification of the Young Plan, Schacht clashed violently with the Weimar Republic’s finance minister, Rudolf Hilferding, and the ministry’s state secretary, Johannes Popitz, over their proposal to alleviate the tax burden of German industry. Since 1927, Schacht had criticized his country’s excessive indebtedness, arguing that its taste for debt-fueled spending was exacerbating the reparations problem, upsetting Germany’s foreign exchange reserves, and shackling industry to ruinous tax rates. While he thought necessary a reduction of taxes on Germany industry, Schacht blasted the Hilferding-Popitz plan because it aggravated the government’s deficits. In a memorandum Schacht released on December 6, 1929, he savaged the plan. "The ever-increasing deficits have been met by an ever-increasing short-term public indebtedness," he asserted, and the tax relief "which industry so urgently requires will be possible only if the national government, the states and the municipalities reduce their

48 Schacht, Hjalmar. The End of Reparations, 50.
49 Schacht’s theatrics at the Young Conference lay beyond the scope of this paper, but a journalist, reacting to Schacht’s habit of walking out on meetings and threatening to abort the talks, described him as "a vehement, intolerant man; excitable and dogmatic; … the most tactless, the most aggressive and the most irascible person I ever have seen in public life." See Ahamed, Lords of Finance, 332.
51 Schacht, Reparations, 84-5.
expenses."³² Shortly thereafter, Schacht used his influence to get Chancellor Heinrich Brüning to
give Hilferding and Popitz the boot and to reject their innovative plan.³³

Schacht won this battle, but his victory proved Pyrrhic. Although he had felt it necessary
to sign the Young Plan in May 1929, Schacht desperately did not want his government to ratify
it. In March 1930, Schacht submitted his resignation to President Paul von Hindenburg.
Although he paints it otherwise in his book on the subject,³⁴ in all likelihood Schacht intended
this offer of resignation to function as a Bismarckian ploy to force Hindenburg to refuse to sign
the Young Plan. Instead of backing down in the face of Schacht’s indispensability, however, the
offer was accepted, for Schacht had worn out his appeal to the Brüning cabinet. To compound
Schacht’s mistake, the selection of Hans Luther as his successor met with universal acclaim.³⁵

The question arises for the historian of how to reconcile Schacht’s orthodox suspicion of
deficits (as evidenced by his opposition to the Hilferding-Popitz plan) with his embrace of
expansionary monetary policy after the Nazi ascension to power. What changed for him between
1931 and 1933? Harold James suggests that a continuity of thought did exist for Schacht between
these periods. Schacht, he writes, had theoretical foundations for his intuitions—he accepted the
theory that the quantity of money should ebb and flow in proportion to the volume of business
activity, and believed that the central bank’s purpose was to maintain that correct proportion to
prevent inflationary consequences. He saw in this task a mandate for active intervention, yet felt
himself stymied by the outdated regulatory instruments and political interference. He tried to
avoid these limits by implementing an intricate system of controls, but his quest to control the

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³² Schacht, Reparations, 84-5, 94.
³³ Patch, Brüning, 56-58. Schacht’s move earned him Popitz’s undying enmity, which would
become relevant once he gained a position of power in the Third Reich as finance minister of
Prussia.
³⁴ Schacht, Reparations, 84-107.
³⁵ Patch, Brüning, 65.
volume of money ran up against indomitable foes: reparations creditors, tax-and-spend governments, obtuse banks and incautious industrialists. James likens Schacht at the end of the 1920s to “an economic Don Quixote tilting at impossible political windmills—alone, isolated in the pursuit of an unrealizable vision.” Yet Schacht managed to realize this vision, James contends, after 1933.\textsuperscript{56} Other interpretations exist. Schacht at his core may have been a consummate pragmatist, willing to pursue whatever policies were called for by the times. He himself hints in this direction—regarding his decision to work for Hitler, Schacht writes of his “resolve to risk the attempt, under a strong government, to stem the tide of economic misery and provide wages and food once again to the six and a half million unemployed.”\textsuperscript{57} The ends, in other words, justified any means. Of course, that Schacht was a chameleon willing to subordinate his principles under his ambitions is another possibility.

In any event, by March 1930, Schacht had cast himself out into the wilderness. After securing a generous severance package, he announced to the press his intention of becoming a country squire and pig farmer.\textsuperscript{58} He was politically isolated, distrusted by the Right for signing the Young Plan, and loathed by the Left and center for trying to undermine the government. But Schacht had proved shrewd—even if unintentionally—for he had slipped out of office just as the curtain came down on Germany’s economy.

The Great Depression’s deleterious effect on the German economy has been chronicled well elsewhere.\textsuperscript{59} In light of its relevance to the Nazi recovery, however, it is worth asking whether a viable alternative existed to the deflationary monetary policy pursued by the

\textsuperscript{56} James, \textit{Reichsbank}, 26-7.
\textsuperscript{57} Schacht, \textit{Confessions}, 272-3.
\textsuperscript{58} Ahamed, \textit{Lords of Finance}, 399.
\textsuperscript{59} For a first-rate account, see Harold James’s \textit{The German Slump: Politics and Economics 1924-1936}. William Patch’s \textit{Heinrich Brüning and the Dissolution of the Weimar Republic} likewise presents a useful summary of the actions taken by the Brüning government to stem the crisis.
government of Heinrich Brüning in response to the cataclysm. Fiscal austerity certainly reflected the orthodox liberal economic theory of the time, which held that balancing its budget should be the key goal of a government in a recession, and that spending cuts rather than tax increases were the most benign way to do so. Some floated alternative policies. In May 1931, Hermann Dietrich, the minister of economics, suggested that public works spending could stimulate the economy. Concern about unbalancing the budget, and fears that the government would crowd out private enterprise in the capital market, ensured that the cabinet rejected this proposal. By the end of July, a consensus in the cabinet emerged that deflation had created a vicious circle of declining prices and expectations. Brüning even considered the possibility of introducing “stockpile notes”—a supplemental currency designed to advance cash to farmers and other small producers for their unsold inventories. The political atmosphere, and the public’s dread of inflation, soon made the proposal untenable.

Others also pushed for a proto-Keynesian approach. In August 1931, a figure in the economics ministry who had read Keynes, William Lautenbach, came up with a plan that called for the Reichsbank to expand the money supply by two to three billion marks to spend on public works. Inflation would not result, he argued, because so much of the means of production lay idle. Lautenbach managed to convert Hans Schäffer, the state secretary of finance, to the cause of expanding the money supply to construct public works. Hans Luther at the Reichsbank, however, remained skeptical and he called a meeting of the influential Friedrich List Society to discuss the problem. Composed of the some of the brightest lights in economics, the group debated the Lautenbach proposal but could not agree in its favor. Disunity among the Keynesians regarding the dividing line between the two phases of deflation (one productive and the other destructive)

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60 Patch, Brüning, 173.
61 Ibid., 176-7.
undermined their position. In any event, the society decided unanimously that the money supply could not be openly expanded without provoking the public’s fear of inflation. Popular psychology, it seemed, was insurmountable.\textsuperscript{62} To exacerbate the situation, contemporary economists were of little use to those looking for a non-deflationary option. They offered interesting diagnoses, Harold James writes, but no cures. As a result, the Brüning government took the only path it could.\textsuperscript{63}

\textbf{The Madman’s Economics}

Adolf Hitler rose to power on the back of his pledge to fix the economy. But what was this autodidact’s economic philosophy? The answer is not immediately apparent. Many historians have characterized Hitler’s economic thinking as ignorance guided by indifference. Alan Bullock, for example, writes that “Hitler neither understood nor was interested in economics.”\textsuperscript{64} As Harold James points out, other historians contend that common sense rather than any ideology motivated Hitler’s economic programs.\textsuperscript{65} The positions of the Nazi party itself do not clarify this matter because its economic program was opaque and contradictory up to 1933. By picking through the muddle, however, it is possible to discern a semblance of Hitler and the Nazis’ economic theory.

The first clue to understanding National Socialist economics is an early one—the party’s twenty-five-point program from February 1920. The “Socialist” part of the party’s name was no affectation; in the early 1920s the party truly endeavored to win over the working class by

\begin{itemize}
\item[\textsuperscript{62}] Patch, \textit{Brüning}, 201-3.
\item[\textsuperscript{63}] James, \textit{German Slump}, 342.
\item[\textsuperscript{64}] Bullock, Alan. \textit{Hitler: A Study in Tyranny}, 152.
\item[\textsuperscript{65}] James, \textit{German Slump}, 347. He cites Tim Mason and Norman Stone as examples.
\end{itemize}
advocating socialist policies. Among the anti-Semitism and rejections of Versailles, the platform’s economic planks pointed to the party’s anti-capitalist roots. The program vowed to abolish “income unearned by work” (point 11) and to break “the slavery of interest.” It also aimed at big industry by insisting on the “ruthless confiscation of all war profits” (point 12), the nationalization of all trusts (point 13), and “profit-sharing in large industrial enterprises” (point 14). On top of these goals, the program demanded the expansion of the welfare state, calling for “the extensive development of insurance for old age” (point 15). Yet the program also revealed the party’s petit bourgeois foundation: it demanded the “creation and maintenance of a healthy middle class” and the subsidization of small traders by communalizing big department stores (point 16).

The left wing of the Nazi party was ascendant during the early period of the Weimar Republic. The party’s pronounced animus toward Marxists—and Hitler’s talent for tailoring messages to fit his audience—could not overcome the fact that parts of National Socialism did not sit well with big business. Early contacts between Hitler and industrialists proved unprofitable for the Nazis as fundraising efforts turned up short. That business stayed away underscores the potency of the party’s anti-capitalist, socialist echelon in the early 1920s. This segment grew only more pronounced as the party spread into the more urban and industrialized sections of Germany beginning in 1924. While the limits to Nazi socialism were real, to the uninitiated the National Socialists sometimes sounded indistinguishable from the Social Democrats and Communists. As Gregor Strasser, the leader of the Nazi left, proclaimed in 1927, “We socialists are enemies… of the present capitalist system with its exploitation of the

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economically weak… and we are resolved under all circumstances to destroy this system.” Even Joseph Goebbels, as Gauleiter of Berlin, used such radical, anti-capitalist rhetoric during this time.69

Infighting between the Nazi left and right wings about the party’s stance on economics—and the confused public interpretation of that position—led Hitler to authorize a “catechism” in 1929 to settle the matter. Henry Turner describes this screed, authored by the editor of the *Völkischer Beobachter*, as “pretentiously phrased and often abstruse.” It confused more than it clarified. While the pamphlet described National Socialism as fundamentally corporatist and held up Mussolini’s Italy as an ideal, Hitler continued to regard the 1920 platform as inviolate. As such, Turner argues that a “dizzying profusion of crosscurrents” makes impossible any effort to decipher National Socialist economic policy at this juncture.70 Likewise, Avraham Barkai concludes that before 1933 the Nazis had in mind only general economic concepts, and did not commit themselves to any specific or substantive proposals.71

Rather than looking to the party itself, it may be more fruitful to examine the individual who drove it. While it is clear that Hitler was an economic naïf, it would be an error to claim that economics did not have a place within his worldview. The historian can make several points about Hitler’s economic thinking. First, Hitler regarded economics as subordinate to politics, culture, and the state. In *Mein Kampf*, he repeatedly stressed the idea that “economics play only a second or third role, while the main part is played by political, moral, and racial factors.”72 That subordination did not mean, however, that Hitler saw no value in economics. A vulgarized Social Darwinism provided the cornerstone of Hitler’s *Weltanschauung* and both his anti-Semitism and

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belief in *Lebensraum* derived from it. While this Darwinism was at its core biological—with the hardier races eliminating the less adapted ones—in execution it was also economic, for that process depended upon a Malthusian scramble for resources. For Hitler, the principal resource that survival depended upon was farmland. He argued that the productive capacity of soil had limits, and that increases in population and the standard of living would necessitate genocide: “The day will certainly come when the whole of mankind will be forced to check the augmentation of the human species, because there will be no further possibility of adjusting the productivity of the soil to the perpetual increase in the population.” As a consequence, economics occupied a critical position in Hitler’s worldview because agricultural production controlled the fate of races.

An important question to ask is whether Hitler sympathized more with the left or the right wing of the Nazi party. The memoirs of Otto Wagener, the chief of staff of the SA and the key economics advisor to Hitler who fell from grace at the end of June 1933, are useful on this score. Written by hand in a British prisoner of war camp in 1946, without documentation, and reaching back more than a decade in the past, Wagener’s account is nevertheless strikingly credible. For his part, Wagener concluded that Hermann Göring, Heinrich Himmler, and Wilhelm Keppler, who had been subsidized (and Wagener thought corrupted) by big business, had led Hitler astray from National Socialism’s left wing. Yet elsewhere Hitler communicates to Wagener his negative view of socialism: “collectivist solutions cannot lead us to our goal. Everywhere in life only a process of selection can prevail… As Darwin correctly proved: the choice is not made by some agency—nature chooses.” Socialism, Hitler contended, “means nothing other than what is

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75 Ibid., 299.
being practiced in the insane asylums and prisons.” HITLER’S actions also seemed to suggest an affinity for the moderate echelon of the party, even if only out of political expediency. After 1926, when Hitler had taken total control of the party, he rid the party’s stance on economics of any anti-capitalist impulses. This shift reflected political reality: the Nazi party remained a fringe party in the later years of the Weimar Republic, and its socialist posturing had alienated middle class voters without attracting those of the working class, who remained loyal to the SPD and Communists. In 1928, Hitler issued an “unalterable” amendment to the party program that stressed the Nazis’ “self-evident” support for the “principle of private property,” in contrast to the “false interpretations on the part of our opponents.” Such moves indicate that Hitler felt no compunctions about moving toward the center when it would further his pursuit of power.

Another question worth asking is whether Hitler should be identified as an acolyte of Keynesianism. Of course, defining that term is slippery, considering that Keynes would not publish his seminal *The General Theory of Employment, Interest and Money* until 1936. Thankfully, it is not necessary to pin down what Keynesianism meant before 1933, for formal economics held little interest for Hitler. In 1941, Hitler encapsulated his disdain for economists and economics: “For a distinguished economist, the thing is, no matter what you’re talking about, to pour out ideas in complicated meanderings and to use terms of Sibylline incomprehensibility.” It is certain that he did not read Keynes, although Hitler was aware of his existence. Wagener recalled recommending Keynes’ *Treatise on Money* to Hitler, saying that “he is moving steadily in our direction… he has already tossed overboard the idea of the gold

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80 Hitler, Adolf. *Hitler’s Table Talk*, 53.
standard as the unshakeable and irreplaceable basis for currency.” Yet Hitler refused to read the work with the explanation that he would lose interest with it.81 Indeed, it is reckoned that Hitler only read one book on economics in his life, Das Ende Des Kapitalismus by Friedrich Zimmerman, a conservative thinker.82 As Barkai suggests, many new economic ideas were circulating at the time, but Hitler and the Nazis only grasped them in simplistic terms and merely appropriated them for political purposes. There is no doubt that Keynes’ counter-cyclical prescriptions, half-formed as they were, provided part of the intellectual stew from which the Nazis supped. From a theoretical perspective, however, it would be a mistake to describe Hitler or the Nazis as Keynesian in any meaningful sense.

Rather than formal theory, Hitler’s economic thought was instead guided by a fundamental belief in the supremacy of his own willpower. He related an example of his will-driven conception of economics in 1942: “These financiers seemed to have no idea of the real efficiency of our economic principles… when [Minister of Finance] Krosigk came to me full of objections, I said to him: ‘My dear Herr Krosigk, you are quite wrong. The thing has got to be done.’” He also remembered reprimanding Schacht for balking at his demands for increased rearmament spending: “You are not here to tell me that such and such a project is impracticable; your job is to provide me with the means to make it practicable!” He summarized his attitude toward the “finance branch” thus: “This is what I require, and this is what I must have.”83 Hitler’s belief in the power of his resolve was more than idle vainglory—it was part and parcel of the Nazi economic program. Hitler believed that he should be able to bend the German economy to his will. As a result, the Nazi state, with Hitler at the helm, ensured that it had the

81 Wagener, Memoirs, 262.
82 Barkai, Nazi Economics, 69.
83 Hitler, Table Talk, 480.
mechanisms by which to exert that control. As Barkai asserts, all of the Nazis’ economic plans rested on a foundation of “virulent antiliberalism” because it reflected the state’s interest in directing the economy based on the guidance of the leadership.\footnote{Barkai, \textit{Nazi Economics}, 27.} That Nazi economic policies in practice favored state intervention in the economy and systems of control and regulation should surprise few in light of the importance that Hitler placed upon his own will.\footnote{Ibid., 67.}

\section*{A Deal with the Devil}

The wizard did not stay in the wilderness for long. As it turned out, pig farming held little lasting interest for Schacht, and after he resigned from the Reichsbank in 1930 he quickly endeavored to return to the public sphere. As Schacht relates in his memoirs, he “constantly thought over the question of what I could do, as a private individual, to help solve Germany’s problem.” He decided to devote himself to the reparations question, conducting lectures throughout the West and writing \textit{The End of Reparations}, which was published in 1931.\footnote{Schacht, \textit{Confessions}, 248.}

Greater opportunities, however, beckoned him.

By 1930 the political climate in Germany had polarized, with the Nazis and the Communists gaining many seats at the expense of the moderate parties in the Reichstag elections of that year. Around the same time, Schacht first crossed paths with the top National Socialists. A banker friend reached out to him in December with an invitation to dine with Hermann Goering. As Schacht relates, “I was naturally pleased to have the opportunity of meeting one of the foremost leaders of the National Socialist movement.” After a dinner with Goering, whom

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\footnote{Barkai, \textit{Nazi Economics}, 27.}
\footnote{Ibid., 67.}
\footnote{Schacht, \textit{Confessions}, 248.}
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Schacht found “pleasant [and] urbane,” Schacht attended another dinner on the January 5, 1931. There, with the industrialist Fritz Thyssen present, he met both Joseph Goebbels and Hitler. In his memoirs, Schacht does not record what transpired during their conversation beyond noting that Hitler’s “absolute conviction of the rightness of his outlook and his determination to translate this outlook into practical action” impressed him.87

The diaries of Joseph Goebbels help shed light on this initial meeting between Schacht and Hitler. The Nazis’ ill will toward Schacht evidently colored Goebbels’s impression; Goebbels described Schacht as an “arriviste” and called his wife a washerwoman. Thyssen criticized Schacht for signing the Young Plan, and Goebbels wrote that, while Schacht tried to defend his actions, he “is dragged down from that horse. Merciless.” From the dinner, Goebbels perceived that Schacht “apparently wants to hitch a ride with us,” and noted that the Nazis could “make use of him” for he could “undermine the financial credit of the Republic.” Nevertheless, while Schacht endeavored to win over Goebbels by saying “many flattering things to me,” Goebbels maintained that “I don’t trust him.” Above all, Goebbels remarked that Schacht was “arrogant,” and had a “high opinion of himself.”88

What caused Schacht to throw in his lot with the Nazis? As Turner demonstrates, they did not make natural bedfellows. The Nazis had repeatedly denounced Schacht during the 1920s for his actions as president of the Reichsbank, going as far as accusing him of orchestrating an international Masonic conspiracy to take over Germany. (In 1929 he had even sued for slander after a particularly abusive speech.)89 Schacht for his part paints the decision as one borne of

87 Schacht, Confessions, 256-7.
89 Turner, Big Business, 144. In his memoirs, Schacht also writes that a “popular newspaper in the 1920s” purported to reveal him to be Chajim Schachtel, a Jew from Moravia. See Confessions, 5-6.
honor and duty. He borrows the words of Paul Rohrbach, who explained his own attempts to reach out to the Nazis as determined “not by any bitterness but by anxiety for my country.” He adds that after coming into contact with some of the half-baked economic ideas forwarded by the Nazis, “I asked myself what would become of [the] German economy if such theories should ever be put into practice.” He would have done his country harm, in other words, had he not joined the Nazi bandwagon. As Schacht asks elsewhere, although he disagreed with Hitler’s general outlook, political methods, and individual actions, should he really have “let such considerations influence me to the point of refusal, or should I devote my energies to the saving of six and a half million people?” A less charitable interpretation is possible. Schacht had tacked rightward after leaving the Reichsbank, and after the electoral success of the Nazis he immediately warmed to them, sensing an opening. The meeting with Hitler did not fall out of the sky; instead, the dinner invitation had materialized after Schacht had publicly admired the vitality of the Nazis in December 1930. It is likely that after meeting him, Schacht realized that Hitler could provide a vehicle for his return to power. Of course, Schacht the schemer and Schacht the patriot are not necessarily mutually exclusive.

For the Nazis, the benefits of the rapprochement with Schacht were immediate. Despite his ignominious exit from the Reichsbank, the financial establishment still held him in high regard. As a consequence, Schacht’s reputation became a priceless asset for the party. As his unofficial alliance with the Nazis became known in the business community, it helped establish their legitimacy even before Schacht began advocating for them in public. He stayed behind the scenes for a period and offered Hitler and other leading Nazis political and economic

90 Schacht, Confessions, 259-261.
91 Ibid., 277.
92 Turner, Big Business, 144.
93 Ibid., 145.
advice.\textsuperscript{94} In October 1931, however, Schacht stunned the world by openly embracing the cause of the “national opposition” at a public rally in Bad Harzburg. Even more shocking than Schacht’s appearance at the meeting—he had forewarned none of his friends in the business world—was the content of his speech.\textsuperscript{95}

Schacht expresses bemusement in his memoirs about the reaction to his speech, but he understood the incendiary character of the charges that he leveled against the government. After describing the notion of Germany repaying its foreign loans as an impossibility, he asserted that “our currency no longer serves to promote regular trade, but merely to conceal the illiquidity of our financial institutions and our public authorities.” The “hitherto prevailing system,” he contended, rested on foundations of insincerity, dubious legality, and lack of freedom of action. He concluded his speech by accusing the government of deceiving the public about Germany’s economic integrity: “Our financial situation in particular has always been—and still is—far worse than has been suggested to the public.”\textsuperscript{96} Turner argues that this moment marked Schacht’s turn from representative of the financial and business establishment to political mercenary lusting for a return to power.\textsuperscript{97}

Schacht spent part of 1932 trying to maneuver into the role of emissary between the Nazis and big business. In March, Schacht sent a letter to the Ruhr industrialist Paul Reusch about the need to steer the National Socialists’ economic policy in a “reasonable direction” now that the party looked destined for power. Schacht proposed to create an office that would facilitate communication between the business community and the Nazis—and with luck influence the party’s economic thinking—which he would partly subsidize. Schacht soon

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\bibitem{94} Turner, \textit{Big Business}, 238.
\bibitem{95} \textit{Ibid.}, 167-8.
\bibitem{96} Schacht, \textit{Confessions}, 268-270.
\bibitem{97} Turner, \textit{Big Business}, 168.
brought his plan to Hitler, who gave it his blessing.\textsuperscript{98} As was his wont, however, Hitler was playing a double game. At around the same time that Schacht had begun setting up his venture, Hitler had instructed Wilhelm Keppler, a lesser businessman and faithful Nazi, to come up with his own group for directing the party’s economic policies. In the middle of May, Keppler invited a nonplussed Schacht to join the economic advisory group that Keppler had started to form with Hitler’s authorization.\textsuperscript{99} Schacht rebuffed the offer, explaining that he would instead form his own independent office. For a month, both men contrived to replace the other as the bridge between the Nazis and big business. Keppler won out; with Hitler’s help, he forced Schacht to join the group that became known informally as the Keppler circle. Schacht’s office remained stillborn, though it occasionally surprised its subscribers by sending them papers on obscure topics. Schacht’s plan for exerting control of the economic direction of Nazi policy in 1932 had ended in failure.\textsuperscript{100}

Despite his setback with Keppler, Schacht had not been stopped. While outmaneuvered, Schacht’s charm offensive had evidently paid dividends. His initial impression of Schacht forgotten, by November 1932 Goebbels was describing Schacht as “one of the few who always supports the Führer.”\textsuperscript{101} In January 1933, Goebbels even called Schacht “most wise and resolute,” and wrote, “Schacht supports me fabulously.”\textsuperscript{102} In his own memoirs, Schacht makes no mention of his rivalry with Keppler—rather, he describes himself as not bothering about party politics between his speech at Bad Harzburg and the Reichstag elections of 1932.\textsuperscript{103} (It is worth noting here that at Nuremberg Schacht responded that he “would not think” of voting for the

\textsuperscript{98} Turner, \textit{Big Business}, 238.
\textsuperscript{99} Ibid., 239.
\textsuperscript{100} Ibid., 240-1.
\textsuperscript{102} Ibid., 747.
\textsuperscript{103} Schacht, \textit{Confessions}, 270.
When he heard the results from the July elections, he communicated to Hitler by word and in writing his willingness to assist the National Socialists. Anticipating the prospect of misguided Nazi economic policies causing further damage to the German economy, Schacht, says he, reached out to Hitler because “I felt it my duty to prevent such a disaster.” When Hitler assumed the chancellorship, Schacht reports that “I took no part in these activities, nor did I aspire to any ministerial position; I had hardly any contact with Hitler’s party.” Two of these assertions are of doubtful veracity, considering his past involvement with the National Socialists and his stake in the success of Hitler. (Indeed, Schacht likely exhorted Hitler not to accept participation in the government without securing the chancellorship for himself.) The second claim, however, may have been technically correct— the president of the Reichsbank was not a minister, after all. At this time, Schacht rendered one more service for Hitler. In February 1933, he agreed to undertake the banking administration for the RM 3 million election fund that the Nazis had raised from a meeting of big industrialists, including Gustav Krupp von Bohlen und Halbach.

The decisive moment came in March 1933. Hitler had reached out to Dr. Hans Luther, the director of the Reichsbank, about how much the central bank could put at the chancellor’s disposal for his planned push for rearmament. After what Hitler himself described as a two-hour monologue, during which he impressed upon the Reichsbank president the need for Germany to regain its military power, Luther assured the chancellor of his nationalist sympathies and pledged

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104 International Military Tribunal, Trial of the Major War Criminals before the International Military Tribunal, Volume XII, 425.
105 Schacht, Confessions, 272.
106 Ibid., 274.
108 Schacht, Confessions, 276.
his assistance. Luther then gave a precise figure for what he could offer: 100 million marks.\(^{109}\) Hitler reacted with disbelief: “I did not think it possible that a financier should have so little knowledge of the vast expense involved in a policy of rearmament.”\(^{110}\) The chancellor realized that he needed a more pliable tool, and contacted Schacht, whom he had considered for the Reichsbank presidency since at least August of 1932.\(^{111}\) Here Schacht and Hitler’s accounts diverge. According to Schacht, Hitler asked him how much he could provide at the Reichsbank to solve the problem of unemployment. Schacht explains that he gave the chancellor no sum, but expressed his commitment that “whatever happens we must put an end to unemployment and therefore the Reichsbank must furnish whatever will be necessary to take the last unemployed off the streets.”\(^{112}\) Hitler, on the other hand, recalled in 1942 that to the question of how much he would spare for rearmament Schacht had pledged eight billion marks.\(^{113}\) It was this promise that Count Schwerin von Krosigk, the minister of finance, later described as Schacht telling Hitler he could offer “water in limitless quantities from his miraculous spring.”\(^{114}\) Hitler kicked Luther upstairs, to Washington as ambassador, but not before pledging to the outgoing Reichsbank president that the central bank would be in sound hands, and that there would be no currency experiments.\(^{115}\) With that, the way for the wizard’s return was clear.

Hitler had found his man. On March 17, 1933—close to three years after resigning in disgrace—Schacht resumed his old position as the head of the Reichsbank. And, as he notes in

\(^{109}\) Schacht puts Luther’s stated figure at 150 million marks. See *Confessions* 277.

\(^{110}\) Hitler, *Table Talk*, 325.


\(^{112}\) Schacht, *Confessions*, 277.

\(^{113}\) Hitler, *Table Talk*, 325.


his memoirs, he faced a much more daunting situation than he had in 1923.\textsuperscript{116} Yet he had power, and would now have the opportunity to shape the economy in ways not possible a few years before. Of course, the price Schacht paid to attain it was high, but he also retained some nominal independence by not joining the Nazi party: “I would never have accepted a subordinate position under his party jurisdiction. I wanted to preserve my freedom; I have never been a member of the party.”\textsuperscript{117} While this independence was theoretical rather than practical, he would be grateful for it come 1945.

For his part, the chancellor was overjoyed because he knew the worth of the individual that he had enlisted. Hitler later remembered Schacht’s value: “He is a man of quite astonishing ability and is unsurpassed in the art of getting the better of the other party. But it was his consummate skill in swindling other people which made him indispensable at the time.”\textsuperscript{118} He also had few illusions about Schacht’s character: “When it is a question of a bit of sharp practice, Schacht is a pearl beyond all price. But if he were ever called upon to show strength of character, he always failed.”\textsuperscript{119} Indeed, Hitler also paid Schacht one of the highest compliments he could muster, when he said that Schacht “proves that even in the field of sharp finance a really intelligent Aryan is more than a match for his Jewish counterpart.”\textsuperscript{120}

\textbf{Drawing from the “Miraculous Spring”}

\textsuperscript{116} Schacht, \textit{Confessions}, 278.
\textsuperscript{117} Ibid., 274.
\textsuperscript{118} Hitler, \textit{Table Talk}, 326.
\textsuperscript{119} Ibid., 497.
\textsuperscript{120} Ibid., 326.
In March of 1933, Germany faced two critical problems. Mass unemployment was the first; the country had demanded action on behalf of the 6 million without work, and Hitler needed to deliver on his election promises of “Bread and Work.” Yet how could the government solve unemployment with empty coffers? The second challenge presented an even more pressing threat to the country’s economy. Since the slump, Germany had faced an acute squeeze on its foreign exchange reserves. During the Weimar years, only a robust export trade had given Germany a positive balance of payments and enough foreign currency to pay for its reparations debts and foreign loans. By 1933, that situation had changed. The West had turned protectionist, led by Great Britain devaluing the pound and all major importers erecting tariff walls. Orders for German exports dried up while the mark continued to flow outward to pay for reparations and foreign loans. Between January and the summer of 1933, the Reichsbank’s foreign exchange reserves plummeted by half. At RM 400 million, the reserves were only enough to cover about a month of minimal imports.\(^\text{121}\) How Germany could solve this foreign exchange crisis without prolonging the downturn—and infuriating its creditors—seemed an insoluble predicament.

Enter Schacht. He dealt with the foreign exchange situation in a characteristically brazen way. In April, the United States had devalued the dollar by 40 percent, reducing the value of German debts but exacerbating its export woes.\(^\text{122}\) At the same, Schacht had secured from the cabinet permission to declare a moratorium on Germany’s international debts whenever he saw fit. In May, he set off for Washington to see President Roosevelt, hoping to seize the moment by announcing an immediate default on Germany’s foreign loans.\(^\text{123}\) Schacht relates in his memoirs that he communicated to Roosevelt the fact that “even after the abolition of reparations it would


\(^\text{122}\) Schacht, *Confessions*, 281.

\(^\text{123}\) Tooze, *Wages of Destruction*, 51.
be impossible for Germany to continue the interest and amortization in foreign currency of the numerous loans” taken out by the public sector throughout the 1920s. Roosevelt surprised him by responding that it “Serves the Wall Street bankers right!” but a day later expressed his “shock” to Schacht’s statement in writing.  

(It is worth noting that Roosevelt described Schacht as a “bastard” after their meeting.) A subsequent formal protest from the U.S. State Department forced Schacht to beat a retreat.  

This setback proved temporary. In Berlin, Schacht called for a conference of Germany’s creditors, where he informed the sundry holders of German debt that the country had become incapable of “paying interest on her foreign loans.” Only if exports increased, he explained, could Germany resume paying what it owed. In his memoirs, Schacht portrays the mood of the conference as amicable. After viewing the Reichsbank’s books, he claims, the creditor representatives all agreed that the central bank’s foreign exchange situation necessitated action to increase Germany’s exports and to freeze its debts. Indeed, “the restrictions on transfers and the promotion of German export trade were entirely in accordance with the creditors’ ideas.” In truth, Schacht was more devious than he lets on. The creditors suspected—correctly, as it turned out—that Schacht had aggravated the Reichsbank’s foreign exchange outflows by unnecessarily accelerating repayments of short-term debts. Soured by the suspicion that the wily Reichsbank president was not negotiating in good faith, the conference ended without an agreement. Schacht had his excuse for unilateral action. On June 8, the government declared that a moratorium on all

124 Schacht, Confessions, 283-4.  
126 Tooze, Wages of Destruction, 51.  
127 Schacht, Confessions, 289.
of Germany’s long-term foreign debts would begin at the end of the month.\textsuperscript{128}

In lieu of payments for Germany’s debt, Schacht produced a workable alternative. He created a “conversion fund” into which borrowers would pay their interest and amortization payments, for he “had no intention of allowing the German debtors to escape their liabilities.” This money could not go abroad, however, lest it drain the Reichsbank’s foreign exchange reserves. Though “from time to time” the Reichsbank transferred these sums into foreign currencies, creditor nations could really only hope to get their loans back by purchasing German exports, thereby replenishing the central bank’s foreign exchange reserves.\textsuperscript{129} Bankers across the West reacted with fury, but to no end. As Harold James writes, Germany had transformed itself from an “unhappy bad debtor into a laughing one.”\textsuperscript{130} The new Germany, under Hitler and Schacht, cared little what the rest of the world thought.

The central task of bringing about a recovery remained. Here the Nazis had help, for the wind had begun blowing at their backs. The depression hit bottom in 1932, and from then on an organic upturn began in the German private sector.\textsuperscript{131} Economic statistics illustrate the reality that private investment in construction and stock-building contributed hugely to the revival in 1933: out of the RM 3.2 billion increase in GDP in that year, private investment represented RM 2.5 billion, or close to 80 percent. At the same time, employment grew in iron and steel production, textiles, construction materials, and metalworking, supporting the idea that a powerful “natural” recovery was taking place.\textsuperscript{132}

\textsuperscript{128} Tooze, \textit{Wages of Destruction}, 52.
\textsuperscript{129} Schacht, \textit{Confessions}, 289.
\textsuperscript{130} James, \textit{Reichsbank}, 215.
\textsuperscript{132} Tooze, \textit{Wages of Destruction}, 62-64. Harold James suggests that this recovery can be ascribed to the “secret reflation” carried out by Hans Luther and from 1931 to 1932. See James, \textit{Reichsbank}, 332.
The government’s energetic campaign of work creation appeared to reinforce this trend. Success has many fathers, but Schacht cannot claim to have creatively contributed to the regime’s program of works spending. For one, a limited program of credit-financed work creation had begun under Chancellor Schleicher in December 1932. More importantly, Franz Seldte, the Reich labor minister, and Fritz Reinhardt, the secretary of state at the ministry of finance, provided the real impetus behind this innovation. Schacht merely accepted it—though by doing so he showed more spirit than Hans Luther, who had previously opposed such schemes, and thereby kept Schleicher’s program modest. On June 1, the cabinet unveiled the “Reinhardt program,” which called for RM 1 billion to spend on the repair and construction of houses, factories, and machinery. This sum was certainly substantial, considering that between 1932-3 the Reich spent RM 1.95 billion on goods and services. Even more significant was its source: the Reichsbank, which would finance it by issuing interest-bearing IOUs, referred to as work creation bills, to companies carrying out the projects. State-affiliated banks guaranteed these bills, and contractors could also cash them in at these banks against a discount. The banks, in turn, could discount the bills with the Reichsbank, which ended up holding them until the Reich finance ministry redeemed them at a future date. The effect was to finance the Reinhardt program by expanding the monetary supply without incurring any debt or raising taxes. At the same time, Schacht also sanctioned the credit of RM 600 million to begin the construction of the Authobahnen.

In his memoirs, Schacht claims that the impact on unemployment from these measures

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133 Ibid., 43.
134 Ibid., 40-41.
135 Clingan, Hans Luther, 105.
136 Schacht, Confessions, 278.
137 Tooze, Wages of Destruction, 42-3.
138 Schacht, Confessions, 279.
was immediate: “Reports from individual districts and counties piled up, showing that unemployed had decreased or even been done away with altogether.”\(^ {139}\) From a psychological perspective, at least, the Nazi “Battle for Work” was turning into a great success. Part of that had been accomplished simply by taking power. The Nazis had pledged to end the political and social instability of the Weimar period, and their clear plans for action and sense of purpose may have convinced the business community that Germany’s political hindrances to growth were over.\(^ {140}\) Schacht’s own sentiments likely reflected that of most businessmen: “After the uncertainty and feebleness of previous governments… [the Nazis] enabled me to look forward again for the first time to the possibility of an uninterrupted steady and energetic government.”\(^ {141}\) In this light, the images of Hitler driving a spade into the earth during the construction of the *Auskubahren*—and filling an entire wheelbarrow with dirt—would be an encouraging sight for Germans disheartened by four years of penury.\(^ {142}\)

The truth was more complicated. The propagandistic value of the “Battle for Work” far outweighed any direct effect on unemployment. The experience of East Prussia underscored the artificial nature of their efforts. East Prussia, economically backwards and cut off by the Polish Corridor, had 130 thousand registered unemployed in January 1933. Seven months later, after an extensive campaign of work creation, which involved plowing, fertilizing, and reseeding fields, the Gauleiter boasted that the Nazis had cleansed his province of unemployment. Though the Nazis trumpeted the success of East Prussia, in actuality the government had diverted a disproportionate share of the work creation funds into the small territory. Moreover, the kind of “generalized shoveling” that ended unemployment in East Prussia was unsuited for urban areas,

\(^ {139}\) *Ibid.*, 279.


\(^ {141}\) Schacht, *Confessions*, 271.

\(^ {142}\) Tooze, *Wages of Destruction*, 47.
where workers required more sophisticated work. As the data demonstrate, the drop in
unemployment in 1933 occurred primarily in the German countryside.\textsuperscript{143} The “Battle for Work”
seemed more about appearance than reality; even the celebrated \textit{Autobahnen} required just 1,000
laborers to build its first section in 1933.\textsuperscript{144} Indeed, the impression that the Nazis were spending
more on work creation than their predecessors may have been just that. Harold James argues that
the government pulled off an “optical illusion” by spending vast sums on construction at the
same time that spending by the communes dried up—in the final analysis, total government
funds for public works changed little between the Weimar period and the first years of the Nazi
regime.\textsuperscript{145}

By the fall of 1933/34, the nascent recovery threatened to lose its momentum. Regardless
of the stage-managed quality of the “Battle for Work,” an upturn had begun—by September
1933, unemployment had fallen below 4 million. But the momentum provided by the works
spending looked ready to stall as the building and harvest season drew to a close. Such a setback
had happened recently, and the Nazis were loath to be made fools as had Chancellor Papen in the
summer of 1932. To get over the hump, the Nazis planned a two-pronged push: redoubling their
propaganda efforts on one end and implementing another Reinhardt program in September on
the other. This second program reflected none of the monetary inventiveness of the first—it
simply subsidized repair work on buildings by RM 500 million and devoted RM 300 million to
holding down interest rates on mortgages. Regardless, this holding action proved effective.
Unemployment did not spike during the winter months, and the Nazis survived their first major

\textsuperscript{143} Tooze, \textit{Wages of Destruction}, 44-45.
\textsuperscript{144} \textit{Ibid.}, 47.
\textsuperscript{145} James, \textit{German Slump}, 379-80.
In 1934, Schacht and the Nazis began implementing the plan that would bring Germany out of the depression—and put it on the path to war. Rearmament had been Hitler’s goal from the first, and it was through that lens that he viewed all efforts to bring about recovery. Hitler declared at a cabinet meeting a week after taking power that rearming the German people would be the government’s ultimate objective: “Every publicly sponsored measure to create unemployment had to be considered from the point of view of whether it was necessary with respect to rendering the Germany people again capable of bearing arms for military service.” He stressed that, “This had to be the dominant thought, always and everywhere.”147 Schacht and the heads of the German military had actually laid out the terms of rearmament in 1933, perhaps at a cabinet meeting on June 8. The sum agreed to staggers the mind: RM 35 billion over eight years, or about RM 4.4 billion a year. Tooze helps put this figure in perspective: under the Weimar Republic, military spending was measured in the hundreds of millions of Reichsmarks, rather than billions; Germany’s national income in 1933 had fallen to only RM 43 billion; and according to the plan the country would spend between 5 to 10 percent of its GDP annually on defense—a much higher proportion than even the United States spends today. The upshot for Germany, Tooze writes, would mean, “if not the wholesale militarization of German society, at the least the formation of a substantial military-industrial complex with serious ramifications for the rest of the economy.”148

It fell to Schacht to come up with a way to pay for this tab. Putting aside the fragility of the domestic economy and the chaotic condition of the capital markets, conventional borrowing

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and taxation would not do because of the need for secrecy—the West would not react well if it discovered that Germany had decided to violate the Versailles treaty. (Open violation would come in March 1935 when the Nazis introduced universal conscription, but in 1933 the Nazis feared the West wrath’s should they break the treaty.) To complicate matters, he also had to conceal his method of paying for rearmament from the German public itself. The experience of 1923 had ensured that in the eyes of everyday Germans unorthodox monetary policy would always lead to hyperinflation.\footnote{Hans Luther had himself learned this lesson in January 1932, after the public attacked as inflationary a plan, devised by the director of the Reich statistical office, which advocated measures to increase the money supply. See James, \textit{Reichsbank}, 302-304.} Schacht had to figure out not only how to finance a massive rearmament program without the state’s two principal spending tools, but he also had to accomplish it on the sly lest the West or the German people find out.

His solution was the Mefo bill. The scheme was straightforward: the government set up a dummy corporation, the \textit{Metallurgische Forschungsgesellschaft} (Metal Research Company), with capital of RM 1 million provided by four big armaments firms to establish its creditworthiness. Beginning in April 1934,\footnote{It should be noted that Mefo bills were issued in very limited quantities in 1933 as well. See Noakes and Pridham, \textit{Nazism}, Volume II, 267.} this company began widely issuing bills of exchange on behalf of the government to armaments contractors. Through these instruments, between 1934 and 1938 billions of Reichsmarks flowed from the government to steel giants such as Friedrich Krupp AG and the Vereinigte Stahlwerke, engineering conglomerate Siemens, chemical titan IG Farben, and many others to pay for rearmament.\footnote{Tooze, \textit{Wages of Destruction}, 54-55, 120-21.} Bills of exchange equate to IOUs; they represent a short-term loan by the issuer, which gives them to a producer to pay for a good. The Reichsbank would accept these bills of exchange and grant the holder a cash advance, which was referred to as discounting the bill because the advance would be smaller than the
value of the IOU. The law stipulated that the Reichsbank could only discount a bill of exchange if it bore two signatures: the holder’s, and that of a co-signer, which would assume liability for the debt in the event that the issuer could not pay what it owed. Traditionally, the two-signature requirement limited the volume of the bills of exchange that the Reichsbank discounted because of the reality that a co-signer assumed a lot of risk. The genius behind the Mefo bills was that the Mefo itself would provide the second signature—in other words, the Reich would take on the risk. As a result, Mefo bills, which bore 4 percent annual interest and could be turned into cash for a small discount, were issued and accepted in great quantities.152

The Mefo bills proved a resounding success. They enabled the government to direct large sums toward rearmament from the money market rather than the capital market—in other words, from short-term rather than long-term lenders—and put off paying some of its rearmament debts for up to five years.153 In his memoirs, Schacht relates a strikingly Keynesian, yet disingenuous, explanation for why he introduced the Mefo bills. As he writes, “I reflected that if there were unused factories, unused machinery and unused stocks there must also be unused capital lying fallow in business concerns.” The bills provided a way to extract this capital “from the safe deposits and pockets where it now lay.”154 Although the intent of the Mefo bills was to clandestinely fund rearmament, they did indeed have a simulating effect. With the Mefo bills, the Reichsbank had an avenue through which to inject liquidity into the economy. Given the parlous state of the domestic financial system, the economy needed an expanded monetary supply to recover.155 And expand it Schacht did: by 1938, when Mefo bills became largely phased out as

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152 Schacht, Confessions, 290-291.
153 James, German Slump, 373-77.
154 Schacht, Confessions, 289-90.
155 Overy, Nazi Economic Recovery, 42.
rearmament no longer required concealing, he had issued RM 12 billion worth.\textsuperscript{156} (To put this figure into context, the money supply between January 1933 and December 1934 fluctuated between RM 5.2 billion and RM 5.7 billion.)\textsuperscript{157} Hitler also got his army. Between 1934 and 1936, the Mefo bills paid for half of the Reich’s arms expenditure.\textsuperscript{158} In this way, rearmament became the reverse image of work creation: massive in scope and execution, but carried out surreptitiously. The statistics make this point more clear: between 1933 and 1935, the Nazis spent RM 4.8 billion on work-creation while spending RM 10.2 billion on rearmament.\textsuperscript{159} Rearmament, rather than work-creation, was the Nazis’ paramount objective.

Schacht’s memoirs seem to paint the Mefo as his masterstroke. Though he avoids any explicit claims to ownership, he certainly implies that the Mefo was his brainchild: he “reflected” on the problem of fallow capital and then “from this train of thought there arose the scheme which later became known as \textit{Mefo-Wechsel}.” That he subsequently praises it as “ingenious and well-adapted” also suggests that Schacht wanted to credit himself with the idea.\textsuperscript{160} In truth, however, this innovation was not without precedent. Not only had the first Reinhardt program relied on such off-budget financing (itself a carryover from the Schleicher government), but under Brüning the Reichsbank had used a similar mechanism to encourage trade with the Soviet Union.\textsuperscript{161} Indeed, Hans Luther from the fall of 1931 to the spring of 1932 had actually carried out a modest reflations by easing discount restrictions at the Reichsbank. Luther had lowered the discount rate from 10 to 8 percent in September, then to 7 percent in December, and finally to 6

\begin{itemize}
\item \textsuperscript{156} Schacht, \textit{Confessions}, 291.
\item \textsuperscript{157} James, \textit{Reichsbank}, 367-368.
\item \textsuperscript{158} Noakes and Pridham, \textit{Nazism}, Volume II, 267.
\item \textsuperscript{159} Overy, \textit{Nazi Economic Recovery}, 48.
\item \textsuperscript{160} Schacht, \textit{Confessions}, 290-291.
\item \textsuperscript{161} See James, \textit{Reichsbank}, 308-313 for a fuller account of these Mefo forerunners, a feature of the so-called Piatakov agreement.
\end{itemize}
percent in March 1932.\textsuperscript{162} These moves, coupled with the Soviet export scheme, had pushed the money supply from RM 5.88 billion in August up to RM 6.37 billion in December 1931.\textsuperscript{163} As a result, the Mefo idea came not out of the sky like Newton’s apple but rather from the policies of Schacht’s predecessor. It should be stressed that the size of the Mefo system was unprecedented, and that Schacht deserves recognition for executing it on such a huge scale. But to tribute the insight behind the Mefo bills to him alone would be an error.

Schacht’s star was rising, and events soon conspired to place in his hands the reins of the Germany’s economy. His interest moratorium and conversion fund had forestalled the Reichsbank’s foreign exchange crisis in 1933 but this breathing room did not last long. While the Reichsbank’s reserves had stabilized at RM 400 million in 1933, in February 1934 they once again began to plummet. Increased imports drove this exodus—a positive sign, and proof that the Nazi recovery had begun. Exports, however, had slumped. Global protectionism and increased antipathy toward the lawlessness of the Nazis fueled this drop in exports. As a consequence, the Reichsbank’s foreign currency levels had fallen to perilously low levels.\textsuperscript{164} By June, foreign exchange reserves at the Reichsbank dwindled to only RM 100 million.\textsuperscript{165} Between March and September 1934, Tooze contends that at this juncture the Nazi regime faced “the closest thing to a comprehensive socio-economic crisis in its entire twelve-year history.” Unhappiness in the business community and among consumers—exacerbated by ham-handed foreign exchange controls—threatened to erupt into open discontent with the government.\textsuperscript{166}

In the summer of 1934, the crisis came to a head. Schacht had to take action: on June 14,

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\textsuperscript{162} James, \textit{Reichsbank}, 296.  \\
\textsuperscript{163} \textit{Ibid.}, 366.  \\
\textsuperscript{164} Tooze, \textit{Wages of Destruction}, 71-73.  \\
\textsuperscript{165} Noakes and Pridham, \textit{Nazism}, Volume II, 269.  \\
\textsuperscript{166} Tooze, \textit{Wages of Destruction}, 69.
\end{flushleft}
he announced the suspension of foreign currency payments for the entirety of the country’s international debts and minimized the foreign currency available to importers. The moves infuriated the West, which saw in them steps toward a complete default. Great Britain in particular reacted poorly, and an all-out trade war loomed between it and Germany.\(^{167}\) After June 25, the central bank decided it could only dole out foreign exchange on a day-to-day basis—in other words, its reserves had fallen so much that it was only able to allocate to importers as much foreign currency as had come in that day.\(^{168}\) The squeeze imperiled both work creation and rearmament, as the raw materials needed for both could no longer be imported in full.

Put simply, the foreign exchange situation forced the Nazis to make a choice: they could import according to the needs of rearmament, or they could permit consumer industries to import as they needed. The balance of payments situation demanded a decision one way or the other, because Germany could only afford to take one path.\(^{169}\) Kurt Schmitt, the minister of economics and a former Allianz executive, had argued for months that the Reich should reduce expenditure on the military and instead help boost consumer spending by cutting social insurance contributions and other levies for workers. Schwerin von Krosigk at the ministry of finance had also pushed for the lowering of rearmament spending to clear the way for a private sector-led recovery. It seems possible that, had Schacht joined with von Krosigk and Schmitt and impressed upon Hitler the necessity of delaying rearmament, the Reich might have dialed back rearmament at this juncture.\(^{170}\) Schacht instead chose to ally with Hitler—and advance his ambitions—rather than delay the drive for rearmament.

This choice to side with Hitler actually involved a crass betrayal. In March 1934, Schmitt

\(^{167}\) Tooze, \textit{Wages of Destruction}, 70.


\(^{169}\) Tooze, \textit{Wages of Destruction}, 79.

\(^{170}\) \textit{Ibid.}, 80-81.
and Schacht, having previously come to an agreement about making a stand against further rearmament spending, met with Hitler at Obersalzberg. Instead of refusing Hitler’s request for increased military expenditure, Schacht horrified Schmitt by voicing his agreement. Schacht pledged to pay for rearmament at any cost, declaring that “no amount of money was too much for this vital national task.” Schmitt later recalled that Schacht expressed to Hitler his willingness to “ruin the currency” to provide for rearmament. Integrity, it seemed, meant little when it stood between Schacht and his ambitions.

By June 1934, Schmitt’s position had become untenable. Not a particularly skilled politician or administrator, he had aroused the ire of the public by appearing outmatched by the foreign exchange crisis, enraged the military by opposing rearmament, and aggravated big business by resisting cartelization. The Wehrmacht dealt the final blow. Colonel Georg Thomas, the head of the army’s Defense Economy and Weapons Bureau, forwarded a memorandum to Hitler that called for the appointment of an individual who could exercise “resolute and unified economic leadership [and] direct the work of the Ministries of Economics, Agriculture, Labor, and Finance, the Reichsbank and all offices of the Labor Front by dictatorial methods.” Almost certainly, the economic dictator that Thomas had in mind was Schacht. At this point, Schmitt was mentally and politically kaput. Fittingly, he collapsed during a speech only a few days later, on June 28, after he rhetorically asked, after outlining the economic

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173 Ibid., 101.
175 Ibid., 130.
177 Memorandum from June 20, 1934. Ibid., 269-271.
situation, “What is to be done?” The next day he took a leave of absence.178 His departure created a vacuum that only one man could fill.

A month later, Schacht took over as acting minister of economics, with wide-ranging legal authority to direct the economy.179 In his memoirs, Schacht explains that he took the job only so he could restrain the Nazis from within: “There remained the one and only possibility of working from within outward, of making use of those very governmental activities in an attempt to combat the excesses of the system and direct its policy along decent lines.” (One wonders how Schmitt’s plan to lower payroll taxes to stimulate consumer spending constituted “indecent” policy.) As minister of economics, he reasoned, he would wield much more influence to moderate Nazi policies than he had solely as president of the Reichsbank.180 Now Schacht did indeed have power. It was not undisputed: Schacht repeatedly clashed with Robert Ley, the hard-drinking leader of the German Labor Front (DAF), who had unlimited funds with which to protect his bailiwick. At one point, Schacht even instructed the various bureaucracies to ignore DAF memoranda so as to limit Ley’s influence.181 In practice, however, Schacht would function as the master of the German economy over the next two years, and during that time he would prove untouchable even as he infuriated the Nazis with his independence. Hitler’s decision to grant Schacht such power represented an enormous concession. For Hitler, the SA purge—which occurred at the same time as the foreign exchange crisis—probably necessitated the promotion because only Schacht had the domestic and international respect and financial ability to guide

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178 Tooze, Wages of Destruction, 71.
179 Barkai, Nazi Economics, 130.
180 Schacht, Confessions, 293.
181 Schoenbaum, David. Hitler’s Social Revolution: Class and Status in Nazi Germany 1933-1939, 84.
Germany through its straits.\textsuperscript{182} Hitler, however, was the prime beneficiary, for Schacht saved both the recovery and the rearmament program, and by doing so greatly assisted the Nazi regime.

In September 1934, Schacht unveiled his plan to solve the Reich’s foreign exchange situation. In lieu of devaluation—which Schacht and Hitler had ruled out\textsuperscript{183}—Schacht chose to take direct control of the country’s imports. As he explains in his memoirs, the New Plan, as it was called, “represented a centralization of trade whereby imports were compulsorily regulated according to the means of payment available.” The Reich set up 25 supervisory centers to oversee all foreign trade and only sanctioned import transactions were permitted. As Schacht concedes, “this order involved the creation of an extensive control machinery and a lot of officials.”\textsuperscript{184} (Schacht was understating things; at the end of the 1930s, the Reich had 18,000 clerks, administrators, and officials carrying out the New Plan, and private business employed many thousands more.)\textsuperscript{185} In practice, the New Plan meant total government control over imports. In the past, the Reichsbank allocated foreign exchange after imports arrived; under the new rules, importers had to secure clearance before the goods and raw materials could come to Germany.\textsuperscript{186}

The upshot was clear: the government’s priorities, rather than those of private enterprise, would start determining what the country would import. Now, in other words, economic growth would proceed at the state’s direction. Schacht also took steps to encourage exports. He paid creditor nations with special marks that could only buy German goods, helped enact a series of

\textsuperscript{183} See Tooze, \textit{Wages of Destruction}, 76-79 and 81-83, for a fuller analysis of the Nazis’ rejection of devaluation.
\textsuperscript{184} Schacht, \textit{Confessions}, 302-303.
\textsuperscript{185} Tooze, \textit{Wages of Destruction}, 94.
\textsuperscript{186} Noakes and Pridham, \textit{Nazism}, Volume II, 273.
bilateral trade agreements, and introduced a tax on industries to subsidize exporters.\textsuperscript{187} Remarkably, this system of controls worked. Starting in 1935, both imports and exports began to increase—no small feat, considering that the Reichsbank would hold barely enough foreign exchange reserves to cover a week’s worth of trade at any one time.\textsuperscript{188} Hitler, for his part, recognized the value of Schacht’s achievement. As he said later, “Putting our export trade on a sound footing again was the most valuable service that Schacht has rendered us.”\textsuperscript{189} With it, rearmament could proceed.

This triumph of bureaucratic control came with a price—one that would leave a lasting influence on the German economy. The decision by Hitler and Schacht to prioritize rearmament over consumer goods cleaved the German economy in two. After 1934, heavy industry and capital goods production boomed, while consumer goods production stagnated. Between 1934 and 1936, Germany’s output of consumer goods actually declined. The implications for the economy were enormous. The textile and clothing industry, for example, employed 20 percent of Germany’s workers. Imports of cotton, leather and wool—which previously supplied 80 percent of the industry’s raw materials—collapsed, and the government limited the operating hours of textile mills to prevent mass layoffs. The Nazis had hobbled a critical industry to ensure that rearmament could continue.\textsuperscript{190}

The government took further action to squeeze the German consumer. Beginning in 1933, the Nazis had taken direct action to control wages. To this end, the state disbanded independent labor unions on May 1, 1933 and replaced them with the German Labor Front.\textsuperscript{191} Wage increases

\textsuperscript{188} Tooze, *Wages of Destruction*, 93-94.
\textsuperscript{189} Hitler, *Table Talk*, 497.
\textsuperscript{190} Tooze, *Wages of Destruction*, 95-96.
\textsuperscript{191} Overy, *Nazi Economic Recovery*, 57.
henceforth required approval from the newly created “Trustees of Labor”—beholden, of course, not to Schacht but to his rival Ley at the DAF. Only for the workers in heightened demand, particularly domestic workers and those employed in agriculture and construction, were the increases granted. For most other workers, wages remained at their January 1933 level. As the statistics compiled by Overy illustrate, the stagnation in nominal wages actually meant a fall in real purchasing power; real wages for the average German worker declined between 1933 and 1938—the most conservative estimate is by 8 percent, though some more recent calculations go as high as 25 percent—and remained barely 10 percent above those earned by workers in 1913-14. These wage controls lowered labor costs, which had the effect of encouraging the expansion of business. The Nazis also implemented a series of price controls, designed to project an image of fairness to workers whose wages were frozen and also to lend an air of conservatism to the government’s monetary policy by compensating for the unorthodox methods of financing. Together, however, these wage and price controls had the effect of decreasing the economic independence of most Germans.

Under Schacht, bureaucracy and dirigisme were ascendant. The state began reaching its tentacles into the business community to restructure the economy. The Nazis imposed a system of vertically constructed and quasi-autonomous “self-government” organizations, all subordinate to the state, on industry. Although the Nazi grip on these business organizations never equaled the party’s dominance of labor groups, every single artisan, merchant, and factory owner fell under their aegis and by law had to obey any and all

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192 James, German Slump, 368.
193 Overy, Nazi Economic Recovery, 32.
194 Ibid., 49.
195 Schoenbaum, Hitler’s Social Revolution, 124.
instructions issued by them.\textsuperscript{196} Furthermore, by 1934, the government had effectively compelled the cartelization of all major industries not already marked by trusts and syndicates by instituting price controls.\textsuperscript{197} Schacht’s principal contribution to this centralization of the economy was to exert his will to favor large corporations over handicraftsmen and small retailers. He protected large corporations from party meddling and kept their profit margins healthy.\textsuperscript{198} Abetted by Schacht, big enterprise subsumed small; during the 1930s, 300,000 small businesses disappeared.\textsuperscript{199} The bureaucrats in the ministry of economics recognized their influence in this time. One reminisced thus: “We really ruled… the contrast to the Weimar Republic was stark… The language of the bureaucracy was rid of the paralyzing formula: technically right but politically impossible.”\textsuperscript{200} Few could doubt that business now occupied a subordinate position under the government.

Schacht wielded power now, not left-wing Nazis like Otto Wagener who championed small over big business. Schacht’s sacking of Gottfried Feder in December 1934 encapsulated this spectacular defeat of the old-guard Nazi ideologues. Feder had long functioned as the Nazis’ preeminent economic theorist; it was upon hearing one of his lectures that prompted Hitler to join the National Socialists in the first place\textsuperscript{201} and Feder had authored the economic planks of the party’s 1920 platform.\textsuperscript{202} Schacht, however, abhorred Feder’s crackpot theories and feared what would happen to the German economy if they were implemented.\textsuperscript{203} Hitler had appointed Feder to a position of authority over the government’s agricultural policy, through which he tried

\textsuperscript{196} Barkai, \textit{Nazi Economics}, 131.
\textsuperscript{197} Overy, \textit{Nazi Economic Recovery}, 57.
\textsuperscript{198} Schoenbaum, \textit{Hitler’s Social Revolution}, 124-125.
\textsuperscript{199} Overy, \textit{Nazi Economic Recovery}, 52.
\textsuperscript{200} Tooze, \textit{Wages of Destruction}, 112-113.
\textsuperscript{201} Hitler, \textit{Mein Kampf}, 183-84.
\textsuperscript{202} Noakes and Pridham, \textit{Nazism}, Volume I, 15.
\textsuperscript{203} Schacht, \textit{Confessions}, 261.
to foster the creation of small family farms out of the large East Elbian estates. The Junkers, however, pressed hard against such efforts and Schacht decided to throw his weight behind them.\footnote{Schoenbaum, \textit{Hitler’s Social Revolution}, 46, 156.} In one of his first acts as minister of economics, Schacht unceremoniously dismissed Feder as state secretary of the ministry.\footnote{Schacht, \textit{Confessions}, 298.} Under Schacht, big agriculture as well as big business would be safe from the party’s populist impulses.

Returning now to an essential question, it is possible to evaluate whether Schacht’s recovery was in any meaningful sense Keynesian. Some prominent Keynesians since have answered in the affirmative. Joan Robinson, one of Keynes’s disciples at Cambridge, wrote that “Hitler had already found how to cure unemployment before Keynes had finished explaining why it occurred.” The Nazis’ solution, she explained, reflected Keynesian ideas about increasing consumer demand through government work-creation programs: “It was a joke in Germany that Hitler was planning to give employment in straightening the Crooked Lake, painting the Black Forest white, and putting down linoleum in the Polish corridor.”\footnote{James, \textit{German Slump}, 8.}

A more discerning analysis, however, points instead toward an answer in the negative. Keynes’s key insight was that counter-cyclical government spending would spur a recovery if that expenditure turned into consumer spending. In “The Means to Prosperity,” published in \textit{The Times} in 1933, Keynes explained the mechanism by which a government could create wealth to increase the national income during an economic downturn. As he wrote, government expenditure results not only in direct employment but also sets “up a series of repercussions leading to what it is convenient to call \textit{secondary employment}” (italics in the original). As government spending—on public works, for example—gets into the hands of hired workers in

\footnote{Schoenbaum, \textit{Hitler’s Social Revolution}, 46, 156.}
the form of wages, they spend it on goods and services, which helps foster additional employment. Keynes dubbed this phenomenon the “velocity of circulation of money,” and he devised a calculation by which to evaluate the effectiveness of government expenditure: the multiplier, which relates “the total employment to the primary employment.” When a nation’s economic resources are underemployed, such as in a recession, Keynes reckoned that the multiplier on government spending will be high, but it will decrease as an economy approaches higher employment.\textsuperscript{207} This idea was critical, for it reflected Keynes’s conviction that counter-cyclical government spending would jumpstart an upturn that would then arouse the private sector’s famed “animal spirits” as the multiplier decreased. Put simply: the government would prime the pump by boosting consumer demand and then the private sector would take over.\textsuperscript{208}

For the Nazi recovery, however, counter-cyclical government spending never gave way to a private revival. Schacht did not try to arouse the “animal spirits”; he kept his expansion of the money supply secret. He did not try to lift consumer demand; his system of price and wage controls actually endeavored to depress it. The Keynesian multiplier in Nazi Germany proved correspondingly low: Keynes thought a multiplier in average conditions should be around 3, but in Nazi Germany the figure was calculated to be 1.5, substantially less impressive.\textsuperscript{209} Furthermore, as Overy points out, if Hitler qualifies as Keynesian for increasing government spending, then Joseph Stalin does as well.\textsuperscript{210} In reality, however, the Nazi policies sidestepped the substance of Keynesianism, and cannot either validate or disprove Keynes’s theories.

Under this queer policy mix—limited work creation, surreptitious rearmament funded by

\textsuperscript{207} Keynes, John Maynard. \textit{The Collected Writings of John Maynard Keynes}, Vol. IX, 335-66.
\textsuperscript{208} See Keynes, John Maynard. \textit{The General Theory of Employment, Interest, and Money}.
“Animal spirits” appears on 161-162.
\textsuperscript{209} Overy, \textit{Nazi Recovery}, 40.
\textsuperscript{210} \textit{Ibid.}, 50.
monetary expansion, a mania for bureaucracy, and strict controls over imports, wages and prices, all coupled with an initial organic upturn in the economy—Schacht brought Germany to full employment by 1936. The nature of the recovery reflected this jumble. Eliminating unemployment in four years was without a doubt an “economic miracle,” yet the recovery impresses less on closer inspection. For one, it was lopsided, with the heavy industrial sector increasing by almost 200 percent between 1932 and 1938 but consumer industries expanding by a mere 38 percent in that same period. And the state had conquered unemployment not by ushering in explosive growth but by lowering labor costs through wage controls; the people got their jobs back, in other words, but did not prosper. Unorthodox as they were, however, Schacht’s policies had given the Nazis their main goals: full employment and rearmament. His status in the Nazi hierarchy beffted his success; between 1934 and 1936, on economic matters Schacht’s authority was second only to that of Hitler. In October 1934, the American ambassador, William Dodd, had even mused that if Hitler was assassinated, Schacht would “probably be called upon to become head of the chaotic German state.” But by accomplishing so much by 1936, the president of the Reichsbank and minister of economics had suddenly made himself dispensable.

The Four Year Plan and the New Master of the “German Money”

Schacht’s New Plan of 1934 had alleviated the foreign exchange situation, but the fundamental problem remained: Germany’s lack of foreign currency was limiting its growth.

211 James, German Slump, 371.
212 Overy, Nazi Economic Recovery, 52-53.
213 James, German Slump, 418.
Even after depriving consumer industries of imports, the paucity of foreign exchange continually necessitated compromise at the expense of military spending. In 1935, Walther Darré, the head of the Reich Food Estate, successfully appealed to Hitler to force Schacht to increase agricultural imports.\footnote{Noakes and Pridham, \textit{Nazism}, Volume II, 278-279.} Such concessions threatened to derail rearmament; in December 1935, Schacht informed Werner von Blomberg, the minister of defense, that not only could he not double the imports of copper and lead as the army had requested, but he could not guarantee even the existing level of raw material imports: “You expect me to furnish sufficient foreign exchange to meet your requirements. In reply I beg to state that under prevailing circumstances I see no possibility of doing so.”\footnote{Schacht, \textit{Confessions}, 331.} By the summer of 1936, the output of munitions had fallen to 70 percent of capacity because of the dearth of foreign exchange.\footnote{Noakes and Pridham, \textit{Nazism}, Volume II, 278-279.} Something had to give.

Although it remains impossible to accurately gauge Schacht’s mindset at this moment, he apparently began to have misgivings about the scale of the rearmament program. By 1935, expenditure on the military had started to outstrip the generous terms agreed to in 1933. That burgeoning military spending was causing another balance of payments crisis may have caused Schacht to reconsider his willingness to subordinate everything under rearmament. At the end of 1935, a rumor even circulated that Schacht had decided to devalue the mark—the hitherto \textit{verboten} step—to ease the foreign exchange situation.\footnote{Tooze, \textit{Wages of Destruction}, 207-209.} Whether that was true or not, Schacht did start advocating at this time for an increase in exports to provide enough foreign currency to pay for the army’s desired imports of raw materials.\footnote{Noakes and Pridham, \textit{Nazism}, Volume II, 278.} While Hitler became convinced that the solution was for Germany to redouble its efforts to become self-sufficient in raw materials,
Schacht resisted, contending that “we will be cutting our own throats because we can no longer last out the necessary transition period.” Schacht’s arguments do suggest that a degree of ambivalence had crept into his attitude toward rearmament. His memoirs, however, contain no equivocation. He portrays 1935 as the time that the scales fell from his eyes; rearmament had served its purpose, he suddenly realized, and now it needed to be slowed down: “From the middle of 1935 onward I strove consistently for a limitation of armaments.” Regardless of whether this reversal happened overnight or over a period of months, towards the end of 1935 Schacht had begun moving toward a new position discordant with that of Hitler: exports, rather than autarky, represented the best path forward for Germany, and to accomplish that goal rearmament needed to be scaled back.

To be sure, a dire threat to Schacht’s power also helped catalyze his change of heart. On April 4, 1936, Hitler made Goering commissioner of raw materials, which gave him authority over departmental ministers on matters concerning raw materials and foreign exchange. This promotion represented an incursion into Schacht’s turf, but Schacht actually lobbied for it, thinking that he could easily manage the morphine-addicted former fighter ace. Schacht also calculated that Goering would insulate him from party sniping, which had grown acute after his criticism of the party’s excesses became more pronounced. Furthermore, Schacht had the idea, as Goering recalled during his trial at Nuremberg, “that I did not know very much about [the]

221 Schacht, *Confessions*, 331.
222 His speech at the Nuremberg Party Convention in September 1935 demonstrates that an evolution in Schacht’s thinking, slow as it was, was indeed occurring. See *Confessions*, 321-22 for a good treatment.
225 Schacht, *Confessions*, 337.
economy, and that he could easily hide behind my back."226 Yet Schacht soon realized his error.

While Goering understood little of economics, his new position was blossoming into a wide mandate for implementing an overhaul of the German economy. In his memoirs, Schacht describes Goering as endeavoring to “use this stirrup to swing himself into the saddle.”227 By May, Schacht had asked Hitler to rein in Goering’s authority, a request that the Fuehrer refused.228 The next month, Goebbels would record that Goering “opposes Schacht sharply.”229

Schacht did not fight alone against autarky and rearmament. Carl Goerdeler, the former Reich Price Commissioner, had squabbled with Schacht in the past, and their arguments over monetary policy had metastasized into mutual personal enmity. Yet events soon pushed them onto the same side. On August 7th, Goering asked Goerdeler to submit a report on the foreign exchange situation. The resulting memorandum forcefully argued that Germany should reject autarky, increase exports, pursue a rapprochement with the West, and arrest the drive for rearmament. It is hard to imagine a more sweeping affront to all Hitler and Goering’s impulses; after receiving it, Goering described the document as “entirely useless.”230 Schacht had been fighting along the same lines for months: he gave a speech in September 1935 at the Nuremberg Party Convention, for example, that pushed for Germany to increase her exports and proposed that the Reich had to finance further rearmament through taxes and loans rather than monetary expansion.231

Perhaps a concerted push here by Goerdeler and Schacht could have slowed

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227 Schacht, *Confessions*, 337.
rearmament—potentially preventing or delaying the Second World War. Yet a meaningful Goerdeler-Schacht alliance never materialized, and instead Goering used Goerdeler’s memorandum to prompt Hitler to lock Germany onto a course of autarky. Goering sent the memorandum to Hitler, and appended a note designed to spur a reaction: “This may be quite important… since it reveals the complete confusion and incomprehension of our bourgeois businessmen.” He summarized its argument as “Limitation of armaments, defeatism, incomprehension of the foreign policy situation.”

Hitler took decisive action. In August, in one of the most significant memoranda of the Third Reich, Hitler commanded his government to make Germany ready for war within four years. He wrote that the country’s dependence on raw materials from abroad represented an existential menace to Germany’s security and war-making ability. His government had wasted “four precious years” in which it could have sated Germany’s petroleum, rubber, and iron ore needs by developing domestic sources. The Four Year Plan would rectify that failure. Hitler concluded by demanding the achievement of two goals: “I thus set the following tasks: I. The German armed forces must be operational within four years. II. The German economy must be fit for war within four years.” In charge of this supreme task, which Hitler declared would entail “the uniform direction of all the powers of the German nation and the rigid consolidation of all pertinent authorities within Party and State,” would be Hermann Goering.

The Four Year Plan dealt a felling blow against Schacht. As the International Military Tribunal concluded in their judgment, “it is clear that Hitler's action represented a decision that Schacht's economic policies were too conservative for the drastic rearmament policy which

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Hitler wanted to put into effect.” The text of Hitler’s memorandum indicates the extent of the failure of Schacht’s and Goerdeler’s efforts. While an “increase in our own exports is possible in theory,” Hitler asserted, in practice it is “hardly likely.” In regards to Schacht’s and Goerdeler’s contentions about the need to arrest rearmament, Hitler wrote, “I must at this point sharply reject the view that by restricting national rearmament… we could bring about an ‘enrichment’ in raw materials which might then benefit Germany in the event of war.” This view, he explained, “is based on a complete misconception, to put it mildly, of the tasks and military requirements that lie before us.” Ominously for Schacht, Hitler also attacked the prerogatives of the ministry of economics: “Above all, it is not the job of the economic institutions of Government to rack their brains over methods of production. This has nothing whatever to do with the Ministry of Economics.” Hitler also noted that the potential conversion of German blast furnaces is likewise of “no concern of the Ministry of Economics.” While the memorandum remained secret, it marked a complete repudiation of Schacht’s and Goerdeler’s arguments and illustrated how far Hitler had moved against them.

Goering began quickly usurping Schacht as Nazi Germany’s preeminent economic master. In a speech on December 17, 1936 in front of an assemblage of prominent industrialists, Goering articulated the boundless authority he perceived as granted to him by the Four Year Plan. He declared that, by virtue of the Four Year Plan, “I am master of the German money.” Even economic law would not stand in his way of carrying out rearmament: “The old laws of economics have no longer their former value. In economics, there are no laws of nature, but only those made by man.” At stake in Goering’s success with implementing the Four Year Plan was the survival of Germany because “We are already on the threshold of mobilization and are at

235 International Military Tribunal, Trial of Major War Criminals, Volume I, 308.
war, only the guns are not yet being fired.” Significantly, Goering also instructed the industrialists to increase production regardless of its effect on profits.\textsuperscript{237} Schacht, seeing the writing on the wall, attacked Goering’s conception of business a few weeks later in a speech of his own: “When someone says, Your job is production, whether or no[t] you produce uneconomically is not important: I tell you that when you produce uneconomically you squander the stuff of which the German people is made.”\textsuperscript{238} Schacht’s words did little to slow Goering from emasculating him as minister of economics. Goering had at his disposal enormous sums; by the end of 1937, the Four Year Plan’s prospective investment budget had ballooned to close to RM 10 billion.\textsuperscript{239} To execute the drive for autarky Goering employed a two-pronged approach. First, he set up a Four Year Plan organization composed of six departments. These entities held separate jurisdictions over the production of domestic raw materials, the distribution of raw materials, foreign exchange matters, price supervision, agricultural production, and the labor force. The other tack involved undermining the ministries of labor, agriculture, and economics. He brought the state secretaries of the labor and agriculture ministries under his aegis by appointing them as department heads in the Four Year Plan organization. In this way, he rendered impotent the actual ministers of labor and agriculture.\textsuperscript{240} In regard to Schacht, Goering started making decisions that had hitherto been the reserve of the ministry of economics. Goering commanded IG Farben to boost production of synthetic petroleum—a godsend for the firm, which had struggled for years with its unprofitable synthetic fuels venture—and bullied heavy industry into developing Germany’s inferior iron ore

\textsuperscript{237} International Military Tribunal. \textit{Trials of War Criminals before the Nuernberg Military Tribunals, Volume VII “The I.G. Farben Case,”} 814-817.  
\textsuperscript{238} Schacht, \textit{Confessions}, 339.  
\textsuperscript{239} Tooze, \textit{Wages of Destruction}, 225.  
\textsuperscript{240} Noakes and Pridham, \textit{Nazism}, Volume II, 289-290.
through the creation of Reichswerke Hermann Goering.\textsuperscript{241} To add insult to injury, the other ministries tried to encroach into Schacht’s jurisdiction as well; Goebbels’s diary noted that Schacht quarreled with Ley at the DAF, the Hitler Youth, and Wilhelm Frick at the ministry of the interior at various times during 1937.\textsuperscript{242}

Schacht devotes but two paragraphs in his memoirs to the substance of the Four Year Plan. The effect is odd and self-defeating; Schacht dismisses it as ineffectual at the same time he claims credit for its successes. The Four Year Plan achieved little, Schacht contends, besides “a great deal of unnecessary to-do over everything... Now... everything was rushed and exaggerated.” On the other hand, “Whatever was successfully accomplished under the Four-Year Plan was nothing but the continuation of measures I had inaugurated as Minister for Economic Affairs.” He notes that the “extraction of benzine from coal,” the “equipment of a whaling fleet,” the “wholesale cultivation of staple fibers,” and the “extension of mining operations” all began under his guidance.\textsuperscript{243} The statistics seem to indicate that the Four Year Plan bore fruit: between 1936 and 1939, the production of domestic iron ore, synthetic fibers, and aircraft gasoline grew by 73.9, 346.5, and 602.3 percent, respectively.\textsuperscript{244} In the final analysis, however, the Four Year Plan proved to be an empty construct. Despite Four Year Plan projects absorbing over 50 percent of all industrial investment between 1936 and 1942, by the outbreak of the war Germany still depended on foreign sources for a third of its required raw materials. Most notably, the quest to produce sufficient quantities of synthetic oil came to naught; despite vast sums spent, between 1936 and 1939 synthetic fuel met but 18 percent of Germany’s needs.\textsuperscript{245}

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\textsuperscript{241} Tooze, \textit{Wages of Destruction}, 227, 236.  \\
\textsuperscript{242} Goebbels, \textit{Tagebücher}, Vol. 3, 1069, 1074, 1076.  \\
\textsuperscript{243} Schacht, \textit{Confessions}, 338.  \\
\textsuperscript{244} Barkai, \textit{Nazi Economics}, 231.  \\
\textsuperscript{245} Noakes and Pridham, \textit{Nazism}, Volume II, 291.  \\
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Regardless of its actual efficacy, however, the Four Year Plan resulted in one principal triumph for Goering: the retreat of Schacht. An order issued by Goering to the mining industry without Schacht’s input provided the final straw. He sent a letter to Goering on August 5, 1937 that communicated his capitulation: “months ago… I urged you to arrange matters in such a way as to enable you to take over the Ministry for Economic Affairs yourself… I am not able to share the responsibility for [Goering’s ‘wrong’ pursuit of autarky].” He sent a copy of the letter to Hitler and requested that he release him from his duties as minister of economics. Hitler demurred; he protested that he needed Schacht and stressed their personal relationship: “But Schacht—I’m fond of you.”246 More likely, Hitler realized that he could not let Schacht resign without finding a suitable replacement and so convinced him to take a two-month leave. As Goebbels related in his diary on October 28, 1937, “The Schacht case is still not resolved. The Führer does not want to publish anything for now. Schacht is undisciplined. But the economy cannot be directed by dilettantes.”247 As Schacht suggests, fear of embarrassment may have provided another reason for delay.248 Three months later, however, with Walter Funk chosen as a successor, Hitler finally accepted Schacht’s resignation. At this stage, Hitler was relieved to let him go.249 Goering made sure that Schacht appreciated his defeat. Upon entering Schacht’s office in the ministry of economics, Goering exclaimed, “How can one indulge in great thoughts in such a small room?” He then picked up the phone, dialed the Reichsbank’s president and told him, “Herr Schacht, I am now sitting in your chair!”250

Power was slipping away from Schacht. All he had left was the redoubt of the

246 Schacht, Confessions, 340-343.
247 Goebbels, Tagebücher, Vol. 3. 1114, 1145-46.
248 Schacht, Confessions, 341.
249 Goebbels, Tagebücher, Vol. 3, 1152, 1159.
250 Schacht, Confessions, 345.
Reichsbank. Its walls too would soon fall.

*Der Untergang*

The Nazis had long sharpened their knives in anticipation of Schacht’s downfall. This animus predated his return to the Reichsbank in 1933; in the 1920s, Schacht had served as one of the main boogeyman held up by the Nazi propagandists. The thaw brought on by Schacht jumping on the Nazi bandwagon proved short-lived. His independence, personality, and unwillingness to join the party made him an unpopular figure in Nazi circles. This hostility was mutual: while he “occasionally came across an honest, decent character among party members,” these individuals “were much less conspicuous than the braggarts, bullies, and profiteers whom I often irritated with my sarcastic remarks.” While Hitler’s support in the early years restrained the backbiting aimed at Schacht, the message to intriguers was to “put up with me, never in a manner which insisted that they should co-operate.”

Even at the height of his power, elements in the party anticipated striking Schacht down. The Nuremberg trial revealed an episode that demonstrated the insecurity of his position. In 1934, suspecting that Himmler and the Gestapo had him under surveillance, Schacht reached out to Hans Bernd Gisevius, then an employee at the interior ministry, to determine whether he had been bugged. As Gisevius soon determined, not only had the Gestapo planted a listening device in Schacht’s home, the secret police had also enlisted his domestic servant to spy on him. Schacht understood that he lay within the party’s crosshairs. In July 1934, he greeted Ambassador Dodd with the words, “*Ich lebe noch*” (I am still living). Less than a year later,

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251 Schacht, *Confessions*, 313.
Dodd wrote that, “[Schacht’s] position is always delicate and even dangerous… His wife says they ‘are on a train going at full speed near the end of the road.’”

The protective cloak of Hitler’s approval began to slip in 1935. On August 18, 1935, he took the occasion of the opening of a fair in Königsberg to criticize the party in a speech broadcast across the nation. He rebuked the Nazis for underestimating the financial difficulties facing Germany, for their antagonistic foreign policy, and for attacking Freemasons and Jews. The Economist recognized the speech’s import: “No one can doubt Dr. Schacht’s courage… The Königsberg speech last Sunday represented his flaming counterattack on the party.” The party reacted with anger, and Goebbels ensured that only a censored version of the speech appeared in print. Hitler did not condemn Schacht for his speech—something that strengthened Schacht’s conviction “that I should continue my propaganda in favor of a moderate and decent policy.”

In reality, however, Hitler started taking steps to rein in Schacht. On September 6, Goebbels noted in his diary that Hitler “completely agrees with me in the matter of Schacht. Schacht should be happy that I censored his speech.” A few days later, at Hitler’s request Goebbels “gathered some material against Schacht.” Goebbels concluded his entry thus: “It should show [Hitler] that [Schacht] is dispensable. Things can’t go on like this.” Goebbels also noted that Gestapo chief Reinhard Heydrich came to him about Schacht’s speech, to which he apparently drew a comparison to one delivered by Franz von Papen in June 1934 that similarly criticized the party. For Schacht, this link was ominous, for Papen’s speech had precipitated the Blood Purge, during which the Gestapo executed Papen’s speechwriter and Papen himself was exiled to Austria.

253 Dodd, Ambassador Dodd’s Diary, 254.
254 Schacht, Confessions, 318-20.
By 1937, with the Four Year Plan rendering him powerless as the minister of economics, Schacht’s position was daily growing more tenuous. While Hitler would soon come around to the notion that Schacht was indeed wholly dispensable, in March he reappointed Schacht as president of the Reichsbank. As Goebbels explained, Schacht would remain only for a year until “this crisis has passed. But this issue has doubtless only been postponed, not resolved. He remains a constant troublemaker.”256 Later that month, Schacht gave a speech at a dinner that criticized the push for rearmament. Afterwards, he remarked to Ambassador Dodd that, “My position is very critical; I do not know what is to happen.”257 After finally departing the ministry of economics, Schacht expressed to Dodd that, should Hitler remove him from the Reichsbank, he would depart for the United States.258 A few weeks later, Dodd received what he regarded as a credible threat from “a most responsible official here from the old regime and still in office” that “Dr. Schacht is apt to be killed any time, especially next spring.”259 Dodd communicated this warning, but Schacht—if his memoirs can be relied upon here—reacted with stoic fatalism: “I shall do my best to protect myself against the S.S. If I don’t succeed—well—I shall die—that’s all.”260

At the same time, as head of the Reichsbank, Schacht attempted to keep Germany’s economy from overheating. The implementation of the Four Year Plan had produced deleterious side effects. As a memorandum issued by the ministries of labor and economics in October 1936

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256 Goebbels, Tagebücher, Vol. 3, 1058.
257 Dodd, Ambassador Dodd’s Diary, 395.
258 Ibid., 437. Dodd noted a few days later that, “Much as I admire Schacht for some of his courageous acts, I am now afraid he would not make a good American if he migrated.” See Ibid., 443.
259 Ibid., 433. It is difficult to determine with any certainty how genuine this threat was, beyond noting that Heydrich’s comments in 1935 suggested that two years prior the Nazis had at least considered a violent solution to the problem of Schacht.
260 Schacht, Confessions, 317.
detailed, the unemployment problem had already turned into a labor shortage by 1936.\textsuperscript{261} The influx of government spending because of the Four Year Plan greatly compounded this problem. The scarcity of workers put upward pressure on earnings, which the Reich resisted by instituting even fiercer wage controls. While wage growth was relatively restrained between 1936 and 1939, worker morale suffered, and employers had to resort to harsh measures to keep them in line.\textsuperscript{262} More troubling was the prospect of inflation. As the production of consumer goods languished and wages crept ever higher, only a reduction in government spending could avert inflation. By 1938, with the German economy groaning under the weight of the Four Year Plan, both Schacht and von Krosigk at the ministry of finance endeavored to decrease government expenditure. In March of that year, the Reichsbank stopped issuing Mefo bills. Long-term investments would be financed by long-term borrowing, not monetary expansion; conventional public finance, Schacht and von Krosigk agreed, needed to resume.\textsuperscript{263}

The return to fiscal normalcy would prove fleeting; in truth, it ended before it began. In the wake of \textit{Anschluss} and the Sudeten Crisis, military spending exploded. On May 30, Goering told the army that “in relation to money… we would no longer need to worry in [the] future… dealing with this issue was a question for the political leadership.” In just six months—between April and October 1938—the German army alone spent RM 4.9 billion. Military spending for the year represented more than 19 percent of national income. A rash of short-term treasury bills financed this boom.\textsuperscript{264} Before the end of the year, however, the Reich had exhausted the capital market. In November, investors rejected a third of a RM 1.5 billion bond offering. Cut off from taking on further debts, the government would either have to slash rearmament expenditure and

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\item \textsuperscript{261} Memorandum from October 6, 1936. Noakes and Pridham, \textit{Nazism}, Volume II, 360-63.
\item \textsuperscript{262} \textit{Ibid.}, 368-69.
\item \textsuperscript{263} Tooze, \textit{Wages of Destruction}, 253.
\item \textsuperscript{264} \textit{Ibid.}
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raise taxes or turn to the printing press.\textsuperscript{265}

The final moment soon arrived. On January 2, 1939, Schacht met with Hitler to discuss the financial situation. Hitler announced that he had figured out a mechanism to pay for rearmament—they could issue notes against securities extorted from German Jews. Hitler had chosen inflation. As Schacht recollects, “Now the cat was out of the bag! … I could see inflation in the offing.” Schacht decided to make his stand. On January 7, he handed Hitler a statement, signed by all eight members of the Reichsbank’s board of directors, condemning the Fuehrer’s fiscal policy:

The currency is threatened to a critical extent by the reckless policy of expenditure on the part of public authorities. The unlimited increase in government expenditure defeats every attempt to balance the Budget, brings the national finances to the verge of bankruptcy despite an immense tightening of the taxation screw, and as a result is ruining the Central Bank and the currency…The undersigned members of the board of directions have, consciously and gladly, staked all they possessed to help in achieving the great objectives set before us; but a limit has now been reached and they must now call a halt.\textsuperscript{266}

Hitler reacted by crying, “That is mutiny!” On January 20, Hitler finally sacked Schacht, telling him that “You don’t fit into the general National Socialist scheme of things.”\textsuperscript{267} Schacht’s account may be incomplete on a critical point. In his diary, Goebbels marveled that Schacht “actually attempted to blackmail the Führer” during their conversation. If Goebbels’s remark is accurate, Schacht may have entered his final interview hoping to change Hitler’s mind regarding his economic policy—something at odds with his subsequent testimony at Nuremberg that he was seeking to get himself fired. In any event, Goebbels concluded his entry on Schacht’s resignation with an unsparing eulogy: “He is a huckster and an old Freemason. Now he will

\textsuperscript{265} Tooze, \textit{Wages of Destruction}, 295. Of course, Germany could also resort to conquest and plunder.
\textsuperscript{266} Schacht, \textit{Confessions}, 333-34.
\textsuperscript{267} \textit{Ibid.}, 358-59.
finally be put on ice. It was high time.”

It is worth asking when Schacht came to the realization that Hitler had incontrovertibly decided on war. Schacht maintained that he “broke” with Hitler after the Blomberg-Fritsch Affair in January 1938, when “everything pointed to the conclusion that Hitler was obviously bent on war.” Indeed, he claimed that he had an instrumental role in plotting a failed coup d’état against Hitler in the fall of 1938—something his defense would highlight during his trial at Nuremberg. If that was the case, then the Reichsbank memorandum was designed not to sway Hitler into reconsidering his policies but rather to prompt him to remove Schacht from office. At Nuremberg, Schacht answered with “a most emphatic ‘yes’” to the question of whether he tried to rid himself of his office as president of the Reichsbank with the memorandum. As he explained, “the responsibility for continuing rearmament which possibly in itself constituted a serious potential danger of war or which would ever aim at war intentionally—that responsibility none of us wanted to assume.”

Yet Schacht may have stretched the truth by pointing to January 1938 as the time when he divined Hitler’s real ambitions. For one thing, Schacht expressed to Ambassador Dodd but a few months earlier in 1937 that “Hitler was against war and had urged peace or armament reductions.” Second, the International Military Tribunal proved so underwhelmed by Schacht’s tale of a coup d’état in the fall of 1938 that it simply ignored it in its judgment.

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269 Schacht, Confessions, 354.
270 Ibid., 356-57. See also International Military Tribunal, Trial of the Major War Criminals, Vol. XII, 453 et al.
271 International Military Tribunal, Trial of the Major War Criminals, Vol. XII, 533-34.
272 Dodd, Ambassador Dodd’s Diary, 388.
273 Schacht did in all likelihood speak with Gisevius and General von Witzleben about overthrowing Hitler, but this would have been no more than empty talks. Ambition, of course,
Finally, as Ritter contends, Goerdeler and the other *bona fide* members of the resistance only believed that Schacht broke with Hitler after he got the boot: “[Schacht’s] “dismissal had finally cured him of the illusion that the Hitler Government could be influenced and its course changed.”274

Wherever the truth lies, by January 1939 Schacht had been cast from power for the last time. His departure marked both an ignominious end to his career of public service and the excision of the moderate element from the upper echelons of the Third Reich. No one remained who could avert the war that came in September.

“*The Honest Banker Indignant*”

A vital historical question arises here. Between the fall of 1936 and January 1939, Hitler executed a slow motion purge of conservatives and moderates who opposed infinite arms spending, autarky, and the approaching war. At a meeting in November 1937—known to history because of the Hossbach Memorandum—Konstantin von Neurath, the foreign minister, and generals Werner von Blomberg and Werner von Fritsch raised objections to Hitler’s planned push for war. Within months, Hitler had forced all of them out.275 Goerdeler resigned as mayor of Leipzig in 1937 because of his enthusiastically Nazi deputy mayor’s repeated insubordinations.276 Von Krosigk, though he remained in office, had pressed since 1936 for a...
reduction in armament spending, and in August 1938 had written Hitler a memorandum that pressed the case that Hitler should avoid war because of the Reich’s precarious financial situation. Schacht’s easement from power after 1936 and eventual firing should be considered the ultimate step in this campaign to rid the Nazi government of any influential doubters.

Why did Schacht not attempt to forge a coalition of these moderates before 1939? As Albert Speer’s Inside the Third Reich indicates, serious tension existed between rational technocrats and businessmen and radical Nazi ideologues. Gisevius’s testimony at Nuremberg suggested that Schacht indeed tried to cobble together an alliance of moderates to oppose the turn to war. In 1936, he endeavored to strengthen the “middle class influence in the cabinet” and especially to bring Blomberg and Fritsch to “the side of the middle class ministers.” Yet Schacht’s efforts came to naught. If we take Schacht at his word, he may simply have seen Hitler’s true intentions too late to stop him. If, as Schacht asserts, he only perceived Hitler’s conviction to embark on war after the Blomberg-Fritsch Affair in the beginning of 1938, the critical time had probably passed when he had enough power to do something.

There exist less charitable interpretations. Few individuals were less suited than Schacht to winning over conservative German leaders. For one, his ruthlessness in advancing his own ambitions had made him deeply disliked. Schacht had demonstrated in 1934, when he betrayed Kurt Schmitt, his willingness to side with Hitler over moderates if it would further his own power. As von Krosigk’s memoirs illustrate, Schacht’s opportunism quickly poisoned what should have been a natural affinity between two intelligent free marketers. Similarly, Johannes

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277 Tooze, Wages of Destruction, 271-73.
278 Speer, Albert. Inside the Third Reich: Memoirs.
279 International Military Tribunal, Trial of the Major War Criminals, Vol. XII, 191-93. Nothing came of the feelers to Blomberg and Fritsch, Gisevius explained, because the generals were “very difficult to approach.”
Popitz, who became Prussian minister of finance after 1933, never forgave Schacht his successful effort in 1929 to secure his resignation; this experience kept Popitz, a genuine member of the resistance who met with the hangman after the failed coup, from ever really joining with Schacht against Hitler. Even the business community turned against Schacht because of the irritations created by the foreign exchange controls of the New Plan. During 1936, when big business could have exerted its influence to support its protector, it instead left Schacht to fend for himself. In the final analysis, Schacht’s temperament probably prevented him from functioning as the leader of a moderate resistance to Hitler before 1939. It is worth recalling Hermann Rauschning’s later description of Schacht as “a man apart, unique, solitary, without followers or any coterie of partisans. He had no friends, only enemies.”

After the coup attempt in the fall of 1938 fell apart before it began, Schacht made little contribution to the resistance against Hitler. Even after leaving the Reichsbank, he ostensibly continued to serve as a member of the Nazi government because of his appointment as minister without portfolio in 1937. Yet this position did not entail much of anything, and after January 1939 Schacht found himself without any real responsibilities. Between 1939 and 1943, Schacht travelled, remarried, and bombarded Hitler with letters critical of his policies. In November 1942, Schacht sent Goering a particularly grating denunciation of a proposal to enlist young students as air raid militiamen; in response, Goering expelled him from the (again, existing in name only) Prussian State Council and Hitler stripped him of his ministerial position. This

281 James, *German Slump*, 365.
284 To a women almost thirty years his junior. While awaiting trial by the International Military Tribunal, an American psychiatrist noted the 69-year-old Schacht’s compulsory habit of adding that his wife was 40 years old. See Leon Goldensohn’s *The Nuremberg Interviews*, 233.
removal did not stop Schacht from sending further pestering letters, but now they went unread. Schacht seemed intent on waging a resistance by his lonesome; he kept at arm’s length figures such as Goerdeler, whom Schacht considered “like a motor engine that runs too noisily” and refused to commit himself to joining a post-Hitler cabinet. Schacht’s ineffectual campaign came to an end three days after the failed Stauffenberg coup of July 20, 1944.285 As the International Military Tribunal noted in its judgment, “Schacht's arrest on 23 July 1944 was based as much on Hitler's enmity towards Schacht growing out of his attitude before the war as it was on suspicion of his complicity in the bomb plot.”286

Under at first the Gestapo and then the Allies, Schacht spent the next four years of his life behind bars; he later estimated that he changed prisons 32 times.287 Despite fearing for his life at the hands of the Nazis, Schacht’s interrogations did not lead to his death. Although he later maintained that the commandant of his last camp had orders to shoot him before he passed into American hands,288 the Nazis’ failure to execute Schacht was no oversight. Instead, it indicated the extent to which they regarded him as a marginal member of the resistance to Hitler. While Schacht takes pains in his memoirs to portray himself as among those who had “defied Hitler at the risk of our lives,” his efforts to remove himself from those involved in active resistance meant that the risk in his case was small.289

When the Allies took over from the Gestapo as his jailers, Schacht revealed how he would draw upon all his guile to convince them of his innocence. In his memoirs, Schacht writes that he felt little anxiety at the prospect of a trial of war criminals, so convinced was he that the

285 Schacht, Confessions, 361-81.
287 Schacht, Confessions, 382.
288 Ibid., 394.
289 Ibid., 398.
tribunal would find him without any guilt. As illustrated by the notes of the American psychiatrist—Leon Goldensohn—who examined all of the defendants, Schacht appeared less sanguine than he would later suggest. Goldensohn described Schacht as “indignant at his being accused as a war criminal” and recorded that “he spoke as if he were Hitler’s archenemy.” Yet Goldensohn proved underwhelmed by Schacht’s protestations; he remarked that Schacht realized “my obvious failure to be convinced of his complete innocence” and highlighted Schacht’s “pose of outraged innocence, and the honest banker indignant.” In their talks, Schacht floated several arguments in his defense that convinced Goldensohn that Schacht would stretch the truth as far as necessary to get himself acquitted. Goldensohn marveled at Schacht’s attempt to devise “two distinctly paradoxical pictures of himself”—that of an old man living harmlessly on his farm after 1939 and simultaneously “a great national German patriot who worked ceaselessly for Hitler’s downfall and frustration” and played a critical role in the Stauffenberg plot. Schacht also forwarded the odd claim that he had advised the leading German Jewish organization to forbid Jews from becoming Communists but that it had ignored his recommendation; the implication, it seemed, was that the Jews could have avoided persecution had they followed Schacht’s advice. Goldensohn’s nonplussed reaction to this assertion may have had an effect, for Schacht did not call upon this episode during his trial at Nuremberg.

Schacht enjoyed one small triumph over his rivals within the party before the trials began. An Allied psychologist administered IQ tests to all of the defendants. To Schacht’s supreme delight, he scored the highest, with Arthur Seyss-Inquart, Goering, and Karl Doenitz.

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290 Schacht, *Confessions*, 399.
right behind him, though all of them lay within “near-genius” territory.\textsuperscript{295} While Schacht boasts of this feat in his memoirs,\textsuperscript{296} it is known that the results rankled others. Speer, for example, touches on the test in his own book, explains that Schacht came out on top because his age inflated his score, and defends his own “good median rating.”\textsuperscript{297}

Schacht took the stand in his own defense at Nuremberg on Tuesday April 30, 1946. The International Military Tribunal had indicted him on the first two counts of the general indictment: the common plan or conspiracy and crimes against peace. He stood accused of promoting “the accession to power of the Nazi conspirators and the consolidation of their control over Germany,” assisting the “preparations for war,” and participating “in the military and economic plans and preparations of the Nazi conspirators.”\textsuperscript{298} Schacht’s defense, marshaled by his attorney, Julius Dix, rested on two key points: first, he had only joined with the Nazis to help Germany, and second that he had facilitated rearmament only up to a certain point, after which he did all he could to stop it. Right away in his testimony, Schacht began hitting the first contention: “out of concern for my people and my country, after Hitler gained power, I endeavored with all my strength to direct that power into an orderly channel, and to keep it within bounds.” He rejected the notion that he ever had a “break with Hitler” because a “break could only be spoken of had I been closely connected with him before.”\textsuperscript{299} A few days later, Schacht articulated the second plank of his defense when discussing with Justice Jackson his differences with Goering: “I have never denied that I wanted to rearm in order to gain equality of position for Germany. I never wanted to rearm any further. Göring wanted to go further; and this

\textsuperscript{295} Conot, Robert E. \textit{Justice at Nuremberg}, 102.
\textsuperscript{296} Schacht, \textit{Confessions}, 409.
\textsuperscript{297} Speer, \textit{Inside the Third Reich}, 509-10.
\textsuperscript{298} \textit{International Military Tribunal, Trial of the Major War Criminals}, Vol. I, 74.
\textsuperscript{299} \textit{Ibid.}, Vol. XII, 451.
is one difference which cannot be overlooked.” ³⁰⁰ Schacht returned to these two points repeatedly during his testimony.

As to whether he had enabled the persecution of the Jews, Schacht admitted his anti-Semitic inclinations but stressed his opposition to the limitless scope of the Nazis’ policies. He explained to Jackson that, because he viewed Germany as a “Christian state… based on Christian conceptions” he “was always in favor of limiting Jewish participation” in the fields of government, law, and culture.³⁰¹ Although he thought necessary quotas regarding Jews, he disliked the lawless and arbitrary quality of the Nazis’ Jewish policy. Still, while he resisted the worst of the Nazis’ anti-Jewish impulses, he felt that a stand on principle about the treatment of the Jews would imperil his own ability to bring about the “equality of Germany”—in economic, political, and military terms—that he desired above all else. For that reason, Schacht told the tribunal, he implemented anti-Jewish laws while serving as minister of economics.³⁰²

Beyond the judgment of the International Military Tribunal, should history consider Schacht complicit in the Nazis’ anti-Semitism? The answer remains ambiguous. To be sure, it can be said with certainty that Schacht, while he was in a position to do so, opposed the most noxious of the Nazis’ anti-Semitic policies. Goebbels’ diaries demonstrated that Schacht had opposed the Nazis’ efforts to “Aryanize” the ownership of theaters and media outlets from the autumn of 1935 until he resigned at the end of 1937. Only after Schacht had left the ministry of economics could Goebbels remove the Jewish owners of Germany’s cultural establishment.³⁰³ Also, after Kristallnacht in November 1938 Schacht gave a speech condemning the pogrom, which he described as “such a wanton and outrageous undertaking as to make every decent

³⁰¹ Ibid., Vol. XII, 590.
³⁰² Ibid., 590-93.
German blush for shame."304 Yet Schacht also had a hand in barring Jews from certain kinds of economic activities while minister of economics. Worse still, he forwarded a scheme to Hitler after Kristallnacht to help “export” Germany’s Jews without harming the country’s foreign exchange situation by soliciting a foreign currency loan from the “global network of Jewish high finance” to pay for Jews to resettle abroad.305 Schacht concedes in his memoirs that this plan “was not an ideal proposition,” but argues that it would have helped Jews at least leave Germany with their property intact.306 Another troubling episode occurred between 1936 and 1937, when Schacht advanced a loan to a group of German businessmen that allowed them to “Aryanize” a prestigious Munich art gallery at fire sale prices. Although Schacht denied ever profiting from the Nazis’ anti-Semitic policies, he did became a silent partner in this art venture and as a consequence personally prospered from the plundering of German Jews.307 While it appears certain that Schacht had no hand in—or even first-hand knowledge of—the Holocaust, it is difficult for him to claim the moral high ground in regards to the Nazis’ anti-Semitism.

While Schacht could not wholly conceal his natural abrasiveness, his defense at Nuremberg worked. His intrinsic prickliness did show through on a few occasions. Once, when sparring with Justice Jackson over his views on Germany’s former colonies, he informed the American that it was possible to “go by air” to Africa in response to Jackson’s inference that a navy was necessary to maintain overseas colonies.308 At another time, when Jackson asked Schacht whether he had been present earlier in the trial when Goering testified over his threat to

304 Schacht, Confessions, 358.
305 Tooze, Wages of Destruction, 280-81.
306 Schacht, Confessions, 351-52.
307 Kopper, Christopher. Hjalmar Schacht: Aufstieg und Fall von Hitlers mächtigstem Bankier, 289.
308 International Military Tribunal, Trial of the Major War Criminals, Vol. XIII, 10.
bomb Prague, Schacht responded, “Thanks to your invitation, I was here.” By and large, however, his attorney conducted his defense ably and the prosecution had difficulty sticking Schacht with anything damning. Although the Russian judge wanted to execute Schacht, the others disagreed, largely on the grounds that Schacht had started his fall from power by the time that the conspiracy for war was emerging. This fact, coupled with the reality that he had never joined the Nazi party and had been thrown in a concentration camp in 1944, pushed the tribunal toward acquittal.

The language of the acquittal reflected the judges’ ambivalence about Schacht’s role. While the tribunal regarded Schacht as “responsible for Nazi Germany’s rapid rise as a military power,” it conceded that “rearmament of itself is not criminal.” It acknowledged that had Schacht’s efforts beginning in 1936 to put brakes on the rearmament program proved successful, “Germany would not have been prepared for a general European war.” Still, the judges pointed out that Schacht “was in a peculiarly good position to understand the true significance of Hitler’s frantic rearmament,” and asserted that he should have realized very early on that Hitler’s economic policy could have led only to war. Although the tribunal condemned Schacht for applauding Hitler’s aggressive foreign policy as late as 1938, it concluded that the inference that Schacht knew about the Nazis’ plans for war “has not been established beyond a reasonable doubt.” Schacht was a free man.

On September 2, 1948, at the age of 71, Schacht emerged from the Allied internment camp. His fortune had been lost with the Reichsbank’s records, and until the German government deemed him “denazified” in 1950 he could not work in his field of training. To his

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309 International Military Tribunal, Trial of the Major War Criminals, Vol. XIII, 22.
310 Conot, Justice at Nuremberg, 490-91.
312 Schacht, Confessions, vii.
credit, Schacht labored successfully to put himself and his family back in good financial standing. After 1950, Schacht provided for his family by his pen and by consulting for foreign governments, including Egypt and Indonesia.\footnote{Schacht, \textit{Confessions}, 449-67.} When Schacht expired at 93 years of age in 1970, he had done yeoman’s work reestablising both his net worth and his reputation.

**Conclusion**

Hjalmar Schacht remains a chimera. He was at once a Weimar democrat and disciple of the prevailing economic orthodoxy of the 1920s and a Nazi fellow traveler willing to “ruin the currency” to pay for rearmament after 1933. He reveled in needling the Nazis at every occasion and yet was always eager to ingratiate himself with Hitler to advance his own power. He made possible Germany’s drive for rearmament, yet after 1935 suddenly decided he opposed it. He was committed to averting the coming of war, but he failed to organize any opposition to it beyond his own rearguard (and futile) action. After getting sacked in 1939, Schacht did little to assist the resistance to Hitler despite ostensibly sympathizing with it. Although at his trial at Nuremberg he claimed to have joined the Nazi cause as a conscious opponent, his contributions to the regime between 1933 and 1936 outweighed those of anyone else short of Hitler himself. Schacht’s tale is that of contradiction on contradiction.

Nazi Germany’s economic “miracle” reflected all the ambiguity of its orchestrator’s character. By dint of Schacht’s wizardry in expanding the monetary supply and managing Germany’s foreign exchange reserves, the Nazis vanquished unemployment by 1936. Yet the fruit of the country’s economic recovery went not to workers—whose real wages actually
declined—but to the Wehrmacht, Kriegsmarine, and Luftwaffe, all of which the Nazis built from scratch in a matter of years. That Germany could afford to wage Blitzkrieg by 1939 stands as a testament to Schacht’s financial achievements. Furthermore, as minister of economics and president of the Reichsbank, he well into 1936 helped the Nazis gain a vice-like grip over the nation’s economy. The Third Reich’s subsequent ability to govern the economic choices of individuals under its authority should be considered another of his dubious legacies.

Schacht has received little of the scholarly attention paid to his peers in the Third Reich. Notwithstanding the treatment of a few works,314 his contribution to Nazi Germany continues to dwarf its attendant historiography. While other figures in the regime have received intensive biographical analyses,315 Schacht has not. From an economic perspective, this lack of study is lamentable because it deprives history of insight into Schacht’s innovations, achievements, and missteps. From a biographical standpoint, however, the dearth of examinations of Schacht is appropriate. He was no monster, and does not belong in the gang of delusional über-nationalists who fought to the end on behalf of a heinous worldview. On the other hand, he was no principled member of the opposition, and cannot be considered in the company of Goerdeler, Stauffenberg, and Dietrich Bonhoeffer. Indeed, even Speer, clearly no saint, seems a more genuine and sympathetic figure than the calculating Schacht—although Nuremberg’s arbiters thought otherwise.

In the final analysis, Schacht’s life presents a story as old as time—the peril of

314 In recent years, Araquat’s Lords of Finance, Weitz’s Hitler’s Banker, and Tooze’s Wages of Destruction featured Schacht to one degree or another in their pages. Harold James has dealt authoritatively with Schacht’s policies at the Reichsbank during the 1920s. A scholarly biography of Schacht, Christopher Kopper’s Hjalmar Schacht, also appeared in Germany in 2006.

315 Gitta Sereny’s masterful study of Speer in her Albert Speer: His Battle with the Truth stands as the gold standard of such works.
overweening ambition. Throughout his interaction with the Nazis, Schacht functioned as the consummate opportunist. In 1931, with his finger in the air, Schacht allied himself with Hitler. He jettisoned his financial orthodoxy in 1933 to secure his old post at the Reichsbank, and betrayed Kurt Schmitt in 1934 to gain more power. After 1936, Schacht pushed against additional rearmament not because, as he claimed, German had achieved military parity—such a conclusion simply does not square with his vows in 1935 to subordinate all else to military spending—but because he realized rearmament would serve as a vehicle for Goering to usurp him as master of the German economy. His flirtations with the resistance to Hitler from 1938 until 1944 remained purposefully unconsummated, and he never came close to lending any material assistance to those who sought to overthrow Hitler and end the war. When at the peak of his power in 1936, instead of leveraging his authority to meaningfully retard rearmament, the man with “no friends” proved incapable of marshalling any natural resistance to the increasingly apparent march to war.

During his conversations with the American psychiatrist prior to his trial at Nuremberg, Schacht asserted that he remained a member of the Nazi regime because “I felt that at least one honest man in that government might serve as a check on Hitler.” Honesty, however, did not motivate Schacht. His one true north remained, always, his uncanny sense of self-preservation. Schacht used his considerable talents not for good, not for evil, but for Hjalmar Schacht. This would be his undoing, and it was to prove fateful for Germany and the rest of the world.

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Bibliography


