THE ECONOMY AND CLASS STRUCTURE OF GERMAN FASCISM

Alfred Sohn-Rethel

Afterword by Jane Caplan

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'an association in which the free development of each is the condition for the free development of all'

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Contents

Biographical Notes

Alfred Sohn-Rethel, born in 1899, lived in Düsseldorf until the age of twelve. As a student in Berlin, he took part in the revolutionary uprisings of 1918–19. He later studied Marxist philosophy at Heidelberg and received his doctorate in 1928. In 1931 he began to work at the headquarters of the big business association, the MWT, while also becoming involved in the underground anti-Nazi activities described in this book. In 1936, under threat of arrest by the Gestapo, he fled to Britain. Sohn-Rethel has been Professor of Social Philosophy at Bremen University during the 1970s and 1980s. He is author of *Intellectual and Manual Labour: A Critique of Epistemology* (Macmillan, 1978).

Jane Caplan is Associate Professor of History at Bryn Mawr College, Pennsylvania. Her research and teaching interests include German, British and women's history, and she has published widely on the history of National Socialism. She is a member of the editorial boards of *German History*, *History Workshop Journal* and *Radical History Review*.

Introduction

by David Edgar
(author of the play 'Destiny')

The shattering defeat of the German working-class at the hands of Adolf Hitler is an event so momentous and awesome that historians, particularly on the Left, have often failed to consider the other side of the equation; and have not asked how it was that German Big Business, most of which held the Nazis in deep contempt, were forced to support (and indeed encourage) the seizure of power by a hysterical Austrian mystic at the head of a ragbag terrorist army.

Alfred Sohn-Rethel's book is important simply because it confronts this knotty question. It is made even more significant by the position that its author held in late Weimar Germany. Sohn-Rethel was a socialist and anti-fascist who found himself working at the very hub of German Capitalism (as a research assistant in the Mitteleuropäischer Wirtschaftstag, a business institute whose members included representatives of every significant section of German Finance Capital). From this unique vantage point, Sohn-Rethel is able to pull a number of scoops out of the hat (notably, he reveals the craven capitulation of France and England over Poland in March 1933; a capitulation that allowed the new Nazi regime to survive at a time when it was most vulnerable). The book also maps the complex (and not always friendly) inter-relations of the German ruling-class, particularly between industrial and agricultural interests, and also between representatives of the so-called Brüning camp and the Harzburg Front. But, most important of all, Alfred Sohn-Rethel's pre-war experience enables him to present a cogent Marxist analysis of the endemic crisis of German Monopoly Capital from a position of complete authority.

By concentrating on the fundamental political economy, the book does not allow us the luxury of believing that the rise of Fascism in Germany was a specifically national phenomenon, locked into the conditions of a particular epoch. The roots of the Third Reich can be found, of course, in a collective state of mind; they are also present in the state of the balance sheets of German Big Business.

Although the book does not draw any crude comparisons with modern Britain, there is no doubt that many of the factors that drove German industry towards Hitler are present, albeit in a mediated form, in this country now. In September 1926, the Federation of German Industries issued a statement attacking 'too generous distribution of social benefits' and calling for a 'reduction of the burden of taxation' in order to 'restore the profitability of the economy'. And in the same way that German industrialists found that they could no longer afford the gains won by the working-class between 1918 and 1923, so our own capitalists are increasingly concerned about the effects of welfare spending and other trade-union gains on their declining profit margins. The comparisons are by no means exact; but Alfred Sohn-Rethel does not allow us to deny that they are there.

Furthermore, the book will be read at a time when a classically National-Socialist party is beginning to make electoral headway in Britain. The National Front is best known for its advocacy of compulsory deportation of Britain's black population; but the most cursory reading of its literature reveals that it shares all the fundamental beliefs of German Nazi ideology. On the central tenet (the belief in a global plot by the Jews to seize power in a world super-state) the Front is brazenly unambiguous: its chairman John Tyndall wrote in March 1976 that 'there is a Jewish conspiracy for world power as outlined in the Protocols of the Elders of Zion..... and anti-semitism as a doctrine is no more than a natural gentile reaction to this fact'. As Sohn-Rethel points out, the Front also believes that black immigration is no more than a part of this 'Zionist' plot; and all its other policies (including the call for 'economic nationalism' — in other words autarchy — and the re-creation of a self-sufficient white commonwealth) flow logically from the identical ideological source.

That the National Front realises that, like the Nazis, it may be called upon to be the stormtroopers of capital in the factories and on the picket lines is also made clear in their public pronouncements. Hitler decided as early as 1924 that the Nazi Party should not create its own labour organisation, but should rather subvert the existing trade-union movement. In the same way, Tyndall boasted in September 1974 that 'our members are already infiltrating the trade unions', and, in the autumn of 1977, he revealed that the NF were planning to 'march through Birmingham or Coventry or Luton to protest against red disrupters in the motor industry'. The Front have already demonstrated their talent for industrial intimidation in disputes involving black workers; they

are clearly intending to employ that experience against the working-class movement as a whole.

None of the comparisons between Germany in the 1930s and contemporary Britain should, however, blind us to the differences between them. The crisis in Britain is considerably less deep (and will be in any event ameliorated by North Sea oil, at least in the short term). The financial interdependence of the Western nations, and the much greater power of the nation-states themselves to intervene in their own economies, are both factors that will tend to pre-empt a radical-right solution to Britain's problems. But Alfred Sohn-Rethel's study is a timely reminder that counter-revolutionary barbarism is never completely absent from the capitalist agenda. The problems of industrial concentration (and particularly the increase in the organic composition of capital) are even more acute than they were in the early 1930s. The urbane and cultivated ruling-class of Germany, with great heart-searching and after all other options had closed, turned to the politics of fascism to preserve their place in the sun. There is nothing, beyond our own understanding of that experience, to prevent similar conditions producing a similarly ghastly result.

Preface

The events described in this book relate to the Germany of the 1930s, and to a very great extent they are based on my own personal experience. Some of the accounts are from material which was originally written in England between 1938 and 1941, soon after I arrived there as a refugee from Hitler in October 1937, after 18 months in Switzerland and France. At that time Mr Wickham Steed, a former editor of the 'Times' rallied around him many political and intellectual emigrés from Germany, in an attempt to gain information to be used to counteract the spread of fascism which already dominated Germany, Italy and Spain. He was a close friend and political ally of Winston Churchill, then an active opponent of the pro-Hitler appeasement policies first pursued by the government of Stanley Baldwin and later, more perniciously, by that of Neville Chamberlain.

These accounts which I wrote for Wickham Steed, (in German, for he was an excellent linguist) were intended to demonstrate how the German economy and its structure paved the way for the Nazi regime. They describe the economic development following the First World War, the internal contradictions within the great business concerns, the devastating effect of the big slump of the early 1930s, the splitting up of German monopoly capital into two antithetic camps and their final reunification leading to fascism and to the Second World War. Since Wickham Steed asked for these articles at different times for distribution to different people within the Churchill sphere, they inevitably contain repetitions and overlaps. However, any attempt to eliminate these for purposes of publication in book-form would result in destroying the coherence of each account. I can therefore only apologise to the reader for such duplications.

After my experience in Germany I was astonished to find that this 'Churchill camp' in London existed as a spontaneous, voluntary collaboration of people without any trace whatsover of secrecy. I had never before been involved in that kind of organisation. Up to

the time of my emigration I had worked in various illegal socialist resistance groups. As early as 1931 there was one in Hamburg, a group of old Bolsheviks surviving from the Hamburg Rising of 1923, with which I kept in touch through Dr Joachim Ritter, who later became Professor of Philosophy in Münster. Collaboration with this group grew increasingly difficult as it became more and more risky to entrust secret political information and documents to ordinary postal services. Before long I had to evolve ways of overcoming this by hiding papers under unsuspected cover. For instance I recall buying a pair of shoes at the large Berlin department store, the Kadewe, and saying to this assistant 'I'd like to wear these now, can you please post my old ones in the box to my home in Hamburg', and whilst changing the shoes, I placed the document under the old shoes, and handed her back the box for posting. Thus the illegal communication reached Dr. Ritter safely. But such ruses were tedious and tricky, and worked only one way. The Hamburg comrades preferred travelling to Berlin to meet me and this could not be done on the spur of the moment when the situation called for it. In 1932 contact with this group became too difficult. Later, when the Hitler regime had been established in power, I worked with an organisation called the 'Roter Sturmtrupp' (Red Stormtroop) under Rudolf Küstermeier and Franz Hering, supported by a left-wing socialist young workers' group. From 1934 I was connected with the Neu-Beginnen, 'New Beginning', under the direction of Eliasberg and Richard Löwenthal, who then went under the name of 'Paul Sering'. I kept contact with them until I left Germany.

It is no exaggeration to say that in those pre-war years everything politically worth knowing in a fascist state went on behind closed doors and nothing reliable ever appeared in the newspapers. In order to be informed, it was necessary to make contacts in some way with those 'in the know' and yet, obviously, to conceal one's own identity and purpose. During those years the only place to make these contacts was in Berlin, and I shall endeavour to describe the complexities of a unique situation which resulted in my ability to compile the information I publish here. The chance of entering one of the inner centres of finance capital as an unrecognised Marxist, and of doing so at such a vital time in its development, of course occurs extremely rarely, and should be of important theoretical as well as practical value.

The reasons for the long delay in publication of these accounts are many. I have been concerned that no positive proof for the authenticity of my stories and judgements is possible. No docu-

mentation of such matters would survive, even if they ever existed. My opinions and reports have been drawn from personal observation, conversations and enquiries and their accuracy entirely satisfies my own craving for truth. Indeed there are certain areas in the events I attempt to describe which are only accessible to personal witness and it is just this type of phenomena on which I can throw light. For someone like myself, able to follow events close-up from such a splendid vantage-point, details and facts emerge which I believe have never before been reported, and they may perhaps add to the general understanding of the complex picture of the rise of fascism in Germany.

The course of my own life necessitated abandoning my intellectual work for long periods of time in England. During the War many months were spent, following the fall of France, in internment on the Isle of Man. After my release, like others in Britain, I was obliged to carry on with 'War Work' and spent three years in the office of a factory in Birmingham and later gave lectures for the de-nazification of German Prisoners of War in England. The factory work proved of value when I did eventually resume my theoretical work. After some years of preparation and writing my main study 'Intellectual and Manual Labour; a Critique of Epistemology' was completed, only to be rejected as too left-wing by some publishers and not sufficiently 'party-line' by another. Family obligations forced me to take up school teaching, until finally I re-wrote the book which was published in Germany in 1970. From 1973-76 I worked as a guest professor at Bremen University. The English version of the book has had to wait until 1978 before seeing the light of day.

Thus it has happened that the publication of these papers has also been long delayed. They appeared in Germany in 1973, and requests in England have tempted me to publish them here as translated by my son Martin. They now appear without the theoretical conclusions which were at one time intended. It will be the task of others to study these events, and in any case they will perhaps provide a pointer to the complexities of the world monopoly capitalist system which threatens new and ever more dangerous types of fascism in these times.

1 Ramifications Around the Bendlerstrasse Berlin

The set up in which I found myself in Berlin in the early 1930s is of such a strange nature, particularly to the English reader, that considerable explanation is essential. By a stroke of good fortune I obtained employment as a research assistant in an active centre within the inner circles of monopoly capitalism known as the 'Mitteleuropäischer Wirtschaftstag'* or MWT for short. This was situated just near the Bendlerstrasse.

The Bendlerstrasse was well known in Berlin as the location of the Reichswehr, or the German Army Headquarters. It held the same status as the Pentagon in the USA. Opposite was the Reichsverband der Deutschen Industrie corresponding to the Confederation of British Industry. The Bendlerstrasse was a short street leading from the city, coming from the Bendler Bridge over the Landwehr Kanal, and down to the Tiergarten — the 'Hyde Park' of Berlin. At the side of the canal was the Schöneberger Ufer and at the corner close to the bridge was a large private house, with the MWT occupying three rooms of a big ten-roomed flat on the second floor which it shared with a number of other organisations. Two rooms were occupied by the 'Deutsche Führerbriefe' on whose editorial board I served in an honorary capacity, being paid only for the articles I wrote. Two other rooms belonged to 'The German Association for the Near East', whose News Bulletin I edited, and whose Secretary was Dr. Fritz Hesse, also Director of the official German News Agency (D.N.B.). In 1934 an extension of the Association for the Near East was set up — the Egyptian Chamber of Commerce, whose office was a few doors away in the Bendlerstrasse and for whom I also acted as secretary. One more room was let to the Jugoslav Chamber of Commerce about which I write in Chapter 7. In yet another room was Dr. Krämer, the scientific advisor to Dr. Schacht whilst he was waiting to be reinstated as president of the Reichsbank. When this occurred Dr. Krämer

**For explanation see Chapter 2.*

moved into the Reichsbank with him. The last room was occupied by Baron von Wrangel who edited a confidential information service, the 'Osthilfe-Korrespondenz' for big landed estate owners, the 'Junkers'.

All of these institutions and persons connected with them were linked in a network of common political power which of course was not confined exclusively to this locality. Working in one of them almost automatically implied the possibility of participation in the others, even if only spasmodically. Thus the 'ramifications around the Bendlerstrasse' spread far and enabled me to glean information which otherwise would have been inaccessible. My actual insights into the developments which led up to the fascist dictatorship came mainly from my experience in the MWT, but a great fund of information arose from my collaboration on the Editorial Board of the 'Deutsche Führerbriefe'. The name 'German Leader's Letters' misleadingly suggests associations with Hitler. It had, in fact, been founded by Dr. Franz Reuter and Dr. Otto Meynen at the end of 1928 in Cologne at the time when the Nazi movement was in the doldrums and a good eighteen months before its subsequent upsurge. The name, though purely fortuitous, proved to be an inspiration when the 'Führer' did rise to power.

The newsletter was not on sale to the public but had a constantly growing readership, a selected circle of subscribers including the upper echelons of the army, cabinet ministers, leaders of large scale agriculture, industry and high finance, and selected members of staff of Hindenburg, the President of the Reich prior to Hitler. It appeared twice weekly and all the contributions apart from the feature articles were strictly anonymous. It was not a newspaper in any normal sense; indeed journalists were excluded from receiving it. Franz Reuter, the editor, had particular connections with Dr. Schacht and even wrote his biography which was published in 1933. During the Nazi dictatorship Schacht became Hitler's financial advisor and confidant and there is no need to stress how vitally useful was Reuter's unrestricted access to him. Dr. Reuter also had close connections with Vice-Chancellor von Papen, particularly fruitful in the years which paved the way to the rise of Hitler. The links of the 'Deutsche Führerbriefe' with industry and high finance were far-reaching and the information which appeared before the Editorial Board left little to be desired.

I must of course stress again that my illegal activities and political views were absolutely unknown to these day-to-day contacts around the Bendlerstrasse. During the course of 1932, however, a group of friends, enemies of fascism, who could trust each other

implicitly, eventually met every week to unload, check and analyse the various pieces of information and speculation each had collected. This group consisted of Wolfgang Hanstein who was secretary of the German-French Study Committee also housed in the Bendlerstrasse and in whose semi-diplomatic office we could meet in safety, Wolfgang Krüger from the Reich Chamber of Commerce who was the 'moral mentor' of Robert Ley, Nazi leader of the National Socialist Workers' Front, Dr. Hugo Richarz, Secretary of the Prussian Chamber of Agriculture, Dr. Margret Boveri, an immensely intelligent journalist and author who at the time wrote for the Frankfurter Zeitung and the Berliner Tageblatt, and myself. We met each Friday at mid-day so that I could pass on the information during the week-ends to my other illegal contacts. After the War Dr. Margret Boveri published a very instructive short paper on these secret meetings in the Bendlerstrasse in which she described me as a 'philosophical communist or a communist philosopher' by whom she had been informed of the imminent purge of the Storm Troopers, fourteen days *before* June 30th 1934.

I think it is true to claim, without exaggeration, that our small group were among the best informed in the Germany of the 1930s. Our knowledge and foresight simply had to be accurate if we were to evaluate the chaotic character and incalculability of the events, and to know the hidden but structural logic which inscrutably shaped their apparently unpredictable course. I would have found it difficult to tear myself away from this vital connection and the unparalleled possibility it offered for probing into the contemporary German scene had it not been for the threat of arrest by the Gestapo. A relatively trivial matter was to be investigated concerning my work at the Egyptian Chamber of Commerce and it was clear that this would have inevitably penetrated to my other clandestine activities, which would have earned me a death sentence several times over. The rest of the group continued their meetings in the Bendlerstrasse until well on into the war years.

Insofar as my information in this book extends beyond 1936 it was obtained from Margret Boveri whom I succeeded in meeting once more, secretly, in London in 1938, after which she returned to Berlin, whilst I did my best to use my knowledge to fight fascism from outside Germany.

2 The Work of the MWT The Bureau Hahn

The subject at the centre of my book, and on which it focuses continually, is the varying divisions within monopoly capital. During the slump of 1930-33 the unity of monopoly capital was torn by rifts between the leading large corporations such as the Steel Trust, I.G. Farben, Krupp, Siemens and the agricultural interests. Out of the bridging of these rifts was born the Hitler regime.

A vital question to be considered is by what intermediary links the business interests in industry, agriculture and banking become transmitted to decisions of government policy. It has been a peculiar characteristic of German business, since the 1870s onwards to group itself into associations which have helped the formation of monopolies of particular branches of industry and of economic interests and which have also acted as lobbies to influence government decisions in their favour. For instance, a policy of free trade had always been demanded by the textile and pharmaceutical industries, whereas agriculture, iron and steel tended towards protectionism. Accordingly, the heads of these associations deserve special attention. Not that they themselves were any more intelligent than the bosses of the individual firms which made up the associations; rather that they underwent, in their professional duties, an incomparable schooling in the realisation and weighing up of contradictory interests and in bridging, eluding, suppressing or ironing them out. Moreover, their horizon and knowledge expanded through the contacts they maintained with their counterparts in other associations and greatly exceeded those available to bosses of individual firms.

The de-nazification trials and those of Nuremberg shed an impressive light on the low levels of understanding and intelligence of these heads of industrial firms. They were mostly grossly ignorant and confused about politics, and declamations they occasionally made carried about as much weight as those of the proverbial rain-makers in the jungle. To illustrate this I might quote a joke which was bandied around the German C.B.I. Krupp von Bohlen

when interviewed by a representative of the Swedish iron and ore mining organisation was said to have asked his Secretary through his intercommunication set 'Please let me know what I think about Swedish ore!' But to understand the deep-seated causes of events, one cannot rely on the opinions and activities of individuals taking part, even the most prominent of them. With Marx we must remember that 'in general, the characters who appear on the economic stage are merely personifications of economic relations; it is as the bearers of these economic relations that they come into contact with each other'.*

To appreciate the complex situation developing between the two World Wars a brief historical elucidation might help. In 1918 the Habsburg monarchy which had been the main power in the Danubian basin broke up into Czechoslovakia, Romania and Jugoslavia leaving Austria and Hungary reduced to a fraction of their previous territorial importance. These three new states formed the so-called Little Entente under the hegemony of France as the main guarantor of their independence. The French system of military alliances extended also to Poland. Stresemann, Foreign Secretary and Chancellor from 1923 until his death in 1929, formed the Deutsche Volkspartei in which were represented vital sections of large-scale industry. Stresemann's aim was to accomodate Germany into the European order created by the Versailles Treaty of 1919 and was intended as a policy of peace and international co-operation. The main expression of it in Europe was the Locarno Treaty of 1925. Germany's vital break-away from this post-war peace policy to a renewal of her aggressive imperialism can be retraced to a split in the Deutsche Volkspartei occurring in August 1929, when German heavy industry — iron and steel — left the party. As it happened, Stresemann died the following October almost at the same time as the collapse of Wall Street, which was the first signal of the slump to come and which put an end to the entire post-war order. Under pressure of the slump the break-away parts of the Deutsche Volkspartei made clear their opposition to Stresemann's policy of conciliation, leaving the remainder of the party reduced to virtual insignificance. The recrudescence of German aggression first raised its head in March 1931 with an attempt to bring about a German-Austrian customs union which would have been a spearhead against the power of the Little Entente. That this was thrown out by the International Court of the Hague in September 1931 as incompatible with the post-war system was a severe set-back to the industrialists. But they were not to be

* *Marx. Cap. 1. Penguin p. 179*

deterred from their plans which were now pursued as a venture of the 'Langnam-Verein'.

This latter was the oldest and by far the most powerful of the industrial associations. It was created in 1871 with its headquarters in Essen, the same year as the foundation of the German Reich. Its outspoken purpose was to organise the individual firms of the iron and steel industry of the Rhine and Ruhr towards a monopolistic concentration.*

In 1931 the Association decided to set up a special office in Berlin as its own extension for the promotion of the German expansion in Central Europe. These aims linked up with pre-war plans of a Central European Policy advocated by Dr. Friedrich Naumann. His plans had materialised in the creation of a so-called 'Mitteleuropäischer Wirtschaftstag', the MWT, organising annual congresses of representatives of Central European States and nationalities. Although after the First World War Germany was no longer in a position to pursue such a policy the MWT lingered on, having no substance and no activity. It was, however, still registered and still had a legal existence. In September 1931 'The Long Name Association' took over this inconspicuous shell in order to conceal their real aims. The leading force was Dr. Max Hahn, then principal assistant to Dr. Max Schlenker in Essen. Through a fortunate chain of circumstances I was engaged as his research assistant, with a modest room in the Bendlerstrasse looking out at the back, filled mainly with statistics and specialist literature. Besides Dr. Hahn and myself there was no-one except the secretaries.

Baron von Wilmowski, head of the Fried/Krupp Concern in Berlin became its President. He and Dr. Hahn soon extended the membership to cover all the concerns and groups of German finance capital worthy of mention, — Iron and Steel, I.G. Farben, electro, metal and machine-building and the motor-car industries, large scale agriculture, and the Deutsche Städtetage (Conference of Cities) — to name but a few. The membership embraced the leading elements

**Its original name was 'Verein zur Wahrung der gemeinsamen wirtschaftlichen Interessen in Rheinland und Westfalen' or 'The Association for the Protection of the Common Economic Interests in the Rhineland and Westphalia'. When Bismarck spoke of it in the Reichstag he just could not be bothered to repeat all this and called it the 'Association with the Long Name' — a title which readily stuck.*

of the various groups dividing German monopoly capital at the time. Thus the MWT became a unique vehicle for the re-unification of German big business on the basis of a new imperialistic policy. Dr. Hahn kept in constant touch with the Army, particularly with the War Economic Office, the Army Supplies Office, the Counter-espionage Department and the Foreign Office.

That the Hahn Bureau was so little talked about as far as the public was concerned was fully intended by its director and was proof of his diplomatic skill. The MWT's continuing obscurity after the Second World War is explained by the fact that Dr. Hahn died in 1941 and that his office then lost the specific importance that had made it so notable when he was alive. Only his death can explain why the MWT with its far-reaching influence on German developments before and during the war could have slipped so totally through the net of the Nuremberg dossiers. As far as I have been able to find, there is not so much as a trace of it in the records of the trials. This lack of mention in the Nuremberg records surely justifies a report on the MWT based on personal witness particularly in view of the exceptional force of this Association's political activity. Why it merits our special attention amongst all the agencies paving the way to the Hitler regime can be summed up in one sentence: it contributed like no other one to the joining of the leading industrial groupings into a new concentration capable of taking the place of the previous one which had been destroyed by the slump. I agree with Dr. Margret Boveri when she says that the MWT was a strategic entity unique at the time and deserving of special contemporary study.*

I must, however, admit that my evidence is far from complete since I cannot claim to have known all of Max Hahn's activities. For instance, in what directly concerned the steering of developments towards war, even before Hitler, he kept most, if not everything, secret from me. I heard of these activities only piecemeal, through the grapevine. For example, during 1932, meetings took place at two monthly intervals in Hahn's capacious room between the representatives of the 'National Defence Unions' of which the contents remained unknown to me. Only through hints did I learn of his contacts with the 'Patriotic Associations' because he wanted these political and ideological movements under his own control and did not want to lose them to the rival power of the Nazis. Yet such movements could not have attained the mass strength indispensable for their purpose so long as they remained under the

**Neue Deutsche Hefte 1969. No. 123. p205.*

umbrella of mere industrial patronage. This branching out into fields outside his business competence indicates the inner contradictions of Max Hahn and of the fascist policy of monopoly capital as a whole.

The very date of the re-constitution of the MWT is itself significant. The economic crisis might not in 1931 have reached its climax but it was in the deepest of waters and crucial sections of German large-scale capital could no longer see any future in using purely economic methods to carry on their competitive struggle. The policy of the MWT promised a change of these methods. To recognise the reasons for this, one need only glance at the current economic situation in Germany.

Based to a large degree on foreign credit to the tune of around 25 billion Goldmark of which about 11 billion were on short-term loan, German industry and agriculture were re-built between 1924 and 1930. In many branches, particularly the iron and steel industry, this had taken place on far too large a scale compared with the sober prospects in the aftermath of a lost war — the total disarmament and the loss of all foreign capital decreed by the Versailles Treaty. These slim prospects were, however, continually veiled, first by the need to revert to peace-time economy inside the country and by the extraordinary dumping outside caused by inflation; then, when real planning should have ensued with currency stabilisation at the end of 1923, the acceptance of the Dawes Plan in April 1924 saw vast export of industrial equipment, not on a commercial basis, but on reparations account, paid for mainly by foreign loan capital. Of this the iron and steel industry took the lion's share. At the same time the new wave of rationalization began in earnest and with it the boom years of monopoly capital from 1924 to 1929. This was primarily a boom of investment and construction, focused on manufacturing the means of production; consumer goods took second place. It thus created a disproportionately high demand for products of the iron and steel industry which gave rise to the formation of the giant steel trust. In 1926 four or five of the largest firms (among them Thyssen, Stinnes and Otto Wolff) fused their capital, comprehensively modernised their plant and re-organised the division of labour within production; the result was the United Steel Trust, commonly called the Stahlverein.

This giant structure was the biggest industrial enterprise in Europe at the time and alone processed half of Germany's pig-iron production, employing up to 200,000 blue and white-collar workers.

The Steel Trust indeed represented a model case of 'rationalization'. Productivity increased by more than 50%, costs were substantially reduced, production capacity decisively raised and labour costs per unit of production correspondingly cut. But, of course, all these advantages could come to fruition only if capacity were sufficiently utilised. Here lay the Achille's heel, the inner contradiction, of the whole development which I discuss in detail in the following chapter.

3 The Dilemma of Rationalization

In his study on 'Imperialism, the highest Stage of Capitalism', Lenin retraces the development of modern monopoly capitalism to 'the remarkably rapid process of concentration of production in ever-larger enterprises'...'at a certain stage of its development, concentration itself, as it were, leads to monopoly.'* It is, of course, not the mere size of enterprises that Lenin has in view, but the structural characteristics linked up with it. Marx speaks of the increasing 'organic composition of capital' meaning the growth of the material means of production relative to the human labour-power employed in the production processes. And within these material elements, it is the heavy plant, building and complex machinery, in short, the 'fixed capital' to which Marx attributes particular importance. In the 'Grundrisse' or the 'Rough Draft to Capital', which only came to light fifteen years after Lenin's death, Marx makes the far-reaching statement: '...the greater the scale on which fixed capital develops...the more does the *continuity of the production process* or the constant flow of reproduction become an externally compelling condition for the mode of production founded on capital.' 'From the moment when fixed capital has developed to a certain extent...from this instant on every interruption of the production process acts as a direct reduction of capital itself, of its initial value'.**

At a later stage of our analysis we shall refer back to this statement of Marx because of its relevance for certain fascist tendencies among large-scale German industry. Its more general and fundamental significance emanates when considered in connection with the views which Professor Eugen Schmalenbach, a leading exponent and indeed the founder of managerial economics in Germany, attaches to the growth of fixed capital as a cause for the rise of monopoly capitalism. It is in particular one lecture of Schmalenbach's which highlights the detrimental effects of the rationaliza-

**Lenin, Selected Works, vol. V. p. 14/15, Lawrence & Wishart 1944*

***Grundrisse, Pelican Marx Library 1973, p. 703*

tion drive of the 1920s in Germany and their consequences for and during the big slump of the 1930s.* His argument and description are not only of theoretical interest but offer historical testimony of the industrial conditions at that time. And it is mainly because of this second quality that I shall refer to Schmalenbach's lecture in some detail.

Schmalenbach saw the economic conditions of the 1920s as in transition from the free economy and on the threshold to controlled economy. This new economic system was to him marked by cartels and trusts and other monopolistic formations as well as by a growing number of economic functions of the State. He remarks that in this transition 'there can be no question of a conscious choice. Those in charge of the economy have not set themselves the goal of leaving the old economy and of deliberately trying out a new one. None of our industrialists enters by an act of free will into the new economy. It is not people but strong economic forces which are driving us into the new economic epoch.'

He continues with something of a warning. 'What are we experiencing if not the fulfilment of the predictions of the great socialist, Karl Marx? If we were to tell our industrialists that, whether they like it or not, they are, as it were, the executors of the Marxian testament, they would, I presume, protest with all due emphasis. If we seek an explanation of this change of the system we have to look for the reasons, not in people, but in things. And if we look closely enough we shall notice that it is almost exclusively one single phenomenon which is responsible for this transformation; a phenomenon which emerged originally very inconspicuously and to which no-one would have attributed such a powerful effect..... This phenomenon which is of such scope that it entails the complete transformation of the economic system in its entirety is the shifting of the cost of production within the production plant. Expressed in technical terms, the share of fixed costs steadily increases to the extent that finally it becomes the determining factor in the organisational structure of the production process.

**Die Betriebswirtschaftslehre an der Schwelle der neuen Wirtschaftsverfassung* [*Managerial Economics on the Threshold of the New Economic Order*]. *A lecture given in Vienna May 31, 1928, 30th anniversary of the academic recognition of managerial economics in German universities; published in Zeitschrift für handelswissenschaftliche Forschung 32.Jg., Heft V.*

The great epoch of the untrammelled economy of the 19th century was only possible so long as the costs of production were essentially of the proportional kind. It ceased to be possible when the share of the fixed cost became more and more predominant.....

The first thing which is obvious even to the most superficial observer is the continuing growth in the size of the industrial plant...and thereby the source of costs which bear no relation to the output of production and which cannot be cut even if the plant functions at only half or quarter of its capacity. To this we find linked a further peculiarity of an ever-growing trend to coercive operation within the mode of plant utilisation. We have seen the emergence of flow-production which is characterised by the utmost degree of stringency in determining the route which every product must follow, the sequence of the products and particularly the speed. Nothing is more characteristic for this organisational order than the fact that the internal means of transport have been given a rigid timetable. The advantages of this principle are such that they cannot be forfeited; on the other hand the relative share of the fixed cost goes on increasing. Inseparable from this development is the continuing increase in capital intensity.'

Schmalenbach here gives a number of examples to illustrate this well-known process which Marx calls the growing organic composition of capital. Schmalenbach points among other things to a large fully automatic milling machine and comments: 'What this engine requires in wage cost is nothing. But what it necessitates in interest and depreciation is a great deal and is totally indifferent to the degree of its utilisation. And this all the more as it will probably not end its career by wear and tear but because a new and more efficient specimen will be invented to replace it.'

Schmalenbach clarifies his theme by pointing to the contrast between the proportional costs previously prevailing and the fixed costs dominant today. The peculiarity of proportional costs consists in the fact that costs rise with every piece of output, with each ton mined. Each ton which is produced increases the proportional costs by a definite amount, and conversely. If the prices fall to a level below the cost of production, production can be curtailed and thereby a corresponding part of the proportional costs can be saved. If however the essential part of the costs of production are fixed then the costs will not be lessened by the curtailment of production. And if in this situation the prices fall there is no purpose in compensating this fall by a curtailment of production. It is cheaper to continue to produce below the production costs. The

enterprise will now function at a loss but this loss will be smaller than it would be if production were curtailed while the costs remain more or less undiminished. Schmalenbach goes on:

> 'In this way modern economy is deprived of the remedy by which production is brought into harmony with consumption and economic equilibrium is ensured. Because the proportional costs have become fixed to such a large extent the economy lacks the ability to adapt production to consumption and so the remarkable fact arises that the machines become increasingly equipped with self-regulating facilities, thus dispensing with human labour, whereas the economic machinery, the national economy as a whole, loses its automatic regulative.'

> 'The fixed costs do not merely compel the plant to be fully exploited despite lacking demand but even induce its enlargement. In every plant there is a number of sections used at a low level of their capacity. These operate at degressive costs even when the whole enterprise is working at full capacity. On account of such insufficiently used sections the managers of the enterprise are forced to expand the plant until these particular sections are more fully utilised. And in this way the capacity of whole branches of industry is increased without justification of an increase in demand. In countless company meetings one hears that the enterprise is not as yet functioning at a satisfactory level but that if a few machines were to be added and other enlargements made then the enterprise would become profitable. And as other enterprises in the same branch of industry act likewise they also rationalize themselves into an excess capacity never called for by the demand. It is invariably the fixed costs which are at the root of this. If a particular branch of industry has reached this point then the forming of a cartel or a merger is no longer far away. Thus the fixed costs push one branch of industry after another out of the free market economy and into the monopoly system.'

In further parts of his lecture Schmalenbach underlines the disregard of economic rationality inherent in the tendencies he describes, causing an irrationality arising from the discrepancy between the production economy of fixed costs and the market economy of supply and demand. This discrepancy becomes the more blatant the more the managers are induced to rationalize by the demand of production economy. Moreover he discovers this economic irrationality in almost all the manifestations of resulting

monopoly. He deplores the nepotism in the board-rooms which are dominated and appropriated by groups of interests and even by family connections. In the administration he finds excessive bureaucratism, excessive sluggishness, excessive salaries of directors, excessive payments in the form of 'perks'. He points to the economic irrationality resulting from the fact that the responsible directors no longer invest their own capital, but the public capital of other people. He views the legal constitutions of these monopolies as also irrational. The capitalists who previously strove for the market shares now struggle for their quota of the global sales. Reassessment of quotas at the periodical renewals of cartels encourage everyone to increase production in order to claim entitlement to a higher quota as a consequence. Thus the capacity for production continues to grow ever further from market demands, and results in dumping, or throw-away sales outside the safeguarded area, at prices even below the proportional costs.

In his lecture he describes the ultimate absurdity of such a system in the following words. 'An example will show the weird results which issue from such contradictions. There are a number of coal producing countries, England, Germany, France, Belgium and Holland, whilst some countries in the north and south of Europe have no coal worth mentioning. One would presume that these countries with no coal would find this a regrettable fact, whilst those possessing coal would have a feeling of economic superiority. This is by no means the case! If you look at the price policy of the coal syndicates you will notice to your astonishment that it is apparently very disadvantageous to a country to possess coal. This must really be so since the coal industries supply their coal to the non-coal producing countries at a price far below the cost of production, seeming to suggest that it is of the greatest annoyance to possess coal and they take pains to rid themselves of their surplus at the earliest opportunity, even allowing this to involve them in a great deal of extra expense. An impartial observer could not help but receive the impression that the possession of coal amounts to a disease.'

The conclusion of his lecture is a pleading for the important role of managerial economics necessary to bring back the minimum of rationality into monopoly capitalism.

But the picture is clear. In the rationalization drive of the 1920s a novel kind of production economy of fixed costs took effect where the regulating factors of the supply and demand of the market were impaired and the time economy of the modern labour process became predominant. It is the result of this new plant economy and

its discrepancy with the old market regulatives which forced the development toward monopoly. The same still applied in later years, and indeed does so to the present time. Monopolism is nothing more than the summary title of a great variety of measures aiming at the manipulation of the markets. And as far as the fixed costs are concerned they are no more than the reified expression of the highly developed socialisation of labour in the modern process of production. What we see is indeed the fulfilment of a prophecy of Marx and Engels that the increasing socialisation of labour, or expressed technically, the increasing organic composition of capital, would, at a certain point of development, enter into an irreconcilable contradiction with the market system of private appropriation.

Commodity and market economy originally arose out of the breaking up of primitive tribal collectivism into the anarchy of private producers working independently of each other. Modern flow-production represents a degree of socialisation of labour marking the opposite end of the developmental line of commodity production stretching over 3000 years. In the decades after the Second World War we have seen the contradiction between the constraints of the market and the cornucopian effect of modern mass production rise to a new intensity compelling the big private concerns to plan and programme their processes in an endeavour to forge a necessary link between plant and market economy.

But during the 1920s the new economy of the labour process was only in the stage of innovation and it steered its way blindly and unsuspectingly into economic and social chaos. All the more remarkable was the insight of Schmalenbach's analysis, even if hamstrung by the reified manner of bourgeois thinking. His testimony is of importance because it affords a standard by which to gauge some of the individual economic conditions of particular firms.

The creation of the Trust in the steel industry in 1926 most clearly demonstrates the process. Rationalization and the consequent lowering of labour costs of production had been achieved by the method of amalgamation of similar firms and was a feature of much of large-scale industry. But in iron and steel this assumed a particularly rigid form. Not only were the various departments of the concern — production of pig iron, steel casting, strip mills, wire, tube-making, etc. — organised as far as possible in accordance with the flow of production, but the various sections of the concern were in their turn linked together by the utilisation of blast

furnace gases as their fuel. As far back as 1905 in America the very hot gases which gather in the upper part of furnaces were collected into pipes and directed from one department to another as a use of fuel and energy. The result was not only a very considerable economising of fuel but also a linking up of all the departments of the concern so that it functioned like one single gigantic clockwork, where none of the parts could be worked on its own. Synchronisation of all parts of such an industrial concern was perfected to such a degree that the massive plant could be supervised and steered from one central switchboard by two or three engineers. Technology and economy became one. But at the same time the fixed costs had increased more than ever before and had thereby made the whole concern extremely crisis-prone.

The advantages of this production economy were evident during the War, when the fullest utilisation of production, regardless of markets, was demanded. During the world crisis in the thirties this blessing of rationalization was soon transformed into a curse of irrationality. And this was indeed realised by the directors of industry themselves. The Deputy Director of the Steel Corporation, Ernst Poensgen, whom I knew personally through family connections, exclaimed to me in Autumn 1931: 'Science! don't mention science to me! We have been pumped full with science; scientific technology, scientific managements, scientific market research, scientific accountancy and so on and so on. And where has all this science brought us?'

At that time Schmalenbach produced a memorandum (not the lecture already quoted) in which the blatant contradictions were ruthlessly exposed. He described the production plants of the modern large concerns as thoroughly rationalized, planned structures which, however, would only fulfil their rationality and function for the good of society if they could exist in a planned, unified economy. They were so incompatible with the anarchy of private and market economy that in the present circumstances they could only revert to social irrationality. This openly anti-capitalist conclusion coming from such an authority provoked horror in industrial circles and fear in the face of the threatening class tensions of the time. The Minister of the Economy in the Brüning cabinet, Dietrich, was prevailed upon by the industrialists to suppress and destroy the Schmalenbach memorandum.* For by

**Sönke Hundt in his book 'Zur Theoriegeschichte der Betriebswirtschaftslehre' (On the History of the Theory of Managerial Economics) Bund-Verlag. Köln 1977, casts doubt on the existence of this*

then the irrationality of the 'planned' industry had become a palpable fact. When demand was high and prices high, the plants produced their products at cheaper costs than ever before, running at full capacity. But when demand fell, forcing prices down, then if production slowed according to diminishing demand the unit cost rose in geometrical progression. Prices and costs moved in inverse proportion instead of parallel to each other.

In production the only flexible factor which remained was the variation of production speed, but even the slowing down was possible only within narrow limits. In the case of the Steel Trust, for instance, the minimum possible output was reached at about 67% of rated capacity; if the tempo was reduced further the machinery ground to a stop. And from the economic point of view to vary the timing in order to limit production also had the effect of reducing the wage account to a part of the fixed cost of production. Even during the boom years the Steel Corporation had rarely functioned at full capacity, so thorough had been its 'rationalization'. In fact 80% of full capacity was regarded as satisfactory. But by autumn 1931 the orders corresponded to hardly more than 40% of the rated capacity; early in 1932 it fell to 20% and of course this 20% was distributed unevenly over the sections of the various departments. Until then production had been partly for stock, thereby causing only further deterioration of price levels. As, however, the whole economic situation showed no promise of immediate improvement but only of further decline, a policy of despair was reached; namely to stop and start the works alternatively every 14 days, although some of the saving was partly lost by the extra expense of starting up the plant. It needs little imagination to realise that plants so used not only fail to make a profit but that they are also in danger of swallowing up their own invested capital if such a situation continues.

memorandum. He has searched all available archives for it and quotes two close collaborators of Schmalenbach who he states could not have failed to have known about a memorandum concerning the German Steel Trust if such a one had ever existed. However, there is obvious confusion here. I have never written of a memorandum regarding the Steel Trust. The Paper at issue is of a very different character concerning the rationalization drive of the 1920s and its results. I find no reason to doubt its existence and immediate suppression and destruction in October 1931. It was fully discussed in my presence in one of the Editorial Meetings of the Deutsche Führerbriefe.

It is clear, therefore, that enterprises of this new modern type which are run on the principal of structural socialization of labour but continue along private capitalist lines, are under continual coercion to produce. So long as they are not totally closed down, thrown on the scrap-heap, so to speak, they must produce regardless of whether there is a demand for their products or not. And if there is no demand of a real kind, that is, of reproductive values, then an alternative demand, that of non-reproductive values, must be created in order to keep the works in motion. Non-reproductive values are products which are not consumed either directly or indirectly into the maintenance or renewal of human labour power and social life or into the renewal of productive machinery. Among these, armaments obviously have pride of place, and in our most recent experience since the 1960s onwards can be added the manufacture of waste products and space exploration. In order to make the demands effective a state power is needed to compel the population to pay for this production.

The capitalist economy can force enterprises into liquidation whose technical efficiency has dropped behind the necessary progressive requirements of production. It cannot do likewise with those which do not conform with these standards for the opposite reason, because they have grown beyond these standards. Their losses have to be transferred to the community by the State. Such enterprises in common with others in the same position put in jeopardy by their paralysis the entirety of finance capital. They are out of step because they have rationalized too quickly beyond the possibility of responding to the market. Capitalism is forced in such cases to provide for the necessity for production which such enterprises require. Schmalenbach was perfectly right with his conclusions that such planned giants of production demand production relations entirely different from private capitalism.

Had it been possible in the thirties to overcome and discard capitalism then these production relations would have become socialist. Instead they became trans-capitalist — encapsulated in capitalism. The resultant developments described in the following chapters should serve to clarify the way the transcending elements of capitalism contributed to the tilt over into fascism. Marx and Engels predicted that the basic elements for a socialist mode of production would generate within the depth of capitalism. Capitalism can either give birth to socialism, or to the deformed monster of fascism.

4 The Brüning Camp and Harzburg Front

During 1931 and 1932, the crucial years for the formation of the power constellation around Hitler, German industry was clearly split into two factions. One was usually summed up under the name of the 'export industries', the other liked to think of itself as 'autarchists', those who aimed at self-sufficiency by basing the national economy on the home-market. We shall see that this distinction was as inaccurate as it was misleading. Neither was the one group interested exclusively in export nor the other only in the home-market. In reality they both had international economic struggle in mind but with different methods and different approaches and also, as it later transpired, with different kinds of products. In any case, their antagonism was not in doubt and until we know more of the reasons it will be best to refer to them by the accepted labels of the 'Brüning camp' and the 'Harzburg front'. A few words are needed to describe the meaning of their conflict.

After the resignation of Hermann Müller's cabinet, which was the last social democratic coalition government, the mantle of the Weimar Republic fell upon the right-wing Catholic party politician Heinrich Brüning, previously an unknown figure. On March 30, 1930 he shouldered the task of bringing Germany through the most shattering of all international economic crises. The first political expression of the catastrophic turn of the slump was the formation of the so-called 'National Opposition' which gathered on October 11, 1931 at Harzburg Spa, — hence the nickname of 'Harzburg Front'. It was a heterogeneous mixture brought together under the initiative of Hugenberg, the arch-reactionary leader of the conservatives, and rallied such mass movements as the Nazis* with Hitler and the 'War Veterans of the Stahlhelm' (Steelhelmet), under their leader Seldte. They voiced the mood of vast numbers of small traders, farmers and business people, all facing the danger of bankruptcy. But with this medley were associated

**For composition of the Nazi Party see Chapter 17.*

powerful representatives of German big business: Thyssen and Flick, the main financiers of the Steel Trust and its general manager Albert Vögler, Kirdorf, the Director of the Coal Syndicate, and Borsig, owner of a locomotive and heavy machinery company. What united this conglomeration of desperados was the demand for dictatorial government directed against the organised working-class in their trade unions and the social democratic and communist parties.

The crisis had started in October 1929 with the collapse of the bull market on the New York stock exchange but through the whole of 1930 it had seemed to be a mere repetition of the periodical 'cleansing crises' of capitalism with the usual falling of prices, wages and credit. Soon the deepest point of this process would be reached and business would once more revive; the economy would take on the usual 'new lease of life' and everything would be alright again. But after a time when many people thought they could glimpse the signs of a new stabilisation, the crisis began in earnest. In April 1931 the Austrian credit bank of Rothschild collapsed; it had been one of the corner-stones of the Central and Eastern European financial systems based on foreign loans. The foreign creditors, above all the Americans, panicked for their money and immediately withdrew all their short-term investments. In a few weeks the Reichsbank lost three billion RM in gold and foreign currency. On June 7 President Hoover proclaimed a general moratorium on the German reparations obligations which simultaneously halted any inter-allied payment of debts to the United States.

But now collapse began within the German economy itself. The bankruptcy of the Wool Trust of Bremen pulled down with it the Danat Bank, one of the big five, and the main instrument for financing heavy industry and the Steel Trust from American debentures. The Danat Bank lost more than its entire reserves of capital. The government was compelled to intervene to safeguard the other big banks, particularly the Dresdner Bank, by State guarantees, and this put a stop to the loss of confidence. The effect of these measures was limited to the domestic sphere alone; they did not reassure the foreign creditors. In July a moratorium on the whole of Germany's short-term foreign debts became necessary and with this overall standstill agreement entering into force on August 1, the entire free international money market operated by Germany and the other European debtor nations was frozen and subjected to the foreign currency control of the issuing banks. Currency embargo had descended upon Europe. Throughout the

network of creditor nations the crisis continued and when the English pound came off the gold standard on September 21, 1931 the whole international credit system came to a standstill.

From then until the beginning of the Second World War, practically no capital transfer took place between different countries. When a sum of 10 million RM was transferred from America to Germany in 1937, it created a sensation which was headline news; it remained a solitary occurrence. The economy and trade of each of the debtor countries was to all intents and purposes restricted to their home territory. Even the most indispensable imports and exports had to be painstakingly negotiated by barter deals, almost as if no international money market had ever existed. This state of affairs must be kept in mind in order to understand the consequent developments within the various sectors of large-scale capital in a highly industrialised country such as Germany.

5 The Pillars of the Brüning Camp

Let us first turn to the sections of industry which can be counted as the main pillars of the Brüning Camp. Of these Siemens is a suitable example to consider. There were indeed other large corporations more in the public eye and more hotly debated by the public. For instance, I.G. Farben, created in 1925 from a merger of most of the large chemical firms, had their own director, Professor Warmboldt, as Economics Minister in Brüning's cabinet. In fact the influence of the Chemical Trust extended so far that, faced with certain state measures, particularly concerning the fuel supply, often two drafts lay before the State Secretaries of the Ministry of Economics, one from the government, the other from the administrative centre of I.G. Farben and it was said that in case of doubt the officials thought it advisable to opt for the second. But I.G. Farben was such a multi-faceted complex with so many different branches of production and labour processes, contrasting sales interests and trading methods that it is wrong to speak of the Trust as having a single, clearly determined line of interest. Some of its branches were well served by the Brüning economic policy, others by that of the Third Reich, as was made sufficiently clear later on. The question was, which of its several lines of interest took pride of place. The Trust's power position was so overwhelming that any regime, except for a communist one, would be compelled to pay tribute to it. And in any one political question it was up to the I.G. Farben management to decide on which of its many feet it should put its weight.

But the policy position of the Siemens concern serves our present purposes so well because it was relatively clearly defined and was least in line with the politics of the 'Harzburger Front'. This, I found from my own experience, was still true in summer 1935. Whoever in Germany then yearned for unbridled criticism of the Nazis and their government could be sure of satisfaction within the orbit of the Siemens management, provided he could induce the people there to speak. In just two and a half years the Hitler government had managed with its policy of autarchy to ruin the

world standing of German industry, so they said. How could an enterprise like Siemens ever survive on the domestic market alone? Its works had been built up over ninety years on the support not merely of Germany but of the entire world market. And indeed, a firm such as Siemens is unthinkable without a sales area of this magnitude, no more for the extent and capacity of its production than for its quality and prestige. Hitler's anti-Jewish policies had, however, already imposed a world-wide boycott on German industry and Siemens' main competitors, Stewart-Thompson-Houston in Britain, Erikson in Sweden and General Electric, ITT and Bell in America among others, had not hesitated to profit from this excellent opportunity by carrying off Siemens' most valuable orders. Once pushed out of the world market, its position could hardly be regained, so acute had international competition become. On top of this came the difficulties arising from the general policies of the Hitler regime, totally absorbed with armaments and currency problems. Export was restricted in the extreme, the import of raw materials one-sidedly devoted to the needs of iron and steel interests. The Reichs Bank held its dwindling currency reserves so tightly that it became difficult to maintain Siemens' agencies and offices in China, India, Egypt and South America. Their closure became unavoidable soon after 1935 (almost simultaneously with that of I.G. Farben's agencies in Hongkong and Bombay and Agfa's in South America) and was seen by many to mean the German abdication of these markets for the foreseeable future. Policies with such consequences were, in the eyes of the Siemens management, nothing short of suicidal.

To appraise this perspective fully, one must be clear about the specific conditions under which German large-scale industries were forced to fight on the world market and above all how these conditions had been aggravated by the lost war, compared with the situation before 1914. Siemens' struggles were not so much for sales of mass-produced electrical articles on the open market or of radio appliances and materials, however important this branch of business had become for the electro-technical industry in the post First World War period. The really crucial objects of struggle were the great investment and construction contracts which a government in China or South America or Africa might put out to tender for the construction of power stations, the electrification of a railway network or for the building of electric tram systems and so on. To win an order to lay a telephone system in Greece or Egypt or to build an underground railway in Buenos Aires — those were the targets at which the cut-throat competitive struggle of the large electrical companies of the imperialist world powers were directed.

And not only were such orders important for the leading firm which took overall responsibility. They also included building, iron casting, rail manufacture, installations of every kind which were sub-contracted to steel works, construction and machine tool engineering firms and others. For comprehensive orders of this kind there existed the Siemens Building Union in which Siemens had gone into partnership with other large firms. And anyhow, Siemens itself consisted of two branches, Siemens-Schuckert for high voltage and Siemens and Halske for low-voltage technology. Other such overall enterprises or 'consortia' for the construction of harbour installations, mines, railways were Julius Berger Ltd. or the Otto Wolff Group. I.G. Farben linked up with Siemens and other firms to compete for the order to build a large-scale synthetic fertiliser plant in Upper Egypt for which the Nile Dam power station was to serve as the source of electricity. In the struggle for such contracts several leading firms would thus do pioneer service for a considerable section of total German industry.

In the international struggle for the acceptance of such tenders, generally involving four or five companies from the leading industrial powers in the world, the financing of the projects obviously played a vital role. And here Germany's defeat in the war had dire consequences with the loss of her foreign capital assets of around 25-30 billion marks in gold. The governments inviting tenders for such giant 'modernisation' projects were rarely in the position to find the necessary capital themselves. As a rule they depended on loans which were offered for subscription in the great financial centres, London, New York or Paris and sponsored by a consortium of banks. This required backing by the high financiers of the leading imperialist powers who by their foreign assets controlled the world's capital markets. Take for instance China, then one of the 'most interesting' markets in the world for big prospective investment contracts. When the Chinese government needed loans to finance such contracts, she turned to the international 'Four Banks Consortium' in Shanghai in which all the world's large capital powers were represented: England, the United States, France, Belgium, Japan etc. To guarantee repayment plus interest, the Chinese government then made over the income from her customs or from certain taxes to the financing powers. Before 1914, Germany with considerable reserves in the Shanghai Consortium, was one of them; assets were augmented every year from the German share in the Boxer compensation. After 1918, coinciding with the disappropriation of German foreign assets, this German share was parcelled out to Japan, France and Belgium. Thus in the field of post-war competition, Germany, that

is her industry and her banks, could have no further influence on the financing of investment contracts in China or in any other of the 'third world' countries engaged in 'modernisation'. Naturally, the credit-granting financial powers possessed a very marked influence on the distribution of building and delivery contracts for the particular project at stake. It is quite common practice for, say, English banks, if they have the major holding in a loan, to stipulate that it be spent at least partly on contracts to English firms. Germany forfeited this privilege, known as 'earmarking', after the war, together with her foreign capital reserves, — and with it she lost one of the decisive trump cards in the whole international competition of imperialist economic powers.

It is clear that under such conditions a firm like Siemens with a vital interest in the competitive struggle for the world market required a conciliatory relationship with the victor powers. Siemens knew only too well why they did not treat institutions like the League of Nations in Geneva and its economic and financial committees with blunt contempt. They were dependent on international co-operation with the other major powers. From the point of view of her economic interests, Germany could not afford the break which Hitler had provoked in October 1933. For, if it came to the crunch, the other powers could easily exclude Germany from the world market, destroy her industry economically and block her chances of regaining her former international position. And for the Siemens directors it was this recovery, the re-establishment of Germany's pre-eminence in the world that mattered. It was precisely because of this that they realised their dependence on the path of international co-operation, and thus on Stresemann's policy of 'conciliation' with the other major powers.

Not that a firm like Siemens was less imperialist than any other part of large-scale German capital. On the contrary, all that we have said to characterise its world market interests should emphasize its need to expand, and its insatiable hunger for an ever greater share of international business. It is not in this, then, that Siemens, typical follower of the Brüning line, diverged from the heavy industrialists of the Harzburg Front. The difference was that Siemens was strong enough to take on the struggle by economic means; it was a difference of methods but no less far-reaching for that.

For how did Siemens succeed in keeping up in international competition in spite of the financial handicaps just described? There were but two means to counteract them: to ensure value for money plus the highest possible scientific performance. And we

mean value for money not cheapness. The Siemens concern boasted a near world monopoly in the quality of its products. If they could guarantee a country a telephone system for twenty years without major repairs, their price could be twice that of the cheapest offer and still be more advantageous for the customer. But then the quality both of the product and of the installation had to be truly beyond all reproach; just what this meant in demands on the internal organisation of the plant and on the level of work carried out in production we shall presently illustrate.

The value for money of products offered on the world market does not depend merely on the cost and price strategy of the firms. It depends also on the currency policy of the government and the relative price level of the country with that of others. Since international commerce almost entirely stipulated contracts in pounds sterling, when Britain went off the gold standard in September 1931 the pound took the world price level down with it, leaving such currencies as the German mark high and dry on an excessive cost standard for its exports. Germany dare not follow the English example for fear of the population being seized by a panic of a new inflation like they had experienced in the early 1920s. This disadvantage was aggravated when the Hitler regime instituted a reflationary pump-priming programme of four billion RM towards the absorption of the seven million unemployed, thereby giving a boost to the German price level. The effects were not long in coming. A revival of cartellisation had already taken place in the spring of 1933 and, under the auspices of the corporate policies proclaimed by the government, these trends turned into a demand for compulsory cartellisation. Hand in hand with this went a relaxation of all further plant rationalization of industrial firms.

Similar credit expansionary measures to raise internal price levels were taken in America too, under Roosevelt's New Deal. The difference was that Roosevelt had prefaced this 'reflation' by devaluing the dollar. The raising of internal prices remained inside the United States and thus did no damage to the competitiveness of American foreign trade on the world market. The competitors of Siemens in the sterling area were in an equally favourable position, profiting from the devaluation of September 1931. In Germany however, prices were raised with no such compensation and the consequences were thus detrimental for the world competitiveness of German exports. Hitler's compensation consisted of a systematic lowering of wages. The millions of unemployed were gradually re-employed at rates of pay no higher, or hardly so, than their unemployment benefit. 'Work for all, not wealth for all' (Massen-

konjunktur, nicht Lohnkonjunktur) as the Nazis expressed it after they had smashed the trades unions.

The great mass of financially weak firms welcomed Hitler's economic 'revival' methods because through them they could escape the more or less acute danger of bankruptcy. They were beyond the threshold at which harmful effects in the long term could be meaningfully weighed up against present advantages. And anyway Hitler had made them his promise to put the German economy back on its feet on the strength of the home market. But for a firm like Siemens no danger of bankruptcy had ever been dreamt of. Its financial stability had, even under the heaviest pressure of deflation, never come into question. Its management was concerned to find a real solution to the crisis in the orthodox sense and to lower German prices to a level where true competitiveness was possible. Thus Siemens' long-term interests made it an opponent of Hitler's policies in the purely economic sector.

How then did things stand with the second factor on which Siemens depended to remain competitive on the world market after Germany's forfeiture of her foreign capital in the Versailles Treaty: the high standard of her scientific performance? That modern electrotechnology is an impossibility without modern electro-physics is obvious. In the post-war situation, however, Siemens had quite particular reasons for concentrating on the highest possible scientific standards. Amongst the great rival electro-technical firms of the world there existed mutual license agreements according to which each concern could use the inventions patented by any other one by paying its owner a license fee. Thus everything depended on having as many patents as possible in practical use for which other firms had to pay license fees. And since this applied to all firms equally, an acute struggle took place to acquire the best patents. Thus, for Siemens it was crucial to keep ahead of scientific progress. At the time in question, June 1935, wireless teleprinters were a new invention and Siemens, along with the American G.E.C. had registered the two main patents. Japan was planning a teleprinter link with Formosa and the question was whether the Japanese would prefer the German to the American patent. If that was the case, it was of minor importance which country actually landed the construction contract as the license fee would represent for Siemens the decisive source of income. In these circumstances it is not surprising that Siemens invested more money in the research institute in Siemensstadt than before 1914 although funds had become so much more scarce.

So one can appreciate the fury of the Siemens management when they saw the havoc that the Nazi regime with its racist policies was wreaking on German science. In spring 1933, when the anti-semitic campaign got under way, the English and the Americans opened an office in the Linkstrasse in Berlin whose business was to engage the exiled scientists, sometimes including whole laboratories complete with professors right down to the door-keepers. Not that the whole staff of such a laboratory was Jewish; the professor might be and one or the other of his assistants, — the others went voluntarily. Whole new areas of research, for example, colloid chemistry under Professor Ehrlich, were lost by German production to their foreign competitors. What did the Nazis, representatives of the semi-educated, and their 'leader', that power-drunk dilletante, understand of all this? In May 1933, the Kaiser Wilhelm Society for the promotion of German Science sent Max Planck himself to explain to Hitler the devastation brought about by these policies. All that the latter could answer to Planck's remonstrations was: 'Yes, well what does it matter if Germany for one generation has no leading physicists? The racial purity of the German people is much closer to my heart.' Of course the Siemens management, among others, knew better what the presence of leading scientists meant to them. But we have seen already that there were other parts of industry belonging to the Harzburg Front, for example the iron and steel magnates, who had an evaluation of science nearer to that of Hitler.

We must now return briefly to the other main source of competitiveness: German workmanship. It does not take much explanation to see that the closest links exist between this and high standards of science. Just at that time, in early summer 1935, an event occurred at Siemens which shed the right light on the meaning of the quality of the workmanship and the organisation of the work by management. One day in May the Siemens' directors were informed by the Foreign Office of the visit of a Japanese delegation who were travelling the world on the express instructions of the Emperor; they had come to Berlin wanting specifically to make a thorough inspection of the Siemens works. The Foreign Office requested that this high delegation be treated with very special respect. Three or four dignified Japanese then actually appeared and unburdened themselves to the astonished management of the following intentions: the imperial Japanese government deemed it opportune, after the successes of Japanese expansion in Manchuria and in North China and also in the wake of Japan's advanced industrialisation, to proceed with the construction of an electro-technical industry in Japan itself. It was not the production of small,

mass-produced articles that was intended — with these Japan had already made a very favourable mark on the South American market — but advanced production at the top level of modern, high and low voltage technology, — in short a works was projected in the style of, say, Siemens. Japan felt the need to free herself in this important area from overseas dependence. In addition she had at her disposal a far cheaper work force than the other industrial countries and was so much nearer the great East Asian markets of the future. Even in her trade with South America, Japan possessed valuable freight advantages and good business prospects. It was with the aim of conquering markets around the Pacific Ocean for Japan's own products that her government had sent this delegation on its journey of inspection around the world. They were to take thorough cognisance of all the foremost works of large-scale electro-technology and advise the Japanese government on its project accordingly.

All this was spoken with the most engaging smiles and exquisite courtesy. One can imagine the storm that erupted in the reception room as soon as the Japanese had departed with a request for a prompt reply. Pandemonium broke out. This was surely the height of impertinence. The Foreign Office must be reprimanded. But on reflection diplomacy won the day. Herr von Siemens himself advocated a completely different stance. If one turned them away they would sooner or later be admitted, either in Sweden, England or America. That was not the way to thwart their intentions. On the contrary, to grant them a thorough inspection was perhaps the wisest strategy.

And so, for two whole weeks, the Japanese, separately and together, toured every department of the Siemensstadt works, even ones which were otherwise closed to outside visitors. And in the end Herr von Siemens was vindicated. When the two weeks were up, the Japanese re-appeared in the board room. They had indeed made the best possible use of their inspection and had studied every kind of work precisely. One could tell how impressed they were and no-one doubted that they were telling the truth when they presented their conclusions: they would break off their journey, return to Japan and advise their government against its plans. For they had convinced themselves that the level of technical skill, discipline and conscientiousness they had seen in the work force at Siemens would long be unattainable in Japan despite all her recent progress.*

**This episode is noteworthy precisely in view of Japan's present development in this field and because of the international debate over it.*

It is not hard to imagine with what satisfaction and pride the Siemens directors recounted these affairs. Quite justifiably, no doubt. The specialisation of labour at Siemens was unrivalled the world over. By far the majority of workers were specially chosen craftsmen, carefully apprenticed and trained. In the more complex departments no-one was employed who had not already done three years' training at the firm's expense. The limits to which this was taken are well illustrated by the example of a workshop which operated in pitch darkness. Why? Because it was given over entirely to blind women and girls, only blind people having the delicate touch needed to finish a particular article to the required precision. Siemens workers generally who acquired the necessary exacting standards were assured of life-long employment. They lived and worked in Siemensstadt and the management was anxious to maintain a stable workforce. Machines, tools, buildings could if necessary be replaced, but the irreplaceable asset was the organisation of the work itself. It was the real secret of the firm's technical superiority. In short, production at Siemens was accumulated by the result of half a century's experience, assiduous study and unceasing improvement.

Quality work of this kind demands a special psychological climate. It can only flourish when all internal relationships are secure. Everything must be calculated on a long-term basis. A reduction in production costs has to be achieved in the main by an improvement in the technology and the organisation of labour. The wage squeeze dictated by the slump must operate within narrow limits, for such a plant reacts over-sensitively to labour struggles, and friction with the management or within the workforce translates itself directly into production losses. All the available experience proves that a comparatively high wage structure works out cheapest in the end.

Most of Siemens' work force was organised in the Free Trades Unions and the management boasted a good relationship with them, essentially unsullied by all the negotiations over piece-work and labour differentials. Here the Nazis' efforts to introduce their special Union were repudiated from the very beginning. The management would have nothing to do with them. It saw in them a harmful element of disturbance: 'The Nazis have no business here'. And it acted in agreement with the workers' union representatives to try and prevent them from entering the works. This was successful until 1935 but towards the end of that year the Nazis managed to infiltrate and with this a change came over the climate and the whole character of the labour performed in the plant. The solidarity of the workforce was systematically undermined and

broken up to prepare for the big stick speeding methods and the intensified exploitation of labour which the Nazis carried into wide areas of production.

But this is already part of the story of the transformation of the 'Weimar-style' Siemens works. From then on this firm ceased the now hopeless struggle for the world market using economic means. It accepted its degradation to the rank of armaments firm for the Third Reich. Up to then armaments contracts had been regarded as a temporary stop-gap in case of empty order-books, welcomed mainly because they enabled the firm to preserve its labour force. They were not conceived for a moment as a full-blooded replacement for regular production. Why should they be? How could domestic German orders for armaments help to maintain the firm's position on the world market? They had been an emergency measure and could never compensate for the fact that in the interim Siemens had had to let itself be pushed out of world business, its real bread and butter, for an indefinite period, perhaps for ever. It was no wonder then, that in summer 1935, Siemens enthusiasts were sunk in the blackest pessimism and many thought the end of the firm was at hand.

An enterprise strong enough in its financial, productive and scientific performance to survive world competition using economic means, could not of course muster any optimism for methods of warfare and violent conquest. And still less since so much was put at risk for these methods: the German currency, foreign trade, the exchequer, the huge German production reserves, social progress, in short, everything on which the inner stability and the international strength of Siemens had had to depend. In fact we shall have to search elsewhere for the industrial driving force behind the catastrophic desperado policies of the Hitler regime; not in the Siemens camp, not in firms such as Zeiss or Leitz or the German machine tool firms, nor in textile manufacturing and the many other active outposts of German secondary industry. For the decisive element was not that these firms did not profit from the armaments business but that they could have flourished even without it.

6 The MWT and the Harzburg Front

The politics of the anti-capitalist forces, including those of the Communist Party, were based on the assumption that in capitalism political power would finally fall, and would have to fall, to the financially sound sections of monopoly capital. The talk of capitalism being 'bankrupt' prevalent in communist thinking meant — and still means today — that capitalism as an economic system was ripe for liquidation. It did not mean that it would continue to exist in a state of bankruptcy. If one knows of no other economic standards than those of the market, any assertion that it could do so must indeed appear absurd. Either capitalism is removed, in which case one has a new economy, or capitalism persists, in which case the capitalist economy remains in operation. Tertium non datur. But that there could be a new economy which converts that of capitalism into one of bankruptcy and continues to run on the lines of the conversion, that view of things did not exist. And yet it would have been the only view to have matched the facts and the dialectics of the threatening disaster.

Since the world slump was caused by the breakdown of the international profit-making system it was precisely those elements on which each nation's economy relied for its eventual revival which were in the most vulnerable position. The Siemens concern and the other large-scale firms of comparable financial strength supported the Brüning government in its attempts to overcome the crisis by the traditional deflationary means. Their economic programme could only be to wait hopefully for the international credit and trade network to revive and until then to avoid anything that could impede and delay the process of recovery. But given the desperate situation of five to six million officially declared unemployed (in reality at least seven to eight million) a waiting policy grew politically ever more untenable. Moreover, as a debtor country, Germany was dependent for her renewed prosperity on a resurgent influx of foreign capital and, as we have seen, there was little or no prospect of this in the foreseeable future. The overall position can be summed up by saying that, paradoxically, the eco-

nomically sound parts of the German economy were politically paralysed, whilst only those economically paralysed enjoyed political freedom of movement. This freedom of movement was put to untrammelled use by all the financially desperate elements of the population. These comprised, apart from the unemployed, the white-collar proletarians — teachers, post office workers and the like — and the mass of farmers and small property owners who had a decade ago lost their savings in the post-war inflation and now through the collapse of share prices felt themselves pushed to the brink of proletarianisation themselves. Although the agricultural middle classes had ridden themselves of their debts in the inflation, they had since incurred new ones to the tune of 11 billion RM (the mortgaged part of which formed the gilt-edged investments of the savings banks). So it is hardly surprising that the masses, whose very existence was so directly threatened, gathered together against the Brüning government; this was a phenomenon which differed only quantitatively from earlier crisis experiences.

What does need to be explained, however, is the fact that in the particular crisis of the 1930s this gathering together of the financially ailing elements in the Harzburg Front could not only parade as an alternative to the Brüning Camp, but in fact could constitute an objective threat to the stability of the capitalist market system. This could not have been the case of course without the presence in the Harzburg Front of representatives of big business such as Thyssen, Flick, Vögler, Schacht, Kirdorf and Borsig. And it is not merely incidental to the political climate that among them were the principal financiers of Hitler. In fact, seen symptomatically, the financing of Hitler from this source indicates very precisely the deeper economic forces whose compulsive dynamic gave the Harzburg Front its fascist perspective. Its ideological anti-capitalism coincided with the hard core within the modern forces of production which in their qualitative development towards large-scale combine and flow methods was pre-eminently suited to undermine the finance capitalist network of world economy. It was due to this economic dynamic embodied in the Steel Trust and other members of the Düsseldorf 'Stahlhof' that the Harzburg Front was pitted against the Brüning Camp with an alternative which transcended the market standards of a capitalist economy.

The iron and steel industry had lost the independent competitive role it had played before the 1914-18 War. It had attained its powerful position by building railways, ships and armaments in which it had held the initiative to sub-contract to other branches of

industry. But now this relationship was to a large extent reversed. As we have seen, by the end of the 1920s the leading role had fallen to the so-called new industries, the large scale finishing ones such as the big chemical firms, heavy machine manufacturers and the electro-industry while the iron and steel magnates had slipped into the subordinate position. This was hardly to their liking and one need only visualise the domineering role they were to play in the first three years of the Hitler regime to understand the goals which the lords of the Stahlhof had in mind for the Harzburg Front. Only a determined policy of re-armament could realise their aims and free the full productive potential of their plant from the restricting shackles of the market system, opening up the sluice gates for an all-out resumption of activity.

Hitler was little satisfied with his role in Harzburg. He hated to be presented as a dancing bear led by Hugenberg and made to display his dependence on big business in public. As the National Socialist Leader he had to be mindful of his anti-capitalist image even though this was made entirely on capitalist ground, but it had to be framed in such a way that both sides of the antagonism, capitalism and socialism, were suitably balanced so as to bring his mystique into play among people whose rational capacity had been robbed by the slump. I recall an editorial conference of the 'Führerbriefe' at a later date where this very phenomenon entered the discussion. Franz Reuter had returned shocked from a meeting with Schacht in whom he had previously placed his implicit trust. Now, however, Schacht, having reached the point of complete despair, had exclaimed: 'The Führer will find a way!' That hit Reuter all the harder as he had already observed the same thing happen with Count Schwerin-Krosigk, Hitler's Finance Minister who had also been a stalwart conservative.

The polarisation of forces between the Brüning Camp and the Harzburg Front did set things in motion. The abandonment of hope in the survival of world trade took on a shape coined by the slogan 'autarchy'. To Dr. Hahn of the MWT this slogan evoked merely a contemptuous and impatient smile. So long as the Brüning and Harzburg factions maintained this degree of opposition there was no solution which could promise a way out. What was the meaning of 'world trade'? What was the meaning of 'autarchy'? Out of both a platform had to be forged upon which a new grouping of industrial interests could emerge, a grouping which would amount to a concentration of all the decisive elements of German monopoly capital. Then a government could be formed which would represent the real power in Germany and which could

put the necessary impetus and mobilisation of resources behind the nation's overdue imperialist expansion.

For an initiative with these objectives the MWT possessed the appropriate membership. It comprised both camps: The Stahlhof, the Coal, Potash and Nitrogen Syndicates, the I.G. Farben and the electro-industry, the main machine manufacturers, the ADAC and the motor industry, the Reichs Association of German Industry, the 'Diet of German Cities' (der Deutsche Städtetag), the Prussian Main Chamber of Agriculture and the big landed estate owners, the so-called Junkers. Of course to arrive at an acceptable consensus amongst all these bodies demanded more than a mere declaration of intent. Real conflicts had to be ironed out, new alliances forged, the rooted antagonisms between industry and agriculture, between large landowners and small peasantry, between grain growers and dairy farmers had to be assessed and manipulated. We shall describe this in greater detail later. Max Hahn maintained close relations with most of these groupings and exercised far-reaching influence. He had developed his marked diplomatic talents and his eye for essentials in power politics in the Essen headquarters of the 'Langnam-Verein'. But of course much of the work fell to the chairman of the MWT, Baron von Wilmowski, brother-in-law of Krupp von Bohlen and the Berlin boss of the Krupp concern.

If ever an industrial firm contributed more than any other to the comprehensive regrouping of large-scale German capital with a view to imperialist expansion, it was the Krupp concern in liaison with the MWT. Krupp owed its special status to the unique vertical concentration of its plant extending from a base in mining and heavy industry right up to large-scale manufacturing production such as locomotive and sewing machine manufacture. When one takes additional note of Krupp's strong export interests, it is clear that the concern stood at the very junction of all the crucial antagonisms within German large-scale industrial capital. But what made the firm so supremely dominant in the crisis was, above all else, its complete financial independence. Fried. Krupp Co. was, for all its vastness, a purely family concern. It was to the two daughters, Bertha and Dora, and to their husbands, Krupp von Bohlen and the Baron von Wilmowski that this giant complex and world-wide interests belonged, rather as two baker's daughters would own their oven and shop; they were in no-one's debt. In other words, there was no finance institution anywhere that could take advantage of the firm, nor put pressure on it or force it into hasty actions. Its owners were able to weigh things up and be patient; more than anyone else they could resist the advances of the

Harzburg bankrupts. On top of this of course came their intimate relationship with the Army High Command and the Foreign Office. Moreover, Baron von Wilmowski, chairman of the MWT, maintained highly desirable relations with large-scale agriculture through his former post as 'district magistrate' (Landrat) and because he was at the same time President of the Reich Institute for Technology in Agriculture. On the other hand he had not the slightest personal sympathy for the hawks of the Harzburg Front and only the deepest revulsion for Hitler, Hitlerism and the persecution of the Jews. Later on, in the Third Reich, he intervened personally on behalf of many victims of the Nazi terror and in the last year of the regime he himself was sent to a concentration camp. In few other cases can subjective integrity and objective guilt have been so closely intermingled as in that of Wilmowski.

It is an error to think that imperialist power politics had to wait for Hitler's chancellorship in order to leap into activity. In fact, as early as October 1932, several months before the 'conqueror' Hitler had to be roused from his bed to be proclaimed Reichs Chancellor, an imperialist advance was made in Central Europe which deserves to be brought into the lime-light.

7 A Memorandum for South East Europe

After the Volta Congress in Rome and before a visit there by the Hungarian Minister Gömbös in October 1932, an 'unofficial' memorandum was handed to Mussolini which had been drafted by the MWT in association with the Foreign Office and the military counter-espionage. It was aimed at a violent overthrow of the post-war Central European order. This move has remained relatively unknown but it is so characteristic of German monopoly capital in its drive towards Hitlerism that it should no longer be allowed to remain in the dark. Here too, my evidence rests on personal knowledge of the documents involved.

It should be remembered that post-war stability in Central Europe was gravely threatened by the crisis in Yugoslavia. On December 1, 1931 King Alexander abolished the federal constitution by coup d'etat and replaced it with his own absolute pan-Serbian rule. This gave rise to the situtation where the more developed parts of the country were ruled by its more backward ones. The Croats answered this violent suppression with uprisings which lasted from Spring 1932 until almost the end of the year and which King Alexander put down with extreme brutality. As Mussolini had coveted the Dalmatian Coast he supported the Croatian Ustashi terrorists under Pavelic with arms and money. To these attempts to break up Yugoslavia the authors of the memorandum offered active German support and for this purpose submitted to Mussolini a detailed programme to partition Central Europe between Germany and Italy.

Yugoslavia was to be cut back to what was formerly Serbia and Montenegro and the broken-off parts were to form an independent state of Croatia and Slovenia. The Yugoslav border with Serbia was to run along the ancient frontier line between the West and East Roman Empire following the rivers Drina and Save. It was also suggested that Romania should be broken up by fomenting uprisings of the Transylvanian Germans and the Hungarians so that it should revert to its pre-war condition as 'Old Romania' and

thus give rise to an independent Transylvania. A territorial complex consisting of Serbia, Old Romania, Bulgaria, Albania and if possible Greece was to be recognised as Italy's sphere of interest in which Mussolini would be able to realise his long-cherished plan for a Balkan Block. As her part of the bargain Italy should consent to the formation of a German-Austrian Customs Union — not to be presented as a political Anschluss - permanently guaranteeing the Brenner Pass as the border. Italy should, moreover, declare herself disinterested in the fate of Czechoslovakia and Poland with whom she had previously stood in a kind of undeclared alliance. This was to be exclusively the German sphere of interest as against that of Italy further south. In between these two political zones, Hungary and the still-to-be-created Croatia-Slovenia and Transylvania were to form a Danubian federation and provide a common sphere of German-Italian interest for which an exact system of carefully balanced trade, capital holdings, customs preferences, quotas, etc. was envisaged.

Mussolini was willing to accept the memorandum as a basis for negotiation. On the German side it was thought — or at least this was how Dr. Hahn expressed himself to me — that within a few years of such a bilateral regime Germany would easily be able to 'tip Italy out of her far too roomy boot'. Thus it did not really matter so much what was promised to the Italians now. However, the whole plan was made obsolete by the fact that the English and French obtained knowledge of it in time. In England, Wickham Steed in the 'Nineteenth Century Review' and in France Edouard Herriot (in which periodical I do not know) brought it to light and thus robbed it of its immediate threat to European security.

As a result London and Paris urged Belgrade to moderate its reactionary rule of terror. But the military manoeuvres on both sides of the Yugoslav border continued for a considerable time. On the German side, arms smuggling, spying, bribing, negotiations with political parties and Ustashi bands were directed by German Army Counter-espionage Officers. In the MWT until well into 1933 we received detailed reports signed by a certain Captain Hütter who in1935/36 became Hitler's special reporter at the Italian-Abyssinian war front. Pavelic's agents were frequently seen in the offices of the MWT and the German Yugoslav Chamber of Commerce. The final result of this whole insidious activity was the murder by Pavelic's agents of King Alexander in Marseilles on October 9, 1934.

In retrospect it is clear that this imperialist thrust initiated by the MWTin October 1932 was premature. It is important to understand, however, exactly how and why this was so. It has already been emphasised that the MWT's basic effort was aimed at rallying the disunited elements of German capital behind a common policy. This unification was indispensable if Germany was to resume the imperialist power struggle for world markets. The central European policy of the MWT was intended only as a preparatory stage designed to lead to the creation of an extended home basis which in turn was to serve as the jumping-off ground for the main struggle. This shows the significance of the thrust but does not explain why it was premature. Certainly this was not only because of the lack of military strength to throw behind the thrust. For what was both characteristic and contradictory about this thrust was the fact that it coincided with the economic concentration inside Germany itself, which was not yet consolidated enough for a fascist dictatorship to be established which could reach beyond the German frontier. Only after more than five years of the most intensive rearmament did it become possible.

This initiative of October 1932 was misguided and premature because it was out of step with the logical build-up leading to its intended aim. Dr. Hahn's idea was this: if we cannot achieve internal concentration before our expansion in Central Europe, then, given a favourable opportunity, we must make good the expansion first; the concentration of divided interests inside Germany would come in its wake. But it was precisely this calculation which proved mistaken. The concentration could not proceed as a secondary stage, — it had to be the step that was fundamental to all else.

But what was the essential antagonism which had to be overcome before the concentration of German finance capital could be achieved? This was obviously the leading question for the preparatory moves pushing towards a fascist dictatorship. We shall show in the next chapter that the antagonism which so totally blocked the way was none other than the deeply rooted and endemic capitalist contradiction between exporting industry and protectionist agriculture. This has, since the Caprivi era (successor to Bismarck), been the crux of the trade and economic policy in Germany, but in the crisis of the thirties it reached its most intractable peak. To forge the means of bridging that antagonism was the task left to the MWT.

8 The Role of Agricultural Policy

Right up to the end of the Second World War the agricultural situation in Germany was still overshadowed by its historical past. On the one hand there was the middle and small scale agriculture of 'peasant' farmers and on the other the large scale agriculture of the Junkers. The peasant farmers were, in the main, dairy farmers and fruit and vegetable growers, but also to some extent grain and fodder producers. Misleadingly they still bear the name of 'Bauern', literally 'peasants'. The original meaning suggests small self-sustaining food producers, and this they had ceased to be centuries ago. In actual fact they had for long been fully integrated into the German capitalist market economy. The big landed estate owners, or Junkers, carried on agriculture of quite a different dimension. They were remnants from the feudal past of Germany, living in Prussia, mainly east of the Elbe and often simply called 'Ostelbier'. Their principal production was that of grain for bread and potatoes for distilling. The Junkers were still politically important as the main aristocracy from whom the officer class and the high State bureaucracy were traditionally drawn; needless to say they were the most reactionary section of German society. Only since 1945, with the creation of the German Democratic Republic and its socialist land reform, was this pernicious class eliminated.

Unlike the bourgeois democracies which developed in England, France, Holland and Belgium, modern Germany, because its bourgeois revolution of 1848 had failed, sustained a mixed regime of feudal landed aristocracy and industrial plutocracy, the two merging by frequent intermarriage. Up to 1918, under the rule of the Kaiser, the industrial magnates, the landed aristocracy, the head of the Army and the top bureaucracy constituted the closely-knit ruling system of Germany. After the military defeat of 1918 the Weimar Republic which emerged from the collapse of the old regime appeared to inaugurate a democratic epoch, but when the Republic was hit by the disasters of the slump of the 1930s the pre-revolutionary powers reasserted themselves and, uniting with the broad masses of the Nazis, were able to create the Hitler-regime.

The cartelisation of farming represents one of the cornerstones of the economic policy of the MWT and was of fundamental importance for its imperialistic aims. The founders of the project were on one side the industrialists of the Ruhr, more accurately the 'Langnam-Verein' of Essen and its directors including Max Hahn, and on the other the big Junkers represented by the Pomeranian Chamber of Agriculture, whose Chairman was Herr von Knebel. After the split within the Deutsche Volkspartei in the summer of 1929 which marked the first swing towards the new imperialist course, these two sides began arduous negotiations on how to bridge their conflicting interests and devise a workable, economic programme based on collaboration. The need for this was of the utmost urgency. After the onset of the slump the clash between industry and agriculture became greatly intensified and blocked the way to that concentration of interests which ruling sections of the bourgeoisie recognised as essential. But just as on the industrial side the heavy industry producers were divided from the others, so on the side of agriculture were the large estate owners, the Junkers, in opposition to the peasant farmers. To further their interests, heavy industry moved into coalition with the big agriculturalists and manufacturing industry joined forces with the peasant farmers: once more Harzburg against Brüning.

Yet in neither case did the association work and, for both camps, the British devaluation of the pound, the formation of the sterling block and the Ottawa Agreements securing customs preferences for British Commonwealth territories subsequently brought the disharmonies to a peak. German industry suffered the severest export losses both regionally in the British Commonwealth and on the general world market, for Germany had to contend with the world-wide fall in prices caused by the sterling devaluation without any lowering of her own price levels. She had to swallow the ensuing loss or suffer a liquidation of her entire export trade. This same international price drop, however, drove agriculture into a total protectionism, barring agricultural imports from the German market and prompting an attempt to raise domestic food prices, a policy which contradicted the current 10% blanket wage drop forced upon the working class in 1931. It thus became more difficult to lower industrial costs and so created political tensions which totally defied the precarious parliamentary basis of the Brüning Front. It was with rage and scorn that press reporters from heavy industry accompanied von Braun, Minister of Agriculture, and his deputy,

Walter, on their so-called 'tomato tours' of South East Europe and Scandinavia where they vainly endeavoured to reduce German food imports from these countries and prevent them from retaliating against industrial exports from Germany. Given the economic crisis and the problems within the international currency network, such a reciprocation was inevitable. In point of fact, since 1932, German industry had lost the race against England for exports to the Scandinavian markets and the same happened in Poland, the Baltic boundary states and, much more painfully, in Holland, Denmark and Belgium. These were more or less all the important and hotly contested export markets for German industry and all were countries that had featured actively in Germany's balance of trade. Now, for the first time in many decades, this trade balance changed into deficits and although agricultural policies took much of the blame for this, equally responsible was the lead that British industry maintained in currency and prices, — a situation which the Harzburg Front industrialists unsparingly exploited in propaganda against the Brüning and the Papen governments.

Given the unreconciled extremes of the various interests what else could the Brüning Government do but stumble from one contradiction to the next, sometimes sending their functionaries abroad, at other times remaining 'incommunicado' at home? To drop agricultural protectionism would mean a loss of 11 billion Reichsmarks in new farm mortgages, the cornerstone of the savings bank and insurance business, and the consequent poverty of the farmers would mean the loss of markets for the industrialists. This was hardly to the liking of industry which, after all under the leadership of Silverberg, had itself just put up the 'Aid to the East' fund to rescue the German Junkers.

The manufacturing industries behind Brüning and, albeit less wholeheartedly, behind Papen, were naturally just as dismayed at the export losses as were the heavy industries of the opposing camp. When the Economics Minister, Warmboldt, and his Secretary of State, von Trendelenburg, met with von Braun in order to discuss the next trade policy moves, they would emerge from his room white with rage or else the doors would be slammed so hard that eavesdropping ministry officials would file on tiptoe across the bordering corridors. Nevertheless, it was more advisable to stay together than opt for the domestic, military and armaments policies of the Harzburg Front and its heavy industrialists bankrupts with their threat to break manufacturing industry's foreign trade in quite a different fashion. Above all, the Harzburg men's fingers had to be kept away from state finances and from the banks.

The government was completely at a loss. With such antagonisms within their own camp, it was impossible to further common interests since any power base from which wage reduction policies could be pursued against the trades unions was out of the question. The political and economic position of the workers could not be broken and the government was confined to the level of negotiations. But, if wages were not curtailed as soon as possible, capital would be, for the crisis had seen a large section of industry caught between the variable costs of wages and the fixed ones of capital; if losses were not compensated by wage cuts, many businesses would be pushed over the brink. Even such financial giants as I.G. Farben began to get nervous. Any boosting of capital and acceleration in the unfreezing of industrial deficit by means of state directed job creation — inaugurated by von Papen in September 1932 at the propitious moment when the worst depth of the slump seemed past — any such measures were impracticable without dictatorial control over parliament, the press, the credit system, the commodity markets and the stock exchange. Without such measures there would have been a dire risk of inflation. There was barely any room left for manoeuvre and the caution called for in State intervention cancelled out any effect that state credit measures might have had. The classic example of this was von Papen's tax bonds, (a deferment of tax payment which later on should have paid tax debts). But soon after their issue on the stock exchange, they fell below their nominal price. The precondition for a massive economic initiative by the state was, moreover, a radical reform of state and municipal finances. But this was impossible without reforming the constitution and administration of the Reich as a whole and this again was impossible without dictatorship and an overall concentration of bourgeois power.

As the von Papen government became increasingly dysfunctional and unfit to govern and its most important props broke away one by one, the economic agreement concluded between heavy industry and large-scale agriculture on the agrarian cartelisation programme was finally completed. So as to grasp its true importance, this programme must be seen as part of the military framework in which it entered this particular stage of development. The campaign for agrarian cartelisation went under the more far-reaching slogan: 'New horizons for German export trade!' and on this basis it met with the immediate and spontaneous agreement of the military.

Most of German foreign trade and above all her imports were to be moved from Australia, Canada, South America and other overseas countries to Europe. For, if Germany had to depend on distant countries for her imports, what would happen in war-time? Germany had to have a policy for Central Europe, it was argued, in order to equip herself with a constant reserve of industrial and agricultural raw materials from her immedate neighbours rather than importing them from Manchuria and India for instance. The cultivation of oil seeds in the Danubian countries was a part of this policy preparatory for war, and was supervised by I.G. Farben who seemed to shoulder as much responsibility for the provision of this alimentary branch of raw materials as it did for synthetics. Indeed one might have thought that the entire raw material business had been secretly contracted to I.G. Farben by the Army. The most important nutrient of these protein bearing seeds was the soya bean. I.G. Farben had experts working in plant-breeding camps in the Soviet Union with the aim of cultivating strains of soya beans which would be adaptable to Danubian climatic conditions. In February 1935, the firm entertained the Generals to a dinner that consisted in its entirety, from the soup to the dessert, and even the drinks, of soya bean. Collusion between I.G. Farben and the MWT on Central European matters was so close that the latter sometimes seemed to act as an agency for the giant firm.

However, it was not these military and agricultural activities in themselves that comprised the MWT's crucial contribution to the unification of capitalist interests and to the mending of their dividing rifts, preparing the ground for a dictatorship. It was rather that the MWT supplied the essential political and economic preconditions for such a policy. The starting point was the fact that large-scale agriculture would be less hard hit by a shift of foreign trade from overseas to Europe than were the peasant farmers. The European food suppliers to Germany would enter into competition with the peasant farmer supplying dairy and market garden produce, whereas the large scale Junkers would actually lose their most competitive rivals who had previously imported grain.

Thus what the big industrialists of the 'Langnam Verein' intended in terms of foreign trade damaged the interests of the peasant farmers while favouring those of the big landowners. The latter could be guaranteed full protection for their raw produce and although German industrial exports to overseas countries would be impaired, these would be lost anyway in case of war. But a much greater freedom for imports of dairy produce was needed than the farmers themselves would ever be prepared to concede. If the pro-

gramme of the imperialistic industrialists were to be carried through, the peasant farmers had to be deprived of their right to represent their own interests.

Thus by fully satisying the wishes of large-scale agriculture, industry was seeking an alliance with the big landowners against the peasant farmers. The Junkers were to be promised absolute protection by dint of a state foreign trade monopoly for grain and potatoes. In return, the big landowners were to help their industrial counterparts in the task of imposing the system of agrarian cartelisation on the peasant farmers. The production and distribution of the peasant farmers produce was to be compulsorily organised in line with the methods of industrial cartels. Every farmer would be instructed in the kind and quantity of produce expected of him and its marketing would be transferred to state institutions or to compulsory co-operatives. It was intended to guarantee fixed prices as compensation for the loss of their freedom, — prices that were high enough to allow for a profit margin given thrifty farming. In this way the farmers' economic status was assured in the face of the disadvantageous consequences of the import policies; industry had, in collusion with the big landowners, succeeded in making the German agricultural market into the instrument of the imperialist interests. This success was all the greater in that more attractive price conditions could be offered on the German market to the European countries importing to Germany agrarian secondary produce than they could expect from anywhere else, including Britain. Integrally connected to agrarian cartelisation was a projected massive increase in refrigeration plant throughout the whole Reich. For, in order to control prices for agricultural produce at a stable level, it was essential to keep their marketing, whether of German or of imported produce, free from seasonal fluctuation and therefore to be able to store produce.

That the alliance between heavy industry and large-scale agriculture was not as harmonious as it seemed can be taken as almost self-evident. The industrialists were counting on the fact that, by leaving the peasant farmers to their fate, the landowners would so isolate themselves that they would be forced sooner or later to dance to heavy industry's tune. For industry claimed for itself the right to determine the quantity of the peasant farmers' production, the import quotas and their prices and its long-term aim was to subject the entire agricultural spectrum, including the big landowners, to these conditions.

In any case the originators of agrarian cartelisation put paid to the old theory that the agricultural market could not be organised like industry. They proved that it was only the farmers themselves who could not plan it; the monopoly capitalists certainly could, — provided, that is, that the whole power of the state stood at their disposal.

With the cartellisation programme a policy had been found which could provide the various imperialist groups with a common basis. Even if the antagonism between industry and agriculture had not been fully bridged, it has at least become accessible to manipulation. The programme for Central Europe and its more long-term perspectives had taken on such a tangible form that now even the large secondary manufacturing and export firms could begin to align themselves with heavy industry or at least could give up their active struggle against what had become misleadingly known as 'autarchism'. Using agrarian cartelisation as the fundamental tool, trade policies could now be introduced in East and South East Europe, in fact right across the continent, by which the other countries could now become the prime objects for exploitation by German monopoly capital since Germany could offer to import a large part of their excess dairy produce and at alluring prices.

This perspective was one of the few, if not the only one, to present itself to the crisis-ridden German industries so dependent on expansion. From the point of view of the world market no sufficiently speedy or profitable acceleration of business could be expected for German capital, and this for four reasons. In the first place it was isolated both in terms of foreign currency and of credit; secondly, the levels of German prices were far too high for a massive export drive; thirdly, it had no colonies that could have served as export markets and no foreign capital worthy of mention was forthcoming in other market areas abroad; and fourthly, the production capacities to which German industry was geared were far too large for its own narrow markets, and could not compete with the American, British and Japanese producers, who, with the enormous markets at their disposal, could reduce their prices. This last point is of particular importance.

Given the present level of the productive forces in independent capitalist hands, competition on the world market can be successful only with a very extensive hinterland to serve as a domestic market, a hinterland which, thanks solely to monopolistic hegemony can take the greater part of production at inflated prices so that the smaller part can be fed into the world market at cut prices. Indus-

tries with a small monopoly market and a heavy dependence on exports on the world market risk bankruptcy or being taken over by other firms.

The interest of the German investment industries to expand their monopoly market by means of their Central European Policy became vital in the crisis which followed the boom in 1929 and this interest corresponded closely with their desire to suppress wages and their aggressive anti-Marxist ideology. The first advance towards such a domestic market expansion occurred with the German-Austrian Customs Union project of May 1931. In summer of the same year, as we have already seen, the MWT was re-founded in Berlin.

The programme of agrarian cartelisation was included in the Central European expansion of the domestic market from the very outset. The first, cautious announcement of the far-reaching scheme appeared in two articles in 'Rhein und Ruhr' in September 1932. These were signed by Dr. Max Schlenker and Herr von Knebel, but were actually written by Dr. Max Hahn and Herr von Flügge. By means of agrarian cartelisation German industry's entire economic and political hold over imports of agricultural produce could be centralised and used as bargaining points in her negotitations with her European neighbours which could be made subservient to the exporting interests of German industry. The use of a quota system that was price-protected and arbitrarily variable meant that the most favoured nation clause could be circumvented. It was therefore much more effective than the attempt to introduce customs preferences for the Danubian agrarian surpluses, an attempt obstinately vetoed by the British. Germany's plan was to create a solid industrial-agrarian complementary economy between the Danubian countries and herself by which they would be so strongly bound to Germany that to break away would mean immediate danger of economic collapse. In return for this 'gallant rescue' Germany requested the monopoly in industrialising these countries and the closure of their customs borders to her industrial competitors — which of course also meant exacting an exorbitant price for their occasional and partial opening.

This was impossible, however, without smashing the current system of industrialisation in South East Europe. This system consisted on the one hand of a credit system fed in from the major western capitalist powers by the League of Nations: from1924 to 1930 long and short-term loans to the tune of 25 billion gold francs had flowed into South East Europe. On the other hand, it rested upon

the co-operation between French finance capital (particularly the Banque de l'Uninon Parisienne of Schneider) and the Czech investment and export industry. These two sources and the Austrian industrial firms financed through the credit system by England and Rothschild reaped the profits from the industrialisation provided by these loans which the Germans so urgently coveted. Since this system was politically aligned with post-First World War Central Europe and the French alliance system of the Little Entente, Germany's struggle to acquire South East Europe as her monopolised domestic market went under the flag of her 'Struggle against Versailles'. An actual annexation of Austria and Czechoslovakia was in itself unnecessary for this purpose; it was necessary only to break the competitive standing of Austrian and Czech investment industry supported as it was by French and English finance capital. If Krupp could swallow the Skoda Works and the Brno armaments factory of Czechoslovakia, if the Steel Trust could absorb the Alpine Montan of Austria, if the Iron and Steel Trust 'Gute Hoffnungshütte' or 'Demag' the German heavy machnine building firm could take over the 'Kolben-Danek' and if Austrian industry could be subjected to a corresponding German control, — if all this became a reality, Germany would have firmly in her grip the industrial and political monopoly not only over the whole of South East Europe but over a good part of the Near East too.

This expansion of the original plan to cover the Near East was anticipated in the Berlin inauguration of May 1934 of the 'German Orient Association' which collaborated in the closest possible way with the MWT. It represented in effect the MWT's extended arm to the Near East. The new association had its two rooms in the same premises as the MWT at Schöneberger Ufer 39; as I have mentioned before, its director was Dr. Fritz Hesse of the DNB.

The great dilemma of Germany's expansionist policies, however, was the shortage of capital needed to finance the markets from which industry wanted to benefit. It is one thing to dissolve Franco-Czech and Anglo-Austrian co-operation, quite another to replace the 25 billion gold francs required to carry through the South East European investments, in effect the industrialisation of these countries, and to pay profitable prices for the hypothetical German deliveries of the necessary machinery.

In 1931, Schacht added a further interesting nuance to the various 'solutions' entertained by the initiators of agrarian cartelisation. He suggested negotiating with American bankers in order to try to establish Germany as a general trustee for all investments, past and

present, made by the capitalist powers U.S.A., England, France etc. in the Danubian and Balkan territories. As the political catchword had it, capital should 'run in parallel with goods': Germany was to use the loans of others, just as though they were her own, to finance her industrial pioneering in South East Europe. It was in fact an attempt at borrowing capital export. The interest on, and the refunding of the foreign loans had always suffered from the fact that the capital-exporting countries for South East Europe could not absorb the latter's exports, while for Germany the reverse was true. By virtue of her capacity to import from the South East, Schacht wanted Germany to guarantee the servicing of foreign capital loaned to the Danubian and Balkan countries and on behalf of the capitalist donors to act as their 'honest broker'.

The plan was circumvented by France and thus effectively halted, but it might have re-emerged in one form or another especially as Schacht had, on a trip to England, persuaded his friend Montagu Norman, Governor of the Bank of England, to agree to it. At the time, however, these plans for co-operation remained utopian; it was only brute force that could carry out the idea behind them.

9 The Industrialists and the Agrarian Cartelisation

The practical outcome of agrarian cartelisation entirely depended upon by whom, and in whose interests, it was carried through. For it could just as easily be used either for blocking off foreign imports or for increasing them, depending on how the production and import quotas were handled. For this reason the industrialists had insisted, from the very start, on controlling the arrangements for cartelisation themselves. For them the real significance of the project consisted in divesting peasant farmers of their economic independence; the big landowners were ear-marked as next in the firing line. The industrialists intended that both parts of agriculture should be directly subjected to their rule. The question of who should pull the strings was the vital point upon which the subsequent struggle turned. In those first articles in 'Rhein and Ruhr' the wolf advisedly appeared in sheep's clothing: it was stated that in the interests of both parties 'industry should place its invaluable experience in the difficult field of cartelisation at the service of agriculture'.

It was Krupp's brother-in-law, the Berlin representative of the firm, Baron von Wilmowski who assumed the leading role in the negotiations. He was, indeed, the ideal figure for this purpose. As a retired District Magistrate — 'Landrat' — he was on excellent footing with the landed gentry, and most suited to convey the impression of impartiality to the farmers. At the same time he could advance the interests of his own firm, Krupp, by using his role as President of the Reich Institute for Technology in Agriculture for forging the link between the Steelworks Association, which produced agricultural machinery, and the agrarian domestic market. The firm of Krupp maintained essential contact with the General Army Staff, which was especially concerned that the agrarian cartelisation project should preserve the large estates. The army remembered the dire bread shortage of 1916 in the large towns, and therefore welcomed the self-sufficiency programme in bread grain production side-by-side with the proposed role of the Danubian countries in supplying animal fodder and oil seed. They

also favoured 'healthy peasant settlements' as they called them in the thinly populated areas of East Prussia and Posen in order to 'fortify the German population buttress against the Slavs'.

Both the Army Staff and Krupp kept their distance from the Harzburg Front until the last possible moment. This was not because Krupp had less enthusiasm for re-armament than had, for instance, Herr Thyssen, but because at that time the firm was financially less desperate for it. Thyssen would have gladly accepted inflation, Germany's isolation, or every possible risk if only he could at last secure his first orders for cannon; Hitler too, if he could only gain access to the state's coffers. So felt the many candidates of despair who faced economic disaster at the time. Krupp, on the other hand, could afford to hold out and had no inclination to put hopes for the future at risk by playing with irresponsible policies. Krupp and the Army chiefs were clear-headed enough to know just what would be at stake by embarking on massive rearmament in the teeth of international opposition. Nevertheless they had secretly begun such a policy, for the Reichs budget of 1932/33 was in fact not 6.7 billion Reichsmarks as was announced, but over 8 billion of which armament expenditure took up two and a half billion rather than one billion marks.

I have already referred to the far more comprehensive production and interest structure of the Krupp works compared with those factories dealing only with heavy industry. It was incomparably more complex that the industries which were concerned solely with their cartel quotas for a few hundred varieties of rolled and semi-finished products. Krupps were turning out a whole gamut of products ranging from locomotives, agricultural machinery down to sewing machines and type-writers and at that time five-sixth of their production capacity was designed for civilian consumption. All this, together with Krupp's unparalleled financial independence pre-destined the firm to act as mediator between the heavy industrialists of the Harzburg Front and their fiercest opponents in the financial and market spheres: competitors such as I.G. Farben with its Rhine Steel Works and the rivalry between synthetic and mining chemistry, or that of electricity from lignite as against from ordinary coal, or electrical engineering, as the most advanced major export industry.

The case of I.G. Farben requires special consideration. To have any understanding of its policy the enormous variety of its production as well as its vast marketing system must be taken into account. It is worth comparing, for example, the wide fields of experience of its

two consecutive Chairmen during the relevant time span: Carl Duisberg until September 1932 and afterwards his successor Carl Bosch. Its predominantly pharmaceutical sphere of Bayer, at Leverkusen, of which Duisberg was the main proprietor and in which he held more than 350 patents in his own name, marketed consumer goods which were distributed through agencies throughout the world to wholesalers for retail chemists, hospitals and doctors. It was the typical market one would expect of capitalist free-trade competition and the liberal mode of thinking. Agfa's business sphere was similar in its photographic interests. Both were most severely affected when lack of foreign exchange due to rearmament forced them in 1935/36 to close their market agencies in South America and the Far East. 'We shall never re-conquer these markets with the cut-throat competition these days!' was the way they argued. These branches of I.G. Farben had a broad front of common interests with such firms as Siemens and many electrical engineering, machine building and other highly qualified manufacturing industries, with whom they formed political alliances supporting the Brüning philosophy.

Carl Bosch, the succeeding Chairman to Duisberg, was the man from Oppau, the site of the nitrogen industry, producing mainly explosives and artificial fertilizers and dependent for the most part on sales to state-run enterprises. This particularly applied to the fertilizers delivered during the 1930's in huge quantities to the agriculutrally backward countries whose governments distributed them to the needy peasants by way of state subsidies. These Danubian, South American or Asian governments could not pay directly for the fertilisers but needed long or medium term loans. All these requirements were negotiated large-scale and at governmental level; naturally they were affected by all manner of political circumstances. Obviously Carl Bosch was more inclined to think in terms of agricultural cartelisation than was his predecessor.

The oil interests of I.G. Farben constituted another aspect which played a decisive role in the crucial years of 1931/32. In November 1929 the firm had negotiated with Standard Oil of New Jersey, commonly known as the Rockefeller Trust, a unique cartel agreement in which they recognised each other's rights to the world market: I.G. Farben for all synthetic products, the Rockefeller Trust for all natural ones. The Germans had hoodwinked the Americans into believing that their petrol and artificial rubber synthesis had progressed to the point where they could immediately threaten the American and British world monopolies. This cartel agreement was one of the most astonishing of its kind, not only for its content and scope but because its obscurest recesses were

revealed to the harsh light of public scrutiny in the monster trial that the American Government brought against the Rockefeller Trust in 1943. For it had become apparent, after the Japanese conquest of all the South East Asian rubber plantations, that the Trust had sabotaged the synthetic production of rubber which was so urgently required for the national warfare and in so doing had in fact seriously damaged the American conduct of war. The Rockefeller Trust had considered its cartel agreement as more sacred than its patriotic duties to its own country.

But no less surprising and embarrassing was the effect which the same agreement had for the Germans. What the Americans had been told was certainly true: after many years of repeated experiments petrol synthesis by the Bergius — a chemical process — as well as by the carbonization process had been proved possible. A pilot plant had been built to try out its industrial production and here too the synthesis seemed to have confirmed its reliability, albeit at an unexpectedly high cost. Every German car driver contributed through high petrol taxes to the financing of this I.G. Farben project. At last, in 1931/32, the Leunaworks, the new large-scale petrol synthesis plant, was ready; it had cost around 500 million marks. But when the plant was operated at its full capacity a product was forthcoming which bore no resemblance whatsoever to petrol and which possessed no other recognisable uses. Dialectics seemed to have thrown its magic spanner in the works; quantity had given rise to a transformed quality. It was later found that the nightmare had occurred because, although the experiment was sound on the laboratory level, the full-scale petrol synthesis produced quite a different result due to the scale-up conditions which were then not understood. In 1932 this event knocked the bottom out of I.G. Farben's far-flung calculations and plans. It was, to my knowledge, the first time that the specific problems and risks of 'research and development' had emerged on a large scale. Since the Second World War they have become more familiar. But the solution of this first case was the same as it has been in all subsequent ones of large scale dimensions. The cost of the risk incurred has been pitched over to the State, that is on to the taxpayers. When the difficulties are overcome the State hands back the guaranteed result to the private firm so that it can reap enormous profits. In effect, I.G. Farben's experience in the Leunawork's catastrophe prompted the firm to participate in the formation of the Hitler dictatorship in order to make good their enormous loss.

One morning in early December 1932, Max Hahn came into the MWT office triumphant. 'Dr. Sohn,' he exclaimed 'I.G. Farben has accepted the project of agrarian cartelisation!' Such information had come to light in a speech by Carl Bosch to his Board of Directors. This change of position affected the last pre-Hitler Government formed only fourteen days before by General von Schleicher. He had previously counted on the support of I.G. Farben and although he remained in power until Hitler's nomination his government was greatly weakened. The winning of I.G. Farben for the policy of the MWT completed the industrial programme of reuniting the vital sections of German monopoly capital on to a common imperialist programme. Now the pre-condition was given for lifting a dictatorial Government into power, and this was established on January 30, 1933, under the Chancellorship of Hitler.

10 The Dialectic of Fascism

At this stage, I feel it might be useful to an English readership to outline in great brevity the events which actually led to the first Nazi Government, and for this purpose I cannot do better than to quote from Professor Roy Pascal's book 'The Growth of Modern Germany'.*

'There was a dense cloud of propaganda issuing from Nazi quarters, largely of a radical, pseudo-socialist colour, and it was difficult to penetrate through this fog to the meaning of the alliance with the land-owning and industrial interests represented in the Cabinet. This deliberate confusion, laming opposition within and without the Nazi party, contributed considerably to the success of the Nazis. But Hitler and his associates had no intention of resting content with a mere internal reorganisation of German society. The "autarchism" of certain groups of intellectuals, who advocated the restoration of German economy through the sealing-off of Germany from the world, was soon condemned as pettifogging and parochial. To one part of the Nazi programme Hitler had remained consistently loyal, the Points which call for a greater Germany embracing all Germans, and land for colonisation. Thus, although the official slogan of the Nazi party in 1933-34 was the 'creation of work' all the measures adopted were such as promoted the military power of Germany — the expansion of the army, the great extension of the para-military organisations of the Nazi party, the development of the Labour Service. Industry and agriculture were thoroughly reconstructed and re-equipped for the same purpose....

The pogroms against the Jews which Hitler unleashed immediately on taking power, and which culminated in the systematic slaughter of millions of Jews during the war, served many

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purposes. For the Storm Troopers they were a stimulus for vicious passion and an outlet for brutal bullying; in the masses of the people they induced a terror of the Nazi power. The first outbreak in February 1933 was the overture to the destruction of the Communist organisations, which led immediately to the establishment of Hitler's dictatorship.

In January Hitler solemnly asserted his determination to abide by the Constitution, and his preparations for the suppression of the communists were made in defence of 'law and order'. When the Reichstag building was found to be on fire (on February 27), the Communist party was outlawed, and the police, now stiffened with Storm Troopers, was given free play to kill communists or to throw them into concentration camps, where thousands lost their lives after torture. The other parties acquiesced in the fate of the communists, partly out of fear, partly in malicious satisfaction, partly in the hope that the Nazi rage would expend itself on Jews and Bolsheviks.

On March 5 new elections to the Reichstag were held. Even in the prevailing terror, the Communist party won 81 seats, but because its representatives were not allowed to take their seats, the Nazis, who had won 43.9% of the votes cast, had a clear majority....On May 2 the trade unions were dissolved....the Steel Helmets, the Nationalist ex-servicemen's organisation, was absorbed in the S.A., and on July 14 the Nationalist party itself broke up; its more pliant leaders, like Papen and the foreign Minister, Neurath, were admitted to membership of the Nazi party.

The Cabinet itself was enlarged bit by bit through the admittance of Nazis like Goebbels and Hess. Hugenberg, the Nationalist leader, was forced to resign, and by June the Nazis had a majority in the Cabinet.'

With that brief but comprehensive outline I return to my own narrative. Hugenberg had been appointed as Minister of Economics in the original version of the Hitler Government, and in this capacity he carried the dual responsibility for both industry and agriculture. Not since Caprivi, the successor to Bismark in 1890, had the offices of industry and agriculture been united in the person of one Minister. It was a union intended to guarantee industry's control over the cartelisation of agriculture, and thus to carry out the policy of the MWT. Hugenberg was an exceedingly ponderous and thorough man who insisted on sifting through and wording every ordinance and regulation himself instead of delegating to the ministerial bureaucracy intended for the purpose.

One of my colleagues on the editorial board of the 'Deutsche Führerbriefe', regularly passing his office, saw the lights on night after night sometimes as late as 2.00 a.m. and even after the Reichstag fire. Before his enforced resignation on June 26, 1933 he had succeeded in putting the finishing touches to the German-Dutch Trade Pact. This was an agreement that was to be a model of the new trade policy based on agrarian cartelisation offering favourable terms for industrial exports against variable quantities and fixed price quotas of agricultural imports. His work on the first decrees on edible fats, on the Farm Inheritance Law, and his preparation towards the debt clearances of the peasant farmers, all these carefully thought-out and intricate examples of his legislation were ready to be taken over by his far less competent but more politically acceptable successor.

There were several reasons why the choice of this successor fell upon a completely unknown man named Darré. In the first place he was a Nazi. Secondly he was specially recommended by old Reusch, the boss of the Gute Hoffnungshütte, one of the main iron and steel works of Germany, who for personal reasons felt confident in vouchsafing for his suitability. For, when a young man in his first post, on the Königsberg Agricultural Board, Darré had indulged in some underhand deals in Polish rye and had consequently been sacked. But Reusch had been fascinated with Darré's bizarre ideas about the 'New Nobility of Blood and Earth' and so had saved him and had him installed as his protégé in the Nassau Agricultural Chamber, and from there to the Ministerial post in Berlin. Reusch had, however, in his wisdom, preserved the incriminating documents on Darré's malpractices in his own personal safe and thus felt able to guarantee the future behaviour of his young charge. The third reason for his instatement was that among the industrialists who knew him Darré had enjoyed the reputation of vast ignorance of industrial affairs, equalled only by spectacular stupidity in general. One could safely expect that, without so much as noticing it, he would make himself the compliant tool of industry. 'The man's so stupid that he'll carry out our policies and not even know what he's doing' — were Max Hahn's actual words to me at the time. In short, Darré was the ideal of a Nazi. In consequence industry leapt with him out of the frying pan into the fire.

It was not merely that the fascist dictatorship was particularly indebted to this kind of stupidity and ignorance. This mere psychological fact hides a far deeper motive. The switch to the terroristic control of **absolute** surplus value production by the state meant that the bourgeois elite had to smash not only the proletarian political organisations but also the mass basis appropriate to their

own previous control through **relative** surplus value production, mainly the unions and social democracy; these they had to replace with a different mass basis: that of National Socialism. However, the relationship of the bourgeoisie to this new mass basis is fundamentally different from the earlier one. Social democracy and the leading elite groups of finance capital belonged together as opposite poles within the same economic regime, that of advancing relative surplus value production. In a fascist dictatorship, the proletariat is excluded as a class from all share in power, but this means that the bourgeoisie stands in a constant polemic with its own unavoidable situation, the objective, blind power embodied in the party dictatorship of its fascist class vanguard. This vanguard is by no means exclusively the bourgeoisie's obedient tool for the political disarming of the proletariat. The fascists perform this function only if they can ride roughshod over the bourgeoisie too, forcing it to go the way they want.*

Strangely enough, this is not because the Nazis possessed superior instruments of power, up to June 30, 1934 in the S.A. and from then on in the Gestapo and the S.S., in the party bureaucracy and in the administrative heirarchy. They certainly did not control the lords of the bourgeoisie as the janissaries did their Sultant. The regular army that the capitalists had at their potential disposal could at any time have put a bloodless end to the Nazi tyranny. What made the rule of the Party so invincible compared with the power potential of the bourgeoisie was precisely the bourgeoisie's entanglement in the contradictions of its own position.

The fascist dictatorship of the bourgeoisie creates as its unflinching shadow the opposition of the bourgeoisie to its dictatorship; only the sides for and against in their different sections successively change roles, indeed these opposing sides are simultaneously represented in the various columns of the same balance-sheet. And this opposition to fascist class rule is indeed no more than a shadow. Viewed as an independent force, it immediately reveals its political impotence. Every real action undertaken against the agencies of dictatorship, an army insurgency for example, cancels out the very class and profit interest which gave rise to the opposition in the first place. For what would be the point of a bourgeois opposition which, by winning, came to power? The only possible sense it could have would be a restoration of the genuine

**For an explanation of the Marxian terms, 'absolute' and 'relative surplus value' see chapter 13 p.92/93 of this book.*

profitability and profit-making suspended by fascism, — in other words, a return to the rules of economic competition and the methods of relative surplus value production. It would amount to a suicidal attempt to restore conditions whose previous unrealizability had already caused the plunge into fascism, conditions which had now become all the more unrealizable, for fascism had massively multiplied the disproportions existing at the outset. With every successful opposition action, the bourgeoisie would run into increasingly total economic helplessness and when pushed to the extreme brink of its class rule would have of necessity to create just such a dictatorship as its opposition had had the misfortune to overthrow.

The dictatorial power of the Nazis was the blind power of the unchangeability and the inner contradictions of the fascist path which they pursued. It could be threatened by the bourgeoisie only in the purely theoretical event that from outside the country (from heaven perhaps!), the entire financial and economic deficit of German capitalism were wiped out, the contradictions removed and the position of the German bourgeoisie re-normalized. For then the fascist party would not only be dispensable, it would actually have to be removed speedily for the renormalization to succeed. We can thus see that the party derives its power not from its own strength or from any original political concept or line of its own but solely by virtue of the unavoidable predicament of the bourgeoisie, trapped between the profit and the loss calculations of its own class interest; as this predicament intensifies, so does the power of the Nazis. And the Nazis can hardly do better in their own interests than to employ the maximum possible ignorance and stupidity. The more bourgeois china is broken, the better fares the Party, the more inextricably is the bourgeoisie tied to its protection racketeers and the more noiselessly it has to abdicate lever after lever of its economic power to the Party. The black of the fascist cloth is the black of the ink into which the bourgeoisie has fallen. The dialectic of fascism is uncontrollable.

11 The Reich 'Food Estate'

The less Darré understood of agriculture and of the purposes of agrarian cartelisation, the more readily he and his Nazi pals grasped the chances which this ministry, known as the 'Food Estate', gave them of expanding their own and their party's power. It was the only economic position in which they could expand at that time, while the workers still remained hostile and the doors of industry, the banks and commerce were closed to them.

Darré was not in the least troubled by the fact that his industrial 'sponsors' would not tolerate a rise in agricultural prices because it would have contradicted their need to lower wages throughout the country, nor did he care at all that these sponsors insisted on discouraging the tendency to Germany's agricultural self-sufficiency. The more he tempted the farmers with high prices and with prospects of good marketing of their products, the more completely could he carry through their cartelisation and the more tightly could he weave them into the net of the Reich Food Estate, which for the next three years was to be the Nazis' economic power base. Without doubt he did what was expected of him but at a price which his industrial sponsors had never dreamed of.

Darré's handling of the Farm Inheritance Law followed in the same mould, and with it he created serious damage which could not easily be undone. The Law aimed at nothing less than taking the whole of German peasant agriculture out of the free market economy to such an extent that the farmers could no longer raise working capital for themselves. This Law — the facts concealed behind its deceptive title — was part and parcel of agrarian cartelisation to which it fitted like the handle of a knife to its blade. Cartelisation could cut down agriculture from the marketing angle, whilst the Farm Inheritance Law did the complementary job of cutting down agriculture from direct capital supply. Indeed, while taking peasant farming from the free market economy it was to be made to serve the interests of industrial capital and its accumulation based on absolute surplus value production.

The vital principle was the hard and fast limitation of the total labour costs of German production, which meant the fixing of the level of mass consumption or, in Marxist terms, the fixing of the value of the 'socially necessary labour-time'. Six million unemployed had to be absorbed into an existing work-force of twelve million with hardly any increase in the total wage bill so that the purchasing power of the eighteen million remained almost static. To achieve this the quantity, prices and marketing of agricultural produce had to be stabilised. Therefore the amount of capital employed in the agrarian economy had also to be stabilised and the entire volume of agrarian credit and debts had to be adapted to the total of agricultural production. All this meant, in its turn, a prohibition on free sale and purchase and hereditary division of farming land.

Hugenberg had already largely prepared the blue-print for this legislation which Darré found in his new ministerial offices, together with other items of 'national socialist' agrarian policy. Actually the originator of this legislation was a man named Nicolai, a specialist in administrative law working in the 'Stahlhelm', who was killed in a road accident in spring 1933. But Darré's execution of the Farm Inheritance Law immobilised farming capital in Germany to such an extent that the majority of peasant farmers were quite unable to muster up any more ready credit and had to pawn their actual harvests in order to pay for the barest essentials. The result was a radical forestalling of technological progress in this type of agriculture in Germany.

It is a well known fact that the economic life of the German small and medium peasant farmer is inseparably linked with its character as a family concern, — in other words, with the fact that the working children are exploited by the parents and for the parents' advantage. The Farm Inheritance Law now ruled that all the children born to a farmer bar the first, the legal heir, were to be excluded from any inheritance in the farm, whether in kind or in a share of the mortgage — with the result that they quitted the farm and were therefore no longer available to their parents as underpaid labourers. If, however, they stayed, they claimed in lieu of their inheritance compensation by increased and accumulative remuneration, and thus became more costly to employ than outside labour. Moreover, such disinherited children would wait impatiently for the first moment that they could leave for the towns and there they would fall victim to industrial exploitation. The extraordinary rise in the drift from the countryside was not, as the Nazis maintained, the result of alluring industrial conditions in the towns but the direct effect of the Farm Inheritance Law. It was more true

to say that the drift served as a boost to industry in its production of absolute surplus value and armaments.

The process which, not by accident, revived the methods of early capitalism bore, in industrial fascism, its strict necessity and its equally inbuilt contradictions. For instance, at harvest-time town workers had to be forcibly mobilised and sent to the country so that agriculture could fulfil its ordained role of feeding the population with the minimum nourishment necessary to operate the mechanism of fascist exploitation. As the farmers were no longer able to pay additional labour costs, the state provided, as a replacement for their children, 'part-time country lasses' (Landjahrmädchen) and 'voluntary' harvest-helpers from the National Labour Service and from colleges. These were workers whose ever-diminishing wages were paid in kind and who had to find all their other expenses themselves.

This was only one of a whole line of agricultural illogicalities and Darré was from the first much more the dupe than the whip of German industrial fascism. He did not invent the contradictions of his agricultural policies; they were imposed on him by the industrial, operational hub of the system. It was precisely because industry politically emasculated the small-holders (the big landowners, of course, were spared) and forced them into passive obedience, that the contradictions which were bred at the centre were unloaded on the periphery with the air of mere absurdities. Agriculture was the rubbish-dump of fascist industrial policies; the wrecks caused by the antagonism of its leaders reached the agrarian backdoor with the appearance of accidental stupidities to be blamed on some clumsy oaf!

In so far as industrial fascism has to rely on absolute surplus value production paradoxically coinciding with a high technological level, it demands submissive farmers, static agricultural production and a cartelised food market adjustable to the needs dictated by the costs and profits of industry. But in so far as industrial fascism is inflationary and militaristic because of its deficiency in capital for its absolute surplus value production, it demands currency isolation and autarchism dovetailed towards a war economy — in other words, the demands must be the exact opposite of a stationary agricultural production, rather a maximum of agricultural expansion and of market and price flexibility. However, this flexibility is again incompatible with any possible manipulation of inflation. Similarly, the military expansionism and autarchism of the whole development demands the cutting down of agricultural

imports and thus the cutting of industrial exports.

Armaments production needed as large a workforce as it could get, which meant that it exhausted the reservoir of agricultural workers and thus brought upon itself the wrath of the General Staff who wanted adequate food supplies. And large-scale contradictions reproduced themselves in every detail. The Food Estate, tool of the national socialist agrarian programme, was thus from the very first a tool designed for diametrically opposing purposes; whatever steps it took in a particular matter were bound to be wrong. Correct were the wishes of whatever group happened to be politically stronger at the time and, as these groups were constantly shifting so did the direction of agricultural policy, — providing it was at all possible to ascertain which of the conflicting wishes of the strongest group were the strongest.

Thus Darré thought in the first three years that he was doing the right thing to promote autarchism and a corresponding price policy. This enraged the industrialists, or rather it filled them with secret glee that the nonsense of autarchism would soon be liquidated by the sheer force of circumstances. The men in the War Ministry, however, felt just the opposite. Then, when in Septemeber 1935 the day came when there were no more supplies of butter and eggs in the shops and a real food shortage began, it was not only the army staff who were furious but also, and above all, the industrialists, for now agriculture's demand for foreign currency had to come out of their raw materials allowance. Even Darré's main virtue, his stupidity, suddenly changed in their eyes to a vice which the SS attempted to investigate by a fourteen day search of his Ministry. As was to be expected, nothing was found and Darré's honour, if not his full authority, was restored.

It was from a different side, that of industry, that he, and with him Göring, and even the Führer too, were enlightened as to how this unpleasant and totally surprising shortage of edible fats and eggs had ever been able to descend out of the clear skies of up-and-coming self-sufficiency. For Darré had not noticed that his stepping-up of autarchism, in other words making do with fewer imports, had amounted to such a diminution of the normal reserves of fat and eggs that they had been completely used up. Increasing autarchism had come to mean an increasing deficit in Germany's stocks of food.

Her total annual demand for edible fats was, according to the figures for 1932, 1.6 million tons consisting of about two-fifth butter, two-fifth margarine and one-fifth bacon and lard. Between

production or import and final consumption, the edible fats market — among the most complicated in the whole economic spectrum — should have held reserves sufficient for three full months, — about 400,000 tons. In 1933 the quantity produced and imported fell short by 35,000 tons below the amount required, in 1934 about 120,000 tons below and in 1935, 250,000 tons below, so that in autumn 1935 the reserves were dried up. Exactly the same had happened to the usual six-week supply which should have been held in the egg market.

After Darré had convinced himself of these embarassing facts, it was, embarassingly enough, Schacht to whom he had to make his confession: reasons had to be given for his sudden and urgent demand for an extra 200 million marks worth of foreign exchange to make good the deficit. As the egg and fat supplying countries were already owed around 500 million marks by clearing account, the advance had to be in ready money because Denmark and Holland would no longer deliver on credit. Schacht allowed Darré the smallest possible advance and enlightened him as to the correct management of his ministry: earlier administrations had always made precise advance calculations in June of future agricultural imports required that autumn and they were never out by more than a few million marks. For these calculations there existed flexibility coefficients and a whole staff of specialists who understood how to use them. Viewed in this light, such surprises were beyond comprehension and, given the absolute priority of re-armament, a mobilising of foreign currency in such amounts and at such short notice was quite out of the question. The fact that Darré had long since discarded the flexibility coefficients — he had considered them as 'liberalist lumber' and had dismissed the specialists responsible for them as 'supernumerary' — became known only later and simply figured as yet another small item in the growing list of national socialist incompetence.

In the tug-of-war between Darré and Schact over the tight supply of foreign currency the whole antagonism between industry and agriculture flared up again in its most vehement form. The contradictions were supposed to have been buried for good in the state-operated cartelistaion programme. But now it was the state which was involved in contradictions with itself! In the personalities of Darré and Schacht, the Food Estate and the Defence Administration confronted one another. Then, because the whole totalitarian machine appeared to be threatened by the conflict, Schacht invoked the 'deus ex machina', the mythological head of state. He appealed to Hitler, the Führer himself, for a final decision

— feeling convinced that the verdict would be on his side. To his surprise, however, the Führer was so dedicated to the exalted concerns of his great military strategies that he would not be disturbed by such petty questions! After all, what were ministers for if they could not clear up such messes by themselves? Only after Schacht's third, most urgent, approach did he instruct Göring to sit the two men down at one table, thrash out the matter, and let him know the outcome: a typical example of Hitler's artfulness, both in terms of tactics and consequence.

The meeting was vividly described to us in the board-room of the 'Führerbriefe'. The enormous Göring, resplendent in uniform, sat at the broad end of the conference table, and at the top and bottom, opposite each other, sat Darré and Schacht, suitably apart. Most of the time Darré shouted abuse and insults; Schacht tried to bring reason into the affair. The verdict was long delayed, and then, to his blank amazement and everyone else's, the decision went in Darré's favour. Göring allowed him half the money he had originally demanded — a sum he had been careful enough to over-estimate in the first place. It amounted to 20 million marks a month from November 1935 until March 1936, altogether 100 million marks of precious foreign currency. Thus Darré swept the board, in spite of such obvious absurdities, as, for example, importing expensive butter rather than margarine. The reason for this unexpected decision of Göring was only revealed in April 1936. Darré was no longer in such favour, and then Göring converted the long overdue upsurgence of industrial and armaments interests to secure his own victory over Schacht. He transformed his refereeship of the orignial dispute into his own permanent and official dictatorship over foreign currency. In autumn 1936 he was able to crown his economic career with a new appointment as executive overlord of the 'Second Four Year Plan'.

Hitler's stance in all this could be defined as his non-intervention in it. He saw in the dark, heard in a vacuum, never burnt his own fingers, and so was the ideal mediator for such a policy. He ruled because he did not govern, giving his official stamp of approval to whichever side won.

Göring's dictatorship under the Second Four Year Plan again united the offices of agriculture and industry as they had been originally under Hugenberg. In autumn 1937 he announced a loan to agriculture of one billion Reichsmarks to be spread over the next four years. But compared with the immense funds made available to industry and taking into account the eleven billion marks mortgage

on agriculture from 1924 to 1929 this seemed a puny amount of help from German industrial fascism. But no matter how miniscule this aid appeared, agriculture was forced to rely entirely on the credit-pump of the state, precisely because farming was excluded from the profit-making sector of fascist economy. In other words, seen from the perspective of capital, agriculture disappeared completely into the clutches of the industrial fascist state apparatus. Any stepping-up of agricultural production had to be achieved by intensified labour and the use of existing assets, since the level of investments remained static. It had to be of low-cost and of necessity meant an intensified exploitation of farm labour. It was enforced by means essentially terroristic and analogous to the brute force applied in factory labour of long hours and low pay. Göring held his cudgel over the heads of the peasant farmers in a way that Hugenberg could never have done.

But for the industrialists this had now lost its former purpose. They had wanted to restrict agriculture in order to promote their own export and expansionist interests. Now they had to restrict their exports to save Germany from starvation. And instead of compelling agriculture to throttle its productivity and marketing, they now had to face up to the difficulties which arose from this very throttling. In autumn 1935 the food crisis was still only partial, confined mainly to the shortage of fats and eggs. In autumn 1936 it had already become a generalised shortage; supplies were lacking in every sector of food distribution. This tendency for a deficiency in one sector to spread over the whole is true of every real food crisis since the effect is for the different sectors to stand in for one another. Shortage of fats and eggs leads to an over-consumption of meat, shortage of meat to over-consumption of bread, shortage of fats, eggs, meat and bread to a drastically intensified over-consumption of fish, vegetables, fruit, sugar, etc. If this process is not halted by a correspondingly large surplus of supply from one direction or another, the shortage, having started at one corner, automatically rolls on to cover the whole field. However, in Germany no supplies of the required dimension were forthcoming and the food deficit, having once become general, became more severe in each sector.

Nevertheless, so long as the shortage concerned merely produce as opposed to the sources of the produce, merely butter but not the cows, this situation was not yet tantamount to a catastrophe, for the network of food substitution means that a single good harvest can compensate in large measure for deficiencies across the whole food spectrum. But the structural weakness of German agriculture was the gaping hole in her supply of animal fodder. Given the limited

arable acreage of the Reich, a choice had to be made between self-sufficiency in human foodstuffs and self-sufficiency in animal fodder. To promote both was impossible, particularly if the land was further diminished by the demands of the military, such as camps, firing ranges, fortifications like the Siegfried Line and so on. There was no room left for the planting of soya nor for sheep rearing on German territory. The trend toward self-sufficiency was concentrated on an increase of the production of human foodstuffs in the hope that the necessary fodder would be forthcoming from the south east European countries. But this hope had not yet sufficiently materialised and in the meantime the decreasing grain harvests within Germany had so intensified the fodder crisis that in 1937 the number of German cattle and thus, for the first time, the actual source and capital assets were threatened with decimation. It was nevertheless doubtful whether the dividing line between a mere produce crisis and the subsequent drastic eating away of capital would actually be crossed. For the industrial export capacity still retained sufficient potentiality to avert such vital damage. But the demands this made on German export became all the more intense; industry had to look after agriculture instead of agriculture supporting industry as had originally been planned.

12 Arms Economy and the Four Year Plan

Unfortunately, only a sketchy picture can be traced here of the development towards the transition to the 'Second Four Year Plan' which started in autumn 1936, and which relied on Göring's economic dictatorship of industry. The Plan was essentially a summing-up and systematisation of projects begun or envisaged long before the actual proclamation of the Plan, as early as 1934 in the Economic Office of the Ministry of Defence. They included the question of synthetic raw materials, the moving of armaments factories and production essential to warfare into the interior of the country and the whole preparation for economic mobilisation in wartime. This ranged from the division of the economy into sectors according to defence priorities, the classification of factories according to their importance or adaptability to munitions, the distribution of labour between military and civilian production and covered even such repressive measures as were to be taken against sabotage, strikes, or revolts in plants crucial to the war effort. All this had been extensively worked out and its major outline rubber-stamped by the staff at the War Ministry and by the General Staff long before it materialised into the 'Second Four Year Plan'.

Previously the War Economic Office had been under the charge of Colonel Thomas who worked in close co-operation with General Kaamann of the Army Supplies Department. It had been Thomas' job to deal with all the economic problems of rearmament and since these questions encroached more than any others upon the activities, investments and profit-making of private business, his office had become the true Economic Ministry of the country. Its importance for industrial interests had been all the greater since it had consistently avoided collaboration with the bureaucracy of the other Ministries and instead had worked directly with the industrialists, businessmen and agriculturalists themselves, in the offices of the Bendlerstrasse. It had become simultaneously the most important office economically and the most independent one politically, being almost completely removed from Nazi Party influence. By using its inner hierarchy, private industrialists could sound out their interests with the Army Heads and from there proceed if need be right up to Hitler and the

Party Minister Hess, past the whole intervening Party, adminstrative and ministerial bureaucracy. In a word, the Thomas' staff had formed the real link between the high bourgeoisie and the fascist dictatorship. But as such it had also been the focal point for tensions between them. Its close collaboration with Schacht had formed for him the real power base until the rise of the Göring dictatorship.

But all this changed when the War Economic Office was brought out from its unique position within the respectability of the War Ministry in the Bendlerstrasse and became both inflated and yet diluted as the governing body of the 'Four Year Plan' and placed in the public eye under the dictatorship of Göring. Its famous colonels were transferred as generals to the colossal, impersonal Air Ministry and the economic regime of the bourgeoisie placed in rigid symbiosis with the Nazi Party, the Gestapo and the State bureaucracy. It was then that Schacht's position fell inescapably to the knife. The rise of Göring's economic dictatorship was the most significant phase of the process in which the levers of economic command of industrial fascism passed out of the hands of the bourgeoisie into those of the fascist functionaries themselves. And at the same time this was the process by which the original personal union of the economic ministries was re-established in the figure of Göring. Thus was re-asserted a dictatorial economic unity at the service of industrial fascism which was not only connected with the subordination of agrarian to industrial interests but also, and at the same time, the subordination of these industrial interests to the fascist state dictatorship of the Party.

The economic fact underlying this political shift of power by which the fascist dictatorship had come into its full stride was the subjection of the whole of German industry during the first four years of its regime to the armament boom to which it was irrevocably committed. What genuine capital assets had remained in the possession of non-armament industries had been sacrificed to the heavy industries such as iron and steel, mining, construction, cement and the like. The initial deficit of the armament industries had been turned into mounting nominal profit accounts. Labour was obtained from every possible source to utilise the existing capacities to the full and to increase them by massive building of new arms plants. Thus an enormous production boom was generated. In fact, during the first four years fascism had paid dividends to those who had put it into power.

The industries which suffered were those with the potential for genuine profitability, for this potential was ruined by the inflationary arms boom. Both their foreign and domestic market

areas shrivelled drastically and as their investment capital underwent structural changes towards arms production and as inflation increased its effect on their plant capital, so the magnetic needle of profit and loss began to move with them too, slowly or quickly towards the extreme of a fascist economic solution. With the transition to the Second Four Year Plan, they, the electrical, rubber, nonferrous metal and food industries, moved into the action centre of the new economy. They now operated, as their heavy industrial colleagues had previously done alone, on a basis which, measured against their previous standards, was one of capital loss. The compulsive economic character of the fascist development had extended itself over the whole of German industrial capital and had thus secured the political imprisonment of the bourgeoisie in its own fascist dictatorship.

The shortage of foreign currency meant that raw materials for rearmament could no longer be purchased abroad. A large part of these materials could be produced synthetically, but copper, iron, zinc and other metals had to be extracted from meagre reserves of inferior quality ores in Germany. No private capitalist would undertake such an unprofitable task. Therefore the State funded the special enterprise known as the Hermann-Göring-Works for Metal Ore Mining and Steel Foundries. For materials like petrol, rubber, fibres, leather, glass and others, rearmament relied on the inventiveness and resources of the I.G. Farben Industries. Thus while Schacht in the First Four Year Plan was associated with the heavy iron and steel industrialists, Göring shared his special powers with the I.G. Farben in the Second Four Year Plan.

From 1937 the downward trend of Germany's foreign trade did not continue but on the contrary improved noticeably. In the first place, the prices of German industrial products, when compared by official exchange rates with those of other industrial countries, did not increase to such an extent as to throttle export. There was, however, a gap which had to be bridged by an export subsidy which in 1935 amounted to about 24% and in 1936 to about 23% of the total value of exports. It thus corresponded to a devaluation of the mark of about 25%. But in 1937 the subsidy was considerably less, mainly because the rise in the world price level for manufactured goods benefited the German development.

Secondly, Germany's advances in the arms race meant that she could export in greater quantity than her competitors. This allowed her not only to cover her most urgent food shortages but even to relieve somewhat the restrictions imposed on national consumption. From the end of 1936 certain food industries registered a slight rise in their

production and marketing figures. However, up till then these margins had had to cover the rising costs of rearmament and the re-structuring of German industrial production under the Second Four Year Plan and this had to be done through a lowering of the rate of public consumption, by means of lowering real wage levels. This necessarily created tensions. The fascist profit economy was running so far into the red that the bourgeoisie were beginning to fear for their actual capital.

As an economy of absolute surplus value production, fascism has to live by making goods that do not return to the market and thus do not depend for their valorisation upon an increase in consumer buying power. The First Four Year Plan satisfied this condition by mobilising the economy towards military ends; the Second Four Year Plan kept the economy busy with an investment boom producing synthetics. These two phases do not follow one another in neat succession as the chronology of the Four Year Plans would suggest. Instead they interlink like a chain which holds both the bourgeois class rule and capitalism itself as prisoners. It is only because as a whole this chain has the imprint of a war economy that individual links can have a relatively consumer-oriented economic character.

The First Four Year Plan laid the foundations of an arms industry big enough to cope with all-out war as well as everything that this entails by way of industrial construction, factory re-organisation, re-siting of production and so on. After this stage there came the provision of war materials to cover the immediate needs of the first few weeks of warfare, from cartridges to battleships and fortifications such as the Siegfried Line. But no matter how vast the stocks of ready materials designed for sudden devastating attacks might be, the building of so-called shadow factories to produce this material when war broke out took pride of place. As long as industry was employed in this capacity, the situation amounted to a large investment boom similar to that of the rationalisation boom of ten years earlier; in all its various stages production ran at full capacity. But what would happen when this build-up had been concluded? First of all the full employment which guaranteed it would decline and secondly the shadow factories would lie fallow, unutilised. Only a few could be used for other production purposes; the majority were designed to produce military material exclusively. Re-organisation was out of the question because the plant had been built precisely so as to be fully operational for the outbreak of war. Even assuming that up to the completion of their construction they had been fully depreciated — and this was very largely true in

Germany — the costs of maintenance continued. But over and above this, if they were to be kept in working order the wheels must turn. Thus the possibility of arms production stipulates its very necessity.

But who is at the receiving end of the whole operation? The needs of the producing state are limited. If its peacetime requirements are once satisfied, any further production is restricted to replacing and renewing what is obsolescent. Certainly the rate of obsolescence is faster here than in any other area of modern production and so the demand for renewal is high. But the very smallest improvements in arms technology require the complete re-construction of the plant concerned, if not the building of new plant altogether. The compulsion to produce must find its escape route in export. The need to produce entails a need to export.

In Germany this was planned from the very first. From the earliest stage of intensive rearmament, from the beginning of 1934, Schacht intended that, when once completed, the arms industry should recuperate through export what its construction had swallowed up in foreign exchange. For this reason he insisted that the arms produced should be paid for by the state at a price high enough to include the cost of depreciation of the plant so that the German arms industry should enter the export race on an optimal financial basis and reap the advantage of its early construction. And although he came into conflict with the Finance Minister, Schwerin-Krosigk, on this point, he had his way. There is no doubt that after the arms industry became fully operational the relationship turned full circle: what was paid for by export did not need to be paid for by the state. In the study on 'Industrial Mobilisation' published in 1936 by the Berlin Institute for Economic Research, we read: 'On the whole, the exporting countries can keep their capacities (in the sense of industrial war resources) a third higher than would be possible without the exporting of war materials.' (P.37)

So generally it can be said that the industrial war resources which a modern state can afford and, above all, can maintain after their construction is complete, depends on how large an export market it can find for its military product. If like England, it had a whole commonwealth or like France a whole system of alliances or like the U.S.A. a whole continent to supply with arms, it could maintain a higher war potential for a longer peacetime period than if it had no such firm customers but had to incite foreign wars in order to create the market in the first place. And even this market would be secure only for as long as its own arms production could keep

ahead and export while the others were still in the construction stage and had not yet supplied their own armies. If they too were ready their military production would turn its face to the outside and thrust towards export and war. The danger of wars breaking out becomes general and acute precisely as, one after the other, the arms producing countries complete this process and their competing production and market demands clash against each other, issuing from capacities which, taken together, could satisfy the largest peacetime requirement many times over.

In addition, arms had become the major capitalist powers' cure against crisis: they were stepping along the very path that the weaker capitalist powers had followed a whole crisis cycle earlier. To speak with Roosevelt, they had long been infected with the disease of fascism. That their arms were arms to defend peace was a pious fairy-tale. They were there to defend 'prosperity', profit and the capitalism which in the 'democratic' countries, albeit with a little more give-and-take, was engaged on the same road to a final military crisis as were the fascist states. In the interim, the German production of war resources, as it approached completion, pushed its export tentacles in every direction. Quite apart from meeting Spanish and Chinese military requirements, its drive was directed above all at South East Europe so as to keep the French and other previously prominent arms suppliers out of Yugoslavia, Romania, Hungary, Austria, Bulgaria and Greece. And although the value of this business was far from spectacular, it saw the application of the old exchange programme: industrial exports against agrarian imports on the basis of agrarian cartelisation. The Second Four Year Plan attached greater significance to the import of raw materials and foodstuffs and extended the programme to bring the South East into the realm of German autarchy. Germany's Central European expansionism not only continued but was now massively affected by influences that earlier had been mere subsidiary factors.

The drive of the German arms industry towards export was tempered by the piecemeal and uncoordinated completion of military resources which overlapped with the carrying out of the Second Four Year Plan. Since this programme for a new economy of full employment replaced or complemented the first, it prevented the break in production which would otherwise necessarily have followed the completion of military production with all its politically untenable trappings of unemployment, credit and finance squeeze and mass liquidations — that is, if the fascist development were subject to economic cycles as the process of

rationalization had been before. In actual fact, however, it obeyed the opposite rules; it expanded the volume of production up to the last reserves of labour power, materials, capacities and credit and even beyond them. Pushing against the limits of these reserves and forced constantly to extend them, the Second Four Year Plan meant in effect that the necessary materials were obtained at almost any price, reserves of labour power were squeezed further and pushed to ever greater efforts, capacities were increased and the credit-pump strained even faster. It was a mere illusion that the shortage barrier and the remedies needed to overcome it were measured in absolute terms, so much and no more. To be sure, the measures applied progressed in line with the expansion of the production process, but the overcoming of the barrier produced its own barriers — barriers of an increasing relative constriction; as was, for instance, the case in the production of synthetic materials.

The gap which has to be bridged at a given moment is the gap between requirements and the import margin or, amounting to the same, the export capacity. If the import requirement as a value is measured by 200 units of value but the export capacity which would have to cover it is worth only 100 units, then the need for synthetic material production seems to have found its definitive limit in the 100 units still outstanding. But to carry out this production has in its turn the effect of diminishing export capacity. For instance, the switching of the German textile industry to synthetic fibres when the production of synthetic raw materials began as early as 1934, weakened the export potential of this industry so greatly, both in quality and in cost, that it was reduced from a previously very active to a now passive payment balance. The rubber and the leather industries met a similar fate and, if the reserves of the iron and steel industry were to be autarchised by the Hermann-Göring Works so as to 'improve' the future foreign trade balance, the export capacity of German secondary iron and steel production would suffer too, that is the manufacture of machinery, tools, motors and other appliances, comprising about half of the entire volume of German exports. The autarchistic attempt to extend limits serves at one and the same time to constrict them by weakening export capacity and by increasing requirements. The construction of synthetic production plant requires materials before any new products can be made. Thus the political dialectic of the Second Four Year Plan was a tendency to constrict by expanding production and a tendency to expand by constricting it. In the economic cauldron, it produced a growing tension and with the tension a growing pressure on the walls — from the resource capacities as much as from the production results.

The more urgently one needs the domestic requirements and the less one can pay for their import, the more intense becomes the need simply to take, to rob, what one cannot buy. If one can no longer buy copper, iron, lead, zinc ore, oil and bauxite from outside and yet cannot stop the process which instigates the need for them because it is endemic to one's whole system, then it becomes increasingly necessary to *annex* the mines and other sources of such materials where they are easily accessible, in this case in South East Europe.

What, on the other hand, is to happen to the finished products of the primary and secondary synthetic materials once their production capacity is completed? If they are to be sold in the domestic market, domestic buying power would have to increase in order for this market to pay for depreciation and interest on the plant and reap the profit of its valorisation; the level of real wages and their share of the whole national income would have to rise. But if this should happen, the basis of the whole of fascist production and profit-making which is absolute surplus value production would be wrecked. The fascist system of 'deficit' capitalism would have to prove its efficiency according to the real standards of relative surplus value production which it had to suspend in order to survive. The result would be inner collapse, either in the form of a deflationary crisis of totally unimaginable proportions or alternatively a swing from a credit to a monetary inflation and thus a radical liquidation of the whole accumulation process carried on since 1933.

The fascist economy was designed so that no end product should return to the domestic market. The important fact is that it has done its service by having been produced — afterwards it must disappear into stock or be conveyed across the border. Otherwise the whole fascist edifice would be blown sky high. The Second Four Year Plan, or the regime of Göring/I.G. Farben, produced, just as did the First Four Year Plan and the regime of Schacht/Krupp, a mere dammed up expansionism, an economic ship in a bottle. The disadvantage this time was simply that the results of planned production appeared in a usable form. They had to be exported, outside buyers had to be found for them and as this was difficult for goods that were both expensive and bad, the old practice had to be continued for as long as possible: good quality stocks went abroad and the remaining, synthetic product went to the people at home.

However, this did not provide the funds that the whole of the

German economy needed. Devaluation would surely be called for to ease a path through this oppressive stranglehold. That is, if direct raids in the neighbouring countries did not burst it wide open.

13 A Fascist Economic System

The establishement of fascism in Germany in January 1933 was a result of the political victory of the dysfunctional groups of big and small businesses over the financially sound parts of the German economy. We have been at pains to show how the near entirety of German finance capital had coalesced by the end of 1932 on a policy bent on violent expansion and war. With the setting up of the Hitler Govenment on January 30 Germany entered the path of an economic policy of disequilibrium and capitalist dysfunctionalism.

This might appear to be an absurd proposition. However, looking at world capitalism caught in the general slump of the 1930's one is driven to the conclusion that this crisis was the first in the history of capitalism which did not end in the restoration of economic equilibrium serving as a basis for renewed prosperity. In this instance, the capitalist system was lifted off the rock of stagnation only by means of the arms race forced upon the world powers through the initiative of German fascism preparing for world war. There was, admittedly, a vestige of business revival in England in 1932 and in the U.S.A. in 1933, neither geared to war preparation. But by 1937 Roosevelt's New Deal had spent its pump priming and reviving force and the American economy was on the verge of relapsing into renewed stagnation. Similar developments of rising unemployment followed in Great Britain. In essence the sequence to the world slump consisted of ten years of war economy.

Hence it is no figment of the imagination to classify the kind of capitalist economy which was created in Germany in 1933 as a viable system of dysfunctional capitalism. This paradoxical formula can quite well serve as a definition of the fascist system of economy. What German finance capital needed above all was to break out of the falling rate of profit by the only means in existence that did not depend on other capitalist powers nor on the world market, a forced raising of the rate of surplus value by the slashing of the workers' wages. Throughout the slump and its consequent

unemployment, which in 1931 reached three to four million in Germany and almost doubled in the following year, the employers and the Government had enforced drastic wage cuts. The trade union leadership hardly offered any resistance because of the hopeless weakness of workers striking under such conditions, and the workers themselves, under these conditions, accepted the necessity of a measure of wage cuts. But the same repressive policy was pursued even from the autumn of 1932 when the economic pressures of the slump were beginning to ease and a hope of revival of business activity was apparent. In September the Papen Government adopted a programme of public job creation to speed up the reduction of unemployment. The employers and the Government still insisted on further wage cuts. But now the workers were no longer in the mood to accept such measures. The result was an aggravation of the class struggle throughout Germany.

A growing militancy of the workers spread throughout the major industrial centres. At the beginning of November a spectacular strike broke out in Berlin involving over 20,000 transport workers. It was communist led and was opposed by the social democrats and the trade union bureaucracy. It coincided with the Reichstag election of November 6, a fact which induced the Nazis under Goebbels to join the strikers. Goebbels declared later on: 'If we had withdrawn from the strike, our footing among the working men would have been shaken.' When the election was over the strike was soon defeated, but it had assumed a vital political character and aroused sympathy and excitement throughout Germany. The passive attitude of the workers was drawing to an end. Moreover, the election had produced the first major defeat for the Nazis who had lost two million votes, whilst the communists gained seven hundred thousand. For the big industrialists and the government this involvement of the Nazis in the working-class fight and their shattering electoral defeat raised the frightening prospect of the Nazi Party losing its grip on the masses and served as a warning of the urgency for action. If the fascist party were really to disintegrate, which way would the masses move? For the ruling circles scheming for the final dictatorship time was running short. Their economic plans, by then almost completed, were in jeopardy.

The strength of the working class was paralysed by the split between communists and social democrats; the more the communists improved their fighting strength, the more the social democrats thought fit to lie low. They urgently wanted the collapse of the Nazi Party but seemed to believe that their inaction would result in its disintegration. Meanwhile their immediate fight was directed

against the communists rather than the Nazis, while the communists attacked the social democrats as 'social fascists'.

But when, in January, the formation of the Hitler government had saved the Nazis the industrialists saw their hopes mature in the expectation that their obedient tool would break the organised working class. The Nazis indeed were not slow in doing just that but in such a way that they wrenched themselves free from the shackles by which the bourgeois politicians had thought to constrain them. By calling for new Reichstag elections and making the most of the electoral campaign, setting the Reichstag on fire to unleash the terror on the communists, by creating the concentration camps and making 'Gleichschaltung' (compulsory conformism) their main strategic weapon for subduing all other political forces while playing havoc with the rule of law, they enforced their supremacy over their bourgeois partners in power. This, incidentally, adds to the explanation as to why Hugenberg's position became untenable in the original Hitler cabinet which in March had been augmented by Goebbels.

However, the Nazis having won so much rope for themselves continued with greater momentum to follow the agreed programme for saving capitalism. On May 2, after celebrating May Day with colossal pomp and glory, they crowned the destruction of the working class parties with the dissolution of the Free Trade Union Movement by occupying their central building in Berlin and throwing numerous union leaders into concentration camps. Next, a government decision was taken to speed up the reduction of the enormous unemployment figures by making the employers add a number of unemployed to their existing work-force. These additional workers were paid hardly more than their previous unemployment allowance, but in order to switch the payment of it on to the employers the regular workers were deducted a percentage of their wages. In this way the overall pay-load of wage-labour was brought down to an extreme low level. Even Hitler himself thought fit to avow in a public speech that such wages were unworthy of a nation of an elevated cultural standard like the Germans, but that the speedy liquidation of unemployment, which he assured was the concern he had foremost at heart, was best served by this method of a 'quantity-prosperity' (Mengenkonjunktur), as he called it, where the workers were not benefitted by higher earnings but their families were helped by a higher number of contributors to their budget.

This wages policy performed a big step in the direction of a fascist

economic system but it did not achieve its structural completion. Throughout the first year of its existence the Hitler-regime made up its slow industrial recovery mainly on the basis of civilian production subsidised by various job creation schemes. Rearmament, its vital objective, commenced at the beginning of 1934. This brought about a clear-cut bisection of the German economy: one part occupied with the provision of the necessary reproductive values for the upkeep of the population, that is, the production and marketing of food, clothing, housing, etc. and their means of production; the other part devoted to munitions, arms, military building like fortifications and above all the erection of the military reserve-capacities (in England termed 'shadow factories'), plant fully equipped for production at the outbreak of hostilities. This was an economy entirely centred upon non-reproductive values and, except for exports, upon non-marketable goods.

These non-reproductive values were paid by the State by means of special bills which could be used for paying subcontractors, but which could on no account be cashed in money expendable in the market for consumer goods and thereby inevitably causing inflation. For in the civilian sector, as we may call the sphere of reproductive values, all wages and prices were pegged under decrees of 'wage stops' and 'price stops' to be upheld by the whole power of the Nazi terror machine. Hence the entirety of the civilian sector was planned by the Nazi powers to retain a fixed magnitude throughout the years of war preparation. However, even the strictures of the Nazi terror could not fully ensure the plan. The quantities of the civilian goods and their means of production could be controlled. But the qualities could not be maintained owing to the lack of raw materials and their replacement by substitutes. This caused deteriorations and price rises and set in motion an increasing measure of inflation. However, these were details that acted as flaws to the system but could not make the fascist economy entirely unworkable.

A Marxist analysis will help us to understand the system more fully. We know that capitalist profits are reaped from the amount of work which labourers perform over and above that necessary to produce the value of their wages. This unpaid labour represents the 'surplus value' which can be 'absolute' or 'relative'. It is called relative when its extraction is associated with increased labour productivity because it can be enlarged without an extension of the labour time. This implies a general technological advance of society and marks a progressive stage of the capitalist mode of production. In the early epochs of capitalism the measure of the surplus value simply depended on the absolute length of the working day and,

when this met with outer limits, it depended on the speeding of labour. This Marx calls 'absolute surplus value' because the technical and the social conditions of labour then are tantamount to a fixed, absolute magnitude. Judged from the angle of these Marxian categories the essence of the fascist economic system is recognisable as a reversion of the capitalist mode of production from the relative to the absolute surplus value extraction. The rate of accumulation is raised by depressing the rate of consumption, and the surplus product cannot be of a consumable and marketable kind.

In the 'Sozialistische Warte' (Socialist Guard) of June 15, 1937 (year 12, No. 12) Fritz Kempf calculates on the basis of the official German statistics that in 1936 the German working-class including white-collar workers and civil servants had as a whole to make do with the same total income as in the slump year 1932, although the number of employed had risen from a mere 12.5 million in 1932 to 17 million in 1936. The number of hours worked in industry had gone up by 84%. Admittedly, nominal wages and salaries reached 35 billion RM compared with 26 in 1932. But if account is taken in the latter case of all the increments and bonuses such as unemployment benefit, health and social insurance grants, rent rebates, winter-aid, butter subsidy etc. and for 1936 deduction is made of all the compulsory taxes, social services and obligatory charity contributions, total consumable income comes to 29.4 billion RM before 1933 and to 34.5 for 1936. Thus there was a nominal increase of 19% which Kempf rightly regards as easily cancelled out by rising prices and quality deterioration of consumer goods. And this makes no mention of the vastly increased tempo of labour in the workshops **'compensated'** by an effective nil-rise of wages since 1933.

Total investments over the ten years between 1928 and 1937 were as follows (in billions of Reichsmark):

1928	1932	1933	1934	1935	1936	1937
13.8	3.9	5.1	8.3	11.2	13.5	15.5

The inner distribution of these investments over the various sections of the economy reveals the significant differences of 1936 as against 1928 (in millions of Reichsmark):

	1928		1936	
	RM	%	RM	%
Public administration	2,664	19.3	7,400	55.0
Housing	2,829	20.5	1,900	14.0
Electricity, gas, water	1,021	7.4	450	3.3
Agriculture	952	6.9	900	6.7
Industry	2,636	19.1	2,000	14.8
Artisanry, commerce & other groups	3,698	26.8	850	6.2
	13,800	100.0	13,500	100.0

For 1936 we have to take into account that according to the official Reich statistics, public investments also spread into 'industry', 'agriculture' and 'other groups' so that for 1934, for instance, the investments emanating from the State made up 70% of the total. Some of these public investments had borne private benefits which continued reaping private fruits and within the Second Four Year Plan were intended to do so. As a result of this development the production index of the consumer goods industries lies in 1937 4.6% above that of 1933, whereas the index for the investment goods industries, almost totally absorbed in armaments, exceeds that of 1928 by 33%. Since 1933 the output of the investment goods industries had almost trebled, while the production of consumer goods industries grew by just one third counted in money value which lost about that much in its purchasing capacity. Remarkable also is the fact that a reduction to less than one quarter occurred in the investments for 'artisanry, commerce and other groups', covering sectors of the economy where the Nazis had originally found their most numerous and most ardent followers. In 1938 the Hitler Government decreed the most detrimental legislation to the small traders ever published in Germany, which goes to confirm that the

fascists in power are not the same as the fascists fighting for power.

In 1937 the system of absolute surplus value was threatened by the beginning of serious shortages of labour, specially in metal working and the building trade. It became more and more frequent for employers to lure each others' workers away by offering higher pay, and more and more the workers themselves stood up for better working conditions as well. In a document of March 1937 issued by the Ministry of Economics we read a reasoning for refusal of payment for occasional holidays: 'increase of wages without increased labour is in contradiction to the policy of the Government. There is no money available for wage increases which inevitably involve price rises causing an unending spiral on the home market and loss of competitiveness abroad.'* Obviously, the one thing never considered was increased production of articles for workers' consumption.

The labour shortage went from bad to worse, until in 1938 it reached such dimensions that the Government imposed a compulsory Labour Service as the only means of preventing the disruption of the entire fascist economy. The workers recruited into the Service derived no wage claims from it. They were counted as on leave from their last employment, and that 'leave' was paid by their previous employers, not in full however, since the recruits were offered free accomodation and food. In this way the compulsory Labour Service made sure of not running into 'contradiction to the policy of the Government' in matters of workers' pay. The number thus recruited up to the outbreak of war was 800,000, half of them used on the building of the Westwall, the Siegfried Line, the counterpart to the French Maginot Line.

The employers from whom the recruits were drafted did not, of course, happily part with men whom they needed no less essentially than did the Westwall. Which employer was hit and to what extent depended on his local Nazi authority (called the 'Gauleiter') and almost certainly the choice fell not upon the military but upon the civilian manufacturers, those producing reproductive values. 'Guns before butter!' was Göring's slogan.

The compulsory Labour Service illustrates that whenever the Nazi system of absolute surplus value ran into straights it was the paid

**Timothy W. Mason, Arbeiterklasse und Volksgemeinschaft, Westdeutscher Verlag, 1975*

part of the labour, the wages, that was nipped and that if the necessity for its payment could be no further curtailed the public robbers of the unpaid labour robbed the private robbers. The fascist system of economy was not all paradise for the employers either, not even for those creating the non-reproductive values to which attached all the prerogatives. What advantage did they derive from the bills that accumulated in their ledgers, padded though they were with extra generous profit margins? They were values only on the assumption that the war to come would be won by Germany, or that the victims could be blackmailed into bloodless surrender. We have mentioned how these German arms producers were sometimes gripped by panic at facing what Goerdeler in 1935 had called 'The true state of affairs in Germany' and how they were then brought to the edge of pseudo-revolt. Right from the beginning the Hitler-regime and its fascist economy were not the free choice of the capitalists, who were caught in the dialectic of contradictions that they could not avoid.

When the war preparations in 1938 ran short of raw materials and of industrial plant as well as of labour, the robbing had to start even before the outbreak of the major war by the annexation of Austria and of Czechoslovakia. Here for the first time the promissory profits could be given real substance without extra pay other than the military cost of the robbery. In 1940 the cost of defeating France and forcing the greater part of French industry into a fifty-fifty deal with the German industrialists was more expensive but the gain immensely greater since the booty included the riches of Holland, Belgium, Luxembourg, Denmark and Norway. If at that point Hitler had been contented with the gains achieved, the fascist venture could have paid Germany with glamour, glory and substance. But as we all know, Hitler had ascended to his place in history in order to save the European Culture from Bolshevism and it was by attempting this feat that the fascist barbarism missed its triumph.

14 Plans for War Against Russia

There is not a soul outside Germany who for a moment believed Hitler's tale that he was forced to invade Russia in order to save Germany from the threat of Bolshevik attack. But for many it may be a surprise to learn that the war against Russia had been firmly decided ever since autumn 1935. And yet this was indeed the fact. War against the U.S.S.R. formed the basic military objective for German rearmament.

For the German General Staff the old dilemma can be summed up in the question: war against the East or war against the West? Later on we shall need to describe how it came about that this dilemma was resolved in the first two years of the Hitler regime. But in any case the result was that in the middle of November 1935, the General Staff and the Hitler Government agreed to organise the extent and tempo of rearmament in such a way that Germany should be ready to attack Russia in Spring 1939. And this decision was firmly adhered to until in January 1939 the General Staff themselves became convinced that the enemies in the West would have to be quelled so that Germany would not feel threatened from the West during the War in the East. After violent remonstrations, Hitler and Ribbentrop were compelled by the General Staff to seek the pact with Stalin. But this is to anticipate events prematurely. Hitler's military strategy can be understood only in its successive development.

The fixing of the war against Russia for spring 1939 meant that German rearmament itself had to be accelerated in the extreme. The original rearmament plan, decided in February 1934, envisaged an expenditure of 33 billion RM over six years so that during 1939 Germany would be in readiness and in1940 would be able to launch the attack. But in autumn 1935 this timetable was held to be dangerously slow and it was decided to compress the remaining arms programme into one and a half years instead of the original three.

As has been pointed out and is in fact quite self-evident, modern rearmament is not first and foremost a matter of directly producing and stockpiling finished war materials but of the planned build-up of 'shadow factories' — capacities which produce the necessary materials in the run up to and during war itself. The speeding of the rearmament programme thus resulted in the military industrial basis being established by autumn 1938 and the new machinery being started and set in full operation between November 1938 and April 1939 in order to produce the war materials necessary for the planned large-scale offensive. Just how the war against Russia was conceived of in those early days, in autumn 1935, we shall describe later. If rearmament were to be so massively accelerated, if its original tempo were to be doubled, then this would have serious consequences for the dividing line between the military and civilian sectors. Surplus product would have to be supplemented at the expense of essential life-reproducing production, at least if it could not be increased by a heightened physical exertion of labour power, but even this would have undesirable repercussions on the budget of the individual consumer.

The acceleration of arms production subjected the country to a crushing economic burden but the decision prompting it lay with those not immediately concerned with the economy: the General Staff, Hitler and the Party. They considered the measure necessary because of international developments. Not only England was beginning to arm; above all the Soviet Union was reacting to the reawakening danger from Germany by considerable increases to her military budget. Hitler's path towards war could no longer be doubted: it threw the whole world into a feverish arms rivalry and thus Germany had to accelerate the tempo if she were to maintain her decisive lead.

Discussions which began around October 10, 1935 and continued until the end of November concerned the economic effects of the acceleration. An 'Inner Reichs Cabinet' of only eight members was formed which subsequently became an institution and functioned with only slight changes of personnel as the later wartime cabinet. It consisted of Hitler as chairman — he hardly ever intervened in these negotiations, however, — Rudolf Hess as spokesman for the Party, Admiral Raeder for the Navy, General von Blomberg as War Minister and mouthpiece for the Army and the General Staff, Göring for the Airforce and already given responsibility for rearmament, a capacity which gained greatly in profile as the discussions proceeded, von Neurath as Foreign Minister, von Schwerin-Krosigk as Finance Minister and Schacht as Economic

Minister and President of the Reichs Bank. It was from him, via the 'Führerbriefe', that my knowledge of these affairs stems. Occasionally the Prussian Finance Minister Popitz was included so that Schacht should not regard himself as irreplaceable.

The dominating figure was Göring, for he acted in the closest agreement with Hitler, in fact as his spokesman. Neither Goebbels nor Himmler, Darré nor Frick belonged to the inner cabinet — nor von Fritsch, the Commander-in-Chief of the Army. He was in disfavour with the Party since he embodied the Army's independence, sometimes even opposition to it. When the Waffen-SS was set up later on, Himmler too became a member of this select group.

As the spokesman responsible for currency and credit policies, foreign debts and loans, Schacht acted within the inner cabinet for the economic interests and concerns which Hitler understood less than anything else and this was reason enough for him to regard Schacht with mistrust and suspicion. Such feelings were easily reinforced when Göring asserted himself over Schacht by playing the referee to his and Darré's dispute over the food crisis, which we have already described. Schacht was by then under Gestapo supervision. He confided to Reuter: 'As long as there is Heydrich* I am never sure in the morning that I'll get to bed again at night'.

The consultations took place once a week around the fireplace of Hitler's study in the Reichs Chancellory and this prompted the initiated to nickname them the 'Fireside Conversations' after a well known book, 'Reveries at French Firesides' — a manifestation of cynicism. The controversy over the acceleration of arms production generated one of the most acute crises that the regime had experienced and, as always at such critical junctures, its inner dialectic became particularly tangible. This dilemma kept all the informed circles within the economy agog: the banks, the managing boards of the big concerns, the directors of the trusts and their political departments, the large-scale agriculturalists and the Army officers from the Bendlerstrasse. It formed the only topic of conversation at the social functions of Berlin high society.

The unique feature of the situation was that what was at stake shook the ruling strata of Geman high bourgeoisie out of their fatalistic acceptance of events and challenged them to take up a

**It was the assassination of Heydrich in Czechoslovakia to which the Nazis retaliated with the annihilation of Lidiče.*

position, — as though the policies of the Reich could be thought out afresh, as if the power handed over to Hitler and his Party could be retracted and the whole development subjected to a complete revision. Suddenly all the sluice-gates of criticism and discussion seemed to be opened. Everything was spoken out loud: the excesses of the Nazis, their incompetence and cocksure arrogance, their outrageous corruptness, their frauds and embezzlements, their crimes, the dangerous nonsense of their Nazi ideology, the madness of their racial policy.

One evening at the end of October, the chances of a forcible disarming of SS and SA formations by the Army were discussed with Army officers at Dr. Hahn's apartment in the Bendlerstrasse. Under debate were the readiness and dependability of garrisons for such an action and the tensions between staff officers and field officers, between the Bendlerstrasse and the garrisons and between the commissioned ranks up to major and down to captain. Memoranda came to light from the most varied economic quarters: from the Reichs Credit Society, the Dresdener Bank and the Rhineland-Westphalian heavy industrialists. But most important was the paper written by the Mayor of Leipzig and Reichs Commissar for Prices, Dr. Goerdeler, 'On the true state of affairs in Germany' which he delivered directly to Hitler via Lammers, the State Secretary of the Chancellory.

It demanded a complete reversal of the economic course followed since 1933, and the return to a regular 'balance-sheet' economy both in its details and as a whole; in other words, exactly the economic policy whose insoluble problems had served the Nazis as a stirrup into power three years before and which had now become completely impossible through the subsequent wastage policies of war and rearmament. But such contradictions could find no acceptance in heads struck dumb with terror over the'true state of affairs in Germany'. Just as mistaken, however, are those who see the Nazis as the direct executive agents of a monopoly capital in command of its profits and do not realise that, paradoxically enough, profit-making itself had to go into the red before the Nazis could exploit the now unresolvable contradictions and get the better of finance capital.

Admittedly Schacht did understand something of these contradictions. He was the one who had to present most of the memoranda and their arguments at the 'Fireside Conversations' and this alone had made him aware of their inner weaknesses. But the arguments against an acceleration of rearmament were not all of this kind.

Colonel Thomas of the Army's Economic Office himself voiced considerable objections and fears that, although the remaining arms production could, by an extreme utilisation of all reserves and energies, be compressed into half the original designated time, it would leave the population in such a state of exhaustion that even with the weapons in their hands they would not be able to carry on the war. But every time weighty arguments were put forward against an acceleration of arms production, — arguments which threatened to tip the scales of the discussion — Göring came out with the exhortation: 'Remember, mein Führer, that we want to start our war with Russia in 1939!' This fixed phrase he declaimed in such an unchanging way that Schacht compared it with Cato's 'ceterum censeo'.

And indeed the Führer did remember. Arms production was to double in tempo and war on Russia to be declared in spring 1939. Out of all the threatened protests and promised rebellions within the high bourgeoisie and in the Army against the 'madness' of the regime, nothing stirred. On the contrary, the intensification of the previous course of action had the effect of pulling the still hesitant, negatively inclined sectors of the economy down from their high pedestals and bringing them into official line with all the rest, as arms producers, — the process known as 'Gleichschaltung'. Schacht's summing up of the situation was merely 'We're all in the same boat!'.

Since it was now therefore decided that 'we start our war with Russia in 1939', what shape did this war assume in the minds of the General Staff?

Four main political conditions were held to be indispensable to victory. The first and the most emphasized condition was that Germany should have unrestricted access to the economic resources and strategic potential of the whole of Central Europe. Not that the Danubian and Balkan countries were to be literally conquered and politically annexed; rather they should be brought under the influence and actual disposition of the Reich so that their raw materials, harvests, energy sources, means of transport, postal services and administration could be structured and utilised, their production and agriculture steered into the desired channels. In other words, 'agrarian cartelisation' on a vastly magnified scale. This corresponded to the General Staff's wholehearted conviction that, for any future major war, Germany would have to rely on at least the same supporting platform as did the central powers in the First World War, merely that this time Italy would replace Turkey.

It goes without saying that this condition coincided only too exactly with the declared imperialist aim of large-scale German capital to monopolize this central European 'area' against future economic competition with its major international rivals, Great Britain, the U.S.A. and Japan. In this policy, Krupp, the Chemical Trust and the Stahlverein Group were inseparably united with the General Staff.

A systematic division of labour can be said to have operated here. For instance Krupp financed the uprisings and partisan struggles of the Croats and Slovenes against the Yugoslav Government in 1932 and 1933 while the Defence Department of the War Ministry supplied the officers (Captain Hütter), the weapons and the military know-how. Krupp and the Chemical Trust provided the money by which a majority of shares in certain Yugoslav copper, tin and bauxite mines were purchased in 1935 on the wishes of the General Staff; a Belgian firm did not exist but was invented as a cover for the real buyers. Acting in concert with the General Staff, the Chemical Trust systematically cultivated soya beans in Romania, Bulgaria and Hungary so as to make themselves independent of East Asian imports 'in the case of war'. Herr von Flügge, a member of the economic-political department of I.G. Farben, was the leading expert for soya cultivation policies. It is interesting to note that I.G. Farben conducted selective cultivation of the soya bean on experimental fields in the Soviet Union.

The Benzol Association (made up of mining chemistry firms, the coal syndicate and the Stahlverein) were in all other fields the main rivals to I.G. Farben but they together and with the help of the Dresdener Bank made a bid for the Romanian oilfields, one of the General Staff's most cherished objectives. In its turn, the General Staff promoted the trade policies of Krupp and I.G. Farben at the cost of the Party which dominated the Reichs Food Estate and the Economic Ministry; in practical terms, the interests of the German small-holders were sacrificed in favour of the Danubian imports.

In short, none of the policies responsible for the 'economic penetration' of the Danubian area reveals any features allowing one to distinguish between the part played by the leading capitalist concerns and that played by the General Staff.

In the case of the War Ministry, the collaboration focussed mainly on Colonel Thomas' 'Economic Office' and on General Kaamann's 'Army Supplies Office' which processed the economic armaments plans and from which the orders for arms went out to industry.

These two departments were the real, functioning connecting links between large-scale capital and the Hitler regime. Neither were occupied by Nazis and they assiduously avoided contact with any other Reichs department where Nazis had a say. The particular wishes and complaints of capital went down the line to Thomas and Kaamann and upwards via Fritsch and then Blomberg, and were communicated directly to Hitler; from there they were passed down as incontrovertible edicts via Hess and Himmler to the Party. Thomas and Kaamann derived their own information exclusively from the orbit of capital itself, never (as far as they could avoid it) from experts or officials in any of the government ministries.

For example, if Thomas wished for information about the effect on the spinning process of the substitution of Egyptian and American cotton by Brazilian cotton, or of natural by synthetic 'staple-fibre', he asked a textiles industrialist, — not the man responsible in the Economic Ministry. Or if he wanted to know how many oil-cakes the grinding of soya beans would yield for animal fodder he turned, not to the Ministry of Food where all such data had been collected for years, but to the boss of Tengelmann's, the biggest and richest oil-mill in Germany.

What Thomas, Kaamann and their staffs learned and, indeed, had to learn by way of economic and technical detail in the course of the rearmament years, is hardly believable. If one can at any point speak of the Hitler Government having a 'brains trust', then it was in these two departments — departments which avoided the Hitler Government like the plague. Methods like theirs, had, however, the concomitant effect that those anxious for war orders above all wanted introduction to those people and offices who turned to Thomas and Kaamann and a great deal of influence accrued to those who could serve as intermediaries. Among these, of course, excelled Krupp, I.G. Farben, the Stahlverein and the MWT (whose chief was Dr. Max Hahn and my main source of information up to the end of 1935). They effectively monopolised the right of introduction to Thomas and Kaamann and thus, by definition, to the lucrative business of arms production. So they held a position of pre-eminence, even over the political administration of the Reich and over the Party.

Yet it will not do to make too much of the political awareness nor of the ideas involved in these events. These were mainly restricted to the interests of the firms concerned and to those of their owners and representatives. But in every detail and in every measure rearmament and, at its behest, the 'Gleichschaltung' — the con-

formism — of the whole German economy opened up questions which far exceeded the traditional politics of business. Everything that was undertaken, whether it was the regulation of agriculture, the production of synthetic raw materials or the systematisation of the entire metal industry, — everything exceeded the narrow horizons of each individual firm, even the largest of them. And wherever an interested party saw his horizon transcended, then his thoughts lost themselves in the maze. At this borderline he no longer thought rightly or wrongly, he no longer thought at all! There began his nightmare. And it was from this nightmare that Hitler must rescue him: 'The Führer will put it all right!'

This blind faith in the Führer stemmed from the uncontrollable character of the global situation. Thus in the vacuum of real values the Führer was imbued with awesome power. No matter whether the business interests complied or competed they did not 'make' the politics of the Third Reich. Indeed they were 'made' in the first instance chiefly by Hitler himself, in the second by the select group responsible for the 'fireside conversations' and the General Staff. In this sense, 'Hitler himself' means also his immediate henchmen Ribbentrop, Himmler, Goebbels, Hess and Göring, in other words, those who comprehended the regime in the terms of the counter-revolutionary class struggle and were thus no longer bourgeois but in the true sense 'fascists'.

This picture of Thomas' and Kaamann's working methods only applies up to the end of September 1936. In October/November 1936 the apparatus of their departments together with their executive personnel (at least in Thomas' case) was vastly extended and placed under the Directorate of Göring and his Four Year Plan, moving from the War to the Airforce Ministry. As I left Germany in February 1936, I can no longer give an exact account of procedures within this new framework, but there is considerable reason to believe that its fundamental lines of policy remained more or less the same even if isolation from the Party was no longer possible.

As is well known, Göring's regime served to realise the 'autarchy' programme for raw materials, that is, the production of synthetic materials. From 1936 onwards, the decisive influence was wielded by I.G. Farben. Otherwise the programme of the Second Four Year Plan stems almost totally from Thomas' department where the production of synthetic fibre, for example, had been introduced as early as 1934. What emerged in 1936 was merely the systematisation of plans that had already been developed in detail and the

creation of a new organisation to process and carry them out.

To return to the General staff's four main conditions for war against Russia: in the establishing of German rule over the Central European zone, one has to differentiate between the weak countries on the one side (Romania, Hungary and the other Balkan countries) and Czechoslovakia and Austria on the other, between the gristle and the bones, as it were. These two last named countries were more than a problem of 'economic penetration' and the removal of their resistance and independence thus formed the two main stumbling blocks in the first of the four conditions.

The second condition concerned Poland. The General Staff set no great store by an active alliance with that country: it would be more of a burden than an advantage. The state of arms equipment, training and discipline of the Polish Army were considered low and the inner conflicts between nationalities a source of unreliability. In 1934 an attempt had been made to persuade Poland into an arms agreement with Germany whereby arms production and the re-building of the Polish Army was to be entrusted to Germany. But as this had been rejected the General Staff no longer saw Poland as a force to be reckoned with. What was now demanded of her was that she should succumb to 'voluntary rape' as the phrase went. This meant that, asked or unasked, she should allow herself to be used by the German Army as a means of communication and transport for the attack on Russia.

The third conditon was the demand for an active alliance with Japan. Simultaneously with the German attack on Russia's western borders, Japan was to move against Siberia.

The last, but not least, of the conditions was that, faced with war, England's position should be one of strict, if not well-wishing, neutrality.

In terms of the actual strategy of the war itself, it was the conviction of the General Staff at the time that Germany would have to overcome Russia in six months in order to be sure of victory. A campaign of more than nine months under conditions of total war and after the burdens and sacrifices of the rearmament period would be beyond Germany's endurance. So in order to facilitate such a swift victory, it was decided to supplement strategic operations with an extended system of agents and spies inside Russia.

In actual fact such a system was in progress as early as 1934. But from 1935 onwards it was pushed through with extraordinary vigour and every conceivable form of aid from the Gestapo and the Defence Department. The infiltration occurred along the eastern border of Poland and used many of the routes created and tested by 'Catholic Action', (an organisation created by Nuntius Pacelli, later Pope Pius XII). This group maintained a number of Jesuit stations on the Polish-Russian border where Jesuits were trained as Greek Orthodox priests and smuggled individually into Russia, mainly into the Ukraine, there to spread religious and counter-revolutionary propaganda. (This I have heard, not from Soviet, but from German sources).

At this time the remnants of the former White Guard armies, those of Wrangel, were being assembled, — those who were not totally demoralised and scattered. In Romania and Yugoslavia they still had comparatively well preserved fighting appetites. These troops were moved to Berlin, organised into a strictly disciplined body and given financial backing and a military training. Japan worked in parallel with this plan. Since the end of the Russian Civil War she had taken over patronage of the remnants of the Koltchak and Semonov army divisions, moving some to Harbin in Manchuria and giving them active support. But at this point a thorough demoralisation had taken grip of them so that they were of only minor use to her in the Manchurian Campaign of 1931 and 1932. The sections that still seemed to be fit for action were moved from Harbin and, incredible to believe, one group received fighter pilot training under Japanese supervision on airfields in Canada; other groups were employed in Chinese Turkestan when, in the wake of the Tungan uprising, Soviet Russia conquered the Chinese territory there in 1933 and 1934. How many of these forces the Japanese sent into Russia as agents during this time I do not know but the number must have been considerable.

From 1934 onwards, the active collaboration of the Japanese with the German Propaganda Ministry and the Gestapo proceeded quite systematically. The funds required stemmed mainly from Deterding and the Nobel Concern, firms which, like Royal Dutch Shell, had lost large private holdings in the Baku oilfields through the Russian Revolution and now invested extravagantly in the hopes of their recovery. For example in 1934 the Japanese instigated a plan to assemble the Minorities Congress of the League of Nations at a mass rally of the 'oppressed minorities' of the Soviet Union, mainly the Ukranians, Georgian and Caucasians. To this end, the Propaganda Ministry spent June searching in the offices of large-scale

industry for people who could formulate appropriate national programmes for these minorities, — in such a way, that is, that the borders drawn up for the areas whose independence was demanded should include all the highly desirable reserves of ore, coal, oil and other sources of energy. This, too, was financed by the Nobel Concern.

In June 1934, Herr v. Hanstein from the Propaganda Ministry turned up at the MWT on Schöneberger Ufer accompanied by a Herr Diamantseff whose passport credited him as being a Soviet citizen. After they had left, Dr. Hahn called me in and asked what I knew of the Ukraine and of the Ukranian Irredenta: 'Would you be interested in working out a national programme of independence for them?' Dr. Hahn was as impressed by Herr Diamantseff as I now was by his suggestion to me and to this I whole-heartedly concurred, my principle being not to debar myself from any important source of information. Then in August, the plan was dropped for reasons which even Dr. Hahn could not explain to me. I now regret only that I never saw Herr Diamantseff face to face and thus cannot probe any further into who he really was. But as something that happened almost two years before the first of the notorious Moscow purge trials, in August 1936, this episode is proof of the fact that these trials did not entirely lack foundation in reality.

But to return to Germany's agents in Russia, their task emerges from a series of reports that the German Embassy in Moscow drew up for the Reichs Government and for the General Staff. Characteristically these are reports by the agricultural attaché to the Embassy, Schiller. In his summing up of the events of 1935, for example, Schiller concludes that the future held no further promise of famines such as those of 1932 and 1933. The forced collectivisation of Russian agriculture would, after massive sacrifices, be a success. Even if the average pro-hectar yield of the harvests had not risen, arable land had nevertheless been greatly extended and there was no reason to imagine why the coming years would not see a further rise in average yield. In short, Russia had once and for all overcome her food shortages. This success of collectivisation had been achieved in parallel with the tractorisation of agriculture. Horses were hardly used any more for tilling and harvesting; they had been transferred to the army. A problem of the success of agriculture across the whole Soviet Union was the adequacy of petrol supplies. The critical periods were fourteen days in April for the spring tillage and then, more acutely, fourteen days in October for the deep ploughing of fields and the sowing of winter crops. The

entire fleet of tractors complete with drivers, spare parts and fuel had to be ready for these two fourteen day time-spans and this over the whole country at one and the same time. In 1935, 92.6% of the fuel for agriculture still came from Baku and was stored for these two periods in a far-flung distribution system based on Rostov that spread like a giant tree from the Caucasus outwards in every direction, stretching to the individual tractor stations in the villages and collective farms. A map of this system was included in Schiller's report. If, at the critical time, that is at the end of September, it could be decisively disrupted by systematic sabotage, the whole of Russian agricultural production could be paralysed.

There were similar reports on the electricity supply and on the transport system of the Soviet Union, its railway network. Precise attention was paid to the tendencies towards centralisation and de-centralisation within the Russian re-construction. It was emphasized that the wishes of the planning commission were towards increasing de-centralisation but that the present stage of development would necessitate further centralisation for the forseeable future and, as a result, the continued dependence of the whole system on a few particularly vulnerable 'nerve-centres'.

It must generally be said that the growing and almost comprehensive success of Stalinist Russia from 1934 onwards crucially determined ideas within the various power groupings of the Hitler regime, the Generals, large-scale capital and the Party directorate. The only difficulty standing in the way of the Soviet Union's complete mastery of her problems was the still unsatisfactory state of the railways. To the thinking people at Krupp, I.G. Farben and the Stahlverein and Siemens there was no doubt that this too would finally be overcome. 'After what has been achieved already, that's child's play. It certainly will not break the neck of such a system' — that was Dr. Hahn's private opinion and it was shared by others too. When that little obstacle had been surmounted, well, there would be no stopping things in Russia!

This state of affairs was anathema to German capital and its world competitiveness; it had to be halted in good time. It was, however, the Russian successes in light industry, secondary and precision engineering, — successes which were previously thought to be impossible — that constituted the turning point in the German industrialists' fear of Russian ascendancy and of a Soviet breakthrough into the free market economy. It threatened to put Russia into direct competition with German production and more especially to make it militarily invulnerable.

Immediately after the decision to invade Russia and speed up arms production in the middle of November 1935, the General Staff made their demand to occupy the Rhineland. The war against Russia could not be waged with an open back door. Garrisons could be situated and weapons stockpiled in the Rhineland even though it was officially a de-militarised zone. But it was out of the question to erect a fortification equal in standing to that of the Maginot Line. And as long as one did not have this, with the existing alliance of the French and the Russians, France could turn the Rhineland into a battlefield. And if hostilities began there, in Germany's rear, it was impossible to wage successful war in any direction. But as soon as Hitler really did take pains to occupy the Rhineland — the originally projected date for this was January 25, 1936, if I remember correctly — the General Staff took fright.

The histrionics that occurred in Germany before the Rhineland occupation were typical and were repeated exactly on every similar occasion, in the case of Spain, the occupation of Austria and the suppression of Czechoslovakia. The date set for the Rhineland occupation had continually to be put off. And when it did at last proceed, the General Staff entrusted their field officers with sealed orders to retreat immediately back across the Rhine at the first cannon fire from the Maginot Line. But as Hitler had rightly calculated, the Maginot cannon did not fire, — not because General Gamelin would not have wished it but because of pressure imposed on the French by the British Government. The result was that Hitler and the German General Staff reached the beginning of 1939 in a peak of condition, — the year, that is, when, according to the decisions of November 1935, rearmament was to be completed.

On December 15, 1938, Hitler called for a final report from the General Staff on the state of rearmament and on plans for the war against Russia set for the following spring. It had to be specific on the eventualities of war with Poland, war against Poland or war without Poland.

Of the four basic conditions only the first was fully, or close to being fully, satisfied — Prague was occupied on March 16, 1939. The three other conditions concerning Poland, Japan and England were either unresolved or gave at best reasonable hope of future fulfilment.

The General Staff reported on about January 8 to 10, 1939 and

what they said prompted their further clash against Hitler and Ribbentrop. This time, however, the General Staff won. What in fact happened?

Taking care of the Poland question first, the report came to the conclusion that collaboration with that country had not developed very fruitfully. In fact one could not be sure that it would provide military aid either sufficiently or voluntarily. It would thus have to be subjugated before qualifying as a base for marching against Russia. With this pre-condition, the General Staff were optimistic about the chances of defeating Russia within a year or, more exactly, in the time between spring and the onset of winter.

But this depended on one fundamental condition only: Germany would have to be rid of any potential dangers from any other quarter. She would need to be in a position to concentrate her entire war resources — material and men — on Russia without having to occupy the Siegfried Line against France or having to channel off any appreciable reserves for other eventualities. This meant nothing less than that the war against Russia would have to be postponed until such time as Germany's actual and potential adversaries in Western Europe had been liquidated. In other words, the old dilemma: 'war against the West or war against the East?' would be played out once more after it had seemingly been decided once and for all in the resolutions of autumn 1935.

The conclusions of the General Staff met with violent resistance from Hitler, Ribbentrop and the whole of the political executive of the Reich; but the General Staff stood firm. After fourteen days of discussion, Hitler and Ribbentrop were forced to give way and to prepare for spring 1939 a pact of appeasement and conciliation with Moscow instead of the war they had wanted. The negotiations began in April.

The policies aiming at the liquidation of non-Russian Europe had existed before this stage but in order to comprehend them and in any way understand why the leaders of the Reich could afford, or at least thought they could afford, to switch their war effort without undue alarm to the European West, it is necessary to turn back to developments before the autumn of 1935.

15 War in Western Europe

Hitler once openly admitted in a private conversation in the summer of 1934 that he knew his assumption of power would mean a foreign political gamble putting the existence of the Reich at stake. But the gamble was indispensable for the 'inner salvation of the German people'. He had sought as best he could to secure the then defenceless Reich against the worst dangers from outside by amassing a 'show-army' of more than three million SA men and by using it as a deterrent until such time as an armed and trained force could replace it. There is every reaon to assume that this was the true meaning and explanation of his 'purge' of the SA — never more than a show-army — through the bloodbath of June 30, 1934 and the weeks that followed. Of this more later.

The truth, however, was that the 'existence of the Reich' could be saved neither by the SA nor by Hitler's wily tactics. If it had come to the crunch, the monstrosity that was the Hitler Reich would have gone up in smoke no more than two months after its birth. Never until the close of the Second World War had the Tnird Reich been in such mortal danger as in the third week of March 1933. The events of that time were never made known to the public and are unmentioned in most popular histories — but they present the key to the understanding of the whole subsequent foreign political development of Europe.

In February 1933, the Poles, in accordance with their rights as laid down in the Versailles Treaty, reinforced the troops with which they occupied the Westerplatte in the harbour of Danzig. The external motivation was a point of conflict between Poland and the Danzig Senate over the customs administration of Danzig Free State. It turned into an acute crisis when the Poles threatened, if Danzig did not relent, to occupy the customs house then and there and secure their rights by force. Visible behind this threat, however, was Poland's clear understanding of what events in Germany signified and her decision to stifle in the bud the danger that lurked there — a danger more acute for her than for any other state in Europe.

The Polish Government had conferred with the French Government and agreed in detail on the procedure to be followed. On Friday, March 17, 1933 at noon, the Poles would advance on Danzig Harbour and occupy the customs house. This step, it was calculated, would be experienced as an insufferable provocation by a Germany steeped in an orgy of nationalism, — a provocation impossible for the Hitler Government to ignore if its prestige were to be upheld. At least it would not be able to restrain the uncontrollable SA hordes massed heavily on the border with Posen from invading Danzig territory and rescuing their 'threatened brothers' on the 'bleeding border'. But in that case, the Treaty would have suffered a flagrant infringement and this would constitute one of the justifications for France to step in with immediate military aid. In other words the French-Polish alliance would meet its legitimate consummation. Paris agreed to react by sending an immediate ultimatum to Berlin and if necessary to invade the Ruhr by Monday, March 20. More accurately, this meant that France would use the incident to manoeuvre herself into a measure of direct control over the militaristic policies of the Hitler regime.

The Foreign Office in Berlin heard of this plan on the Wednesday afternoon before the fateful Friday set for the Polish advance; the effect was one of panic. It was soon clear that the allied calculation was correct and that Hitler's 'deterrent' must indeed fall into the trap intended for it. The end of the new splendour seemed at hand and there were no discoverable means of averting it. But the panic lasted no more than 24 hours. On Thursday afternoon I once more saw happy faces in the Wilhelmstrasse. What had happened?

At the same time as in Berlin, London had had word of the French-Polish plan and if the reaction there was just as prompt, it was incomparably more active. Both the Prime Minister, Ramsay Macdonald, and his Foreign Minister, Sir John Simon, immediately protested to Paris in the strongest possible terms. Far from fulfilling her obligations as set down in the Locarno Treaty, Great Britain would on the contrary leave the French to their own resources, no matter what the consequences of their action. It was not Hitler's SA, but this British protest which operated as a deterrent to the French.

On the Thursday the French cancelled their plan in Warsaw. Ramsay Macdonald, in order to scare the French out of any autonomy in the future, later flew, to world-wide amazement, to Rome and there together with Mussolini laid the foundations for

the 'Four Power Pact'. So urgent did the matter appear to the British that Macdonald even had to overcome his horror of flying and his brief touch-down in Paris on transit was made without any official exchange of views. Mussolini's Four Power Project had been sitting on ministerial desks since the middle of February and only attained any real importance on this occasion and then later when it served as a counter to the Franco-Russian Pact. The signing in July 1933 in Rome was no more than a piece of official show-business.

The effect on Poland, however, was fundamental. Left in the lurch by France in a matter of life and death, the Poles could no longer maintain their traditional emnity to Germany. They had to give up their essential position in Europe's post-war order. After a communiqué of foreign ministers on May 4 had re-established diplomatic contact between Warsaw and Berlin, the Polish ambassador appeared in Berlin on May 25 to begin negotiations on a new basis for German-Polish relations. The result was the Neurath-Lipski Declaration of Amity of November 15 followed by the signing of a non-aggression pact on January 26, 1934. Berlin had lost no time in grasping the essential meaning of what had occured between France and Poland.

In the spring months of 1933 after coming to power, Hitler was personally advised on foreign policy, about which he knew practically nothing, by Terdengen, a privy councillor from the Foreign Office. Terdengen, of catholic Westphalian stock, was at first the target of Nazi suspicion and threats, but then, mainly because of the Danzig crisis, gained an almost unique position of confidence with Hitler. He it was who generalised the lesson of this crisis in his talks with Hitler and advised him to show all France's military allies in Europe one after the other that France, if it came to the crunch, would not march for them.

In June it was the turn of Prague: the Czechs were provoked by a relatively trivial point of conflict simply so that Paris would turn down their plea for help. The French reaction was the one the Germans expected and wanted. Instead of protesting violently, Czechoslovakia suggested that Czech-German relations be put on a 'good-neighbourly' basis. The Czech Minister, Benesch, best-informed of all Europe's foreign ministers, presumably did not even need to make enquiries in Paris; his request for good relations with Berlin was, however, added to the German files as confirmation of the practicability of dealing summarily with the Czechs as and when desired. The same experiment, with the same successful

result, was carried out with Yugoslavia and Romania simultaneously. And thus as early as the end of June 1933, when Germany was still impotent militarily and Röhm, the head of the SA, could still entertain notions of becoming Head of Army Command or Defence Minister of a German brownshirt army of the future, it came about that the French alliances lay in shreds and the guarantee for the European post-war order was not worth the paper it was written on, — and all this without the Germans having to raise one military finger.

With things going so well, Hitler for the first time developed a personal initiative in foreign policy. He outbade Terdengen's notion in characteristic fashion. It was not enough to show France's allies that she would not fight for them. What really counted was to demonstrate before the eyes of the whole world that France would not even fight for herself. And at once he set about proving it. He was helped by the fact that Terdengen spoke perfect French without the slightest accent; whether he had grown up in France and perhaps been educated in a French Monastry I am not certain.

At the end of July, Terdengen was sent on a journey to France, not to Paris but crisscross through the provinces and the interior. He was to find, in conversation with every social grouping, a convincing answer to one single question: could the French Government, given France's domestic position at the time, risk ordering a general mobilisation of troops in the case of a German provocation that impinged on France's prestige, short of threatening her territory?

After eight weeks, at the end of September 1933, Terdengen returned to Berlin and answered Hitler's question with an unequivocal 'no'. That was the foundation upon which Germany, on October 14, with carefully engineered provocation, declared her departure from the League of Nations and from the Disarmament Conference. With this step she won a free hand for her rearmament both in fact and in form. In the very same month the army leadership was commissioned to draw up its arms budget.

France reacted to all these events and developments with protests, letters and appeals that were mere substitutes for her lost alliance system of Little Entente and Balkan Pact. By March 1935 Hitler could risk openly revealing the fact of German rearmament and announcing general conscription. No real opposition was forthcoming from her Western neighbours. In the following June Great Britain concluded a Naval Pact with Hitler agreeing to German

maritime rearmament up to 35 per cent of the naval strength of Britain herself. There was indignation in France. The Naval Treaty was a notable success for Hitler whose policy of revision of Versailles thus found England's unambiguous support.

With this situation in mind, it is understandable that in autumn 1935 the whole question of war should be decided once and for all as 'war against Russia'. War against the West appeared to be superfluous and further European developments at first seemed to confirm this euphoric impression. However, Foreign Minister von Neurath was not so quick to adopt this point of view and it was thus a decisive fillip for Hitler's position when Ribbentrop, as Ambassador in London, scattered the last doubt and, afterwards as Foreign Minister, even outbade Hitler's own course of action. Ribbentrop's particular hobby-horse was the Anti-Comintern Treaty between Germany and Japan of November 1936 and what he termed the 'encirclement of Russia'. This was later completed by the so-called Eastern Pact of July 8, 1937 between Turkey, Iran, Iraq, and Afghanistan.

When in January 1939 the General Staff demanded that all the remaining possibilities of conflict in the West should be removed as an imperative condition for the Russian campaign, Ribbentrop and Hitler naturally viewed this exigency as an essentially non-military task which would certainly not lead to all-out war. The task itself was divided into two parts.

In the course of 1939 the non-Russian East was to be eliminated, Poland, the Baltic States and Romania; in 1940 the West, France, Belgium, Luxembourg and Holland were to follow. The pivotal point in the East was to be Danzig. If Poland had willingly conceded this city and the 'Corridor', Germany would not have needed to have used violent means to subjugate her. In any case, this war was considered by the Nazi leaders as nothing more than a local affair.

The pivotal point in the West was to be Switzerland. The plan was to divide Switzerland up between Germany, Italy and France. Ribbentrop had worked on this plan when on a visit to Paris on December 12, 1938, to sign the French-German pact which was the parallel to Neville Chamberlain's Munich Appeasement Pact of September 29, 1938. He had told the French Foreign Minister, Bonnet, that Mussolini was giving them absolutely no peace about his desire to annex the Ticino, the Italian part of Switzerland, so that one would have to consider the necessity of splitting up the whole

country in order to placate him. What would be France's attitude to this in his, Bonnet's opinion? Would she refrain from military intervention if she were to receive the French part of the Swiss cake? Of course, Bonnet would not answer this in the name of the French government, but he himself could perfectly well imagine a peaceful understanding being reached on this point. One could also conceive of a French government, for example with Laval and Flandin, which would give its consent.

It was on this premise that Berlin constructed all her subsequent plans. It was inconceivable to divide Switzerland from within by Nazi agitation so long as the Swiss relied on French military aid in the event of a German attack. But as soon as this reliance disappeared the prospects would change radically. The methods tested before could then be applied with certain success. Once Switzerland fell, France would be made strategically helpless and politically completely encircled. She could even be left with her own government and administration; in all essentials she would have to do as Berlin ordered. In this way Germany would reach the English channel without firing a shot and then, in incontestable control of the whole continent, would be able to negotiate with Britain on an equal footing. That was the plan.

It may seem beyond belief that Berlin could rely on the passivity of England in the face of such developments. However, one has to allow for the peculiar mentality of Ribbentrop which was typical of the vulgar Marxist views of the class struggle prevalent among fascists. Ribbentrop based his ideas on his analysis of the Spanish Civil War which he viewed as a close parallel situation to the Abyssinian conflict of a year earlier. His reasoning was as follows: if the English Government had been able to act freely to the advantage of British interests it would have done one of two things. It would either have taken positive action in support of Madrid against Franco and his German and Italian allies so as to secure for itself the decisive influence upon republican Spain, or else it would have thrown its weight against Madrid and made Franco an English vassall instead of a German or Italian one. Neither of these reasonable lines of action could a conservative government in London take, and any other kind of government Ribbentrop thought an impossibility for the forseeable future. Supporting Madrid would have meant victory for the popular front movement in England which would have swept the conservatives out of office. But to throw their lot in with Franco would have aroused the same upheaval of public opinion in England and France which had enforced the resignation of Sir Samuel Hoare over the Hoare-Laval

agreement of December 1935 concerning Abyssinia.

At that time such an analysis was true for many observers of world events. But what is noteworthy is that it was Ribbentrop's observation too (as I know from reliable sources at the Foreign Office) and that it served as the basis for German foreign policy.

The Foreign Office in the Wilhelmstrasse was delighted with the British policy of non-intervention in Spain. The case was seen as so classic that the Germans felt certain that whatever they got up to on the continent, Britain would not intervene. On March 16, 1939, Neville Chamberlain in a declaration made at the Jewellers' Banquet in Birmingham reinforced their certainties, and after that no words, declarations, or guarantees that the British Government found for pacifying Poland, Romania and Greece could lure a Nazi away from his optimistic analysis.

Hitler's and Ribbentrop's political notions about England's future took a different form. They already saw their rule over continental Europe as a virtual *fait accompli*. They were quite prepared to equip the new European order with their own forces: with German capitalists, directors, factory managers, engineers and with German adminstrators and German police. But to expand such an order overseas — for this they were not prepared. They wanted to become a partner in the far-flung British Empire using her capital, her merchant navy, her colonial administration and her international connections. What they wanted was to receive 'co-ownership' status in the British Empire, with the secret idea, of course, of taking over alone after they had learnt the tricks of the trade and could seize the controls for themselves.

They did not doubt that, after the disarming of France, Britain could be moved to enter into such an agreement. The theory in Berlin was that since the Statute of Westminster of December 1931, when Dominion Status was established, the British Empire could only hold together through the collective need for defence, through the fact that for technical and financial reasons the dominions could not afford their own fleets. However, as soon as Germany stood at the Channel the Motherland would no longer be capable of defending herself, — in fact it would be up to Germany whether the British Empire survived or fell apart.

And so one would find England amenable to almost any conditons, particularly as the Germans intended not only to raise demands but also to offer very important propositions. Amongst them was, in

the first place, a German guarantee for the untrammelled survival of the British Empire, secondly the formation of a common front against the United States as well as, of course, against Russia. Which lines the front against the U.S.A. should follow can be gathered from the framework of a treaty which the Federation of British Industries drew up with their German counterpart the 'Reichsgruppe Industrie' in Düsseldorf in March 1939, and which was carefully guarded and not finally abandoned as long as Chamberlain remained in office.

Thus ran Ribbentrop's theory of Tory appeasement which seemed to promise Hitler a free hand on the Continent, without risk of opposition from an England caught in the fetters of her own class contradictions. Yet this theory broke into fragments the very day after Germany's invasion of Poland. For the Commons rose in revulsion against Chamberlain's attempts to avoid war. With cries of 'speak for England' and rallying calls to take on and fight Hitler's fascist Germany the first shadow of a question mark over Ribbentrop's grand strategy was cast.

16 The Social Reconsolidation of Capitalism

When it appeared in two successive issues of the 'Deutsche Führerbriefe' in September 1932, my article entitled 'The Social Reconsolidation of Capitalism' caused a sensation. The reason lay not so much in the contents, for social and political speculations were the order of the day at that time, as in the fact that it appeared in the most intimate political organ of high finance. To anybody outside its own circle and customary milieu the article was clearly recognisable as of a Marxist style of thinking. The authorship was untraceable due to the anonymity of all contributions appearing in this 'Privatkorrespondenz' which was not for sale to the public.*

The reasons for my producing this article were quite specific. I had had illegal contacts with an active communist group working from Hamburg, but just at the crucial political juncture when von Papen dissolved the Reichstag in September 1932 these contacts broke and I found myself in an intolerably isolated situation. It suddenly occurred to me that I had at my immediate disposal a means of exercising a worthwhile political influence, unaided, through producing in the 'Führerbriefe' an effective propaganda material for the Communist Party in their electoral campaign. I approached its Editor Franz Reuter and found him delighted to accept a contribution exceeding in depth the usual style of information and discussion.

Of course I endeavoured to steer a tolerable course between Scylla and Charybdis by pretending to offer advice to finance capital about the way in which to solve its problems and thereby offering an eye-opener to the politically conscious workers with a specific emphasis upon the urgent need to establish a unity of revolutionary

**My authorship would never have been known but for the fact that 38 years later friends persuaded me to have it reprinted in Germany in the 'Kursbuch' No 21 of September 1970, and reveal my identity as its author.*

action against finance capital, and all this covered by a thin veil of bourgeois terminology. As soon as the articles were printed I posted the issues of the 'Führerbriefe' in an ordinary buff-coloured envelope, of course without comment, to the Editors of the 'Rote Fahne', the central organ of the Communist Party (KPD). They were indeed not slow to take the line I had foreseen for them.

Two days later issues of communist papers from various parts of Germany found their way to the office of the 'Führerbriefe' where I was working. I must admit that this reaction exceeded anything in speed and breadth I had expected. There had been no forewarning on my part to the Communist Party leadership. But their papers contained extensive extracts of my articles reinforced with detailed commentaries, almost sentence by sentence. When these pages were held before my eyes by the 'Führerbriefe' staff I thought my time was up! For there was no doubt that this would have been my deserved reward. But somehow Reuter and Meynen, the second editor, were not as appalled as I should have expected. On the contrary, the political sensation threw unexpected limelight on their paper and no doubt subscriptions markedly increased. In the following days I watched with anxious amusement the efforts of the staff studying the comments of the Communist newspapers. I could even hear murmurs of 'wolf in sheep's clothing' cast in my direction but without the feared consequences. I had the enormous satisfaction of continuing my participation in the editorial meetings and benefitting from their outstanding informative value.

Meanwhile my articles continued on their communist propaganda course without interruption right up to the election date of November 6. Willy Münzenberg, the propaganda chief of the Party, dedicated a full issue of his 'Roter Aufbau' (Red Re-construction) to an unabbreviated version two days before the election date, with the introduction:

> 'The Deutsche Führerbriefe, a private newsletter of finance capital, co-financed by the Reichs Association of German Industry and highly secret, barred to all but the big men of capitalism, states openly what the public newspapers and journals can never publish. Numbers 72 and 73 describe with a rare frankness how finance capital is searching for new support to consolidate its rule. The role of the SPD and NSDAP as pivots of finance capitalist rule, the present key problem of the bourgeoisie; the reconsolidation of capitalism, — all this is portrayed in bourgeois language but nevertheless so clearly that it could not have been done better...The alternative is clear:

reconsolidation of finance capitalist rule with the help of the SPD and NSDAP or else communist revolution, that is the message. No commentary is needed; every reader should be able to provide his own.'

The two major results of the Election on November 6 showed a gain of 700,000 votes for the Communists and a loss of two million for the Nazis.

A. From Social Democracy to National Socialism
(Published in the Führerbriefe September 16, 1932)

The task which has concerned us in the last months and which goes far beyond our day-to-day troubles is the reconsolidation of the bourgeois regime in Germany. The present government under Papen does not yet represent this reconsolidation, however much it may itself lay claim to it and however much this claim is tactically correct and indispensable as a fiction by which a fully effective government can be maintained. If this reconsolidation really were the true business of the present government, then, instead of new elections, it would have to be powerful enough to order a *full suspension* of the Reichstag. And in pulling off such a power-coup, it would have no fear of over-stretching the mark. Consequently, the government is dependent upon forces which are as yet untamed, which it has not yet absorbed. Therefore the reconsolidation in Germany has not yet been achieved.

However, it is not the first consolidation that has been accomplished in post-war Germany. After the eroding years of revolution and inflation following the defeat of 1918 there is no doubt at all that the Weimar Coalition, with its successful 'great economic programme' and the stabilisation of 1923/24, constituted a very considerable reconsolidation of the bourgeois regime if measured against the mass basis of the forces which then had to be curbed. In political terms, it held firm until the recent onset of crises in 1930. Admittedly, that proved it to be a purely illusory and deficient reconsolidation and later on caused its rupture and dissolution just as the onset of crisis in 1918/19 ruptured and dissolved the system under the Kaiser that operated before and during the Great War. Thus German history since the war contains events which are *dynamically related* to present problems and which can provide keys to the tasks that they set us if we compare them carefully enough.

In fact the parallelism involved extends astonishingly far. Social

democracy then and national socialism now are functionally similar, for both were and are the gravediggers of the system that preceded them — and both steered the masses that they led, not to the proclaimed revolution but to a new form of bourgeois rule. The comparison often drawn between Hitler and Ebert, the first President of the Weimar Republic, is in this respect valid. Then, between the two land-slides which these leaders set in motion, there is the further *structural* affinity that both were popular movements — this has simply been forgotten of the social democratic high tide of 1918/19. Both made the promise of a new 'social' or new 'national' community, coupled with the appeal to popular desires for anti-capitalist liberation. The social composition of each movement was patterned furthermore entirely on the ranks of the petty bourgeoisie and lastly, both were characterized by a highly similar confusion of understanding and by a fervently believing, but no less fickle, loyalty.

To stress this parallelism is not to belittle the national socialist idea. We are not concerned here with ideas but with the purely analytical understanding of function and meaning in two mass movements, — movements that, within the same 'social space', at two historically comparable junctures, have played an analogous political role. To draw the parallel is to state that national socialism has succeeded social democracy in the vital task of providing mass support for the rule of the bourgeoisie in Germany; and more precisely, it points to the present need for the reconsolidation of this rule. Can national socialism carry this mass support in the place of social democracy and if so, how is this to come about?

This reconsolidation generally becomes a problem because the bourgeois elite clutching the economic reins is too few in number to continue its rule alone. In case it does not want to entrust itself to the highly dangerous weapon of government by purely military power, it needs to bind to itself strata which socially do not form part of it but which will afford it the inestimable service of anchoring its rule in the people. These new strata will thereby form the effective and ultimate carrier of power. In the first period of post-war consolidation the ultimate or 'marginal' carrier of bourgeois power was social democracy.

Social democracy contributed to this task a quality lacking in national socialism, at least up till now. Undoubtedly the socialism of November 1918 was an ideological tide, a mass movement, but it was more than that; behind it stood the power of the *organised workers*, the social might of the trade unions. The tide could

ebb away, the ideological storm pound itself out, the movement dwindle to nothing but the unions remained and with them or, more correctly, by their strength, the Social Democratic Party remained intact.

By contrast, national socialism is still first and foremost a mere movement, an onslaught, an advance column, an ideology. If this wall collapses, there is nothing left behind it. This is because, in encompassing every social stratum and grouping, it is identical with none; it is embodied in none of the durable limbs of the social structure. Here lies the *fundamental difference* which, beyond the parallelism of the two mass parties outlined above, is so important for the reconsolidation of bourgeois rule. Because of its social character as an original workers' party, social democracy invested the bourgeois consolidation with something over and above its purely political impetus. That was the far more valuable and lasting asset of the organised workers which it chained firmly to the bourgeois state, at the same time paralysing their revolutionary energy. On this basis social democracy could content itself with a mere share of bourgeois power; indeed in essence it never was and never could be more than a *partner* in the exercise of power. And it would no longer have been social democracy if chance had put the *whole* power of state, economy and society in its path, — so much so in fact that, to quote a well known saying: in order to survive, social democracy would have had to invent bourgeois society, had it not existed.

In diametric opposition to this, what characterizes the fascist nature of national socialism is the lack of a social power base. Because fascism has no specific social foundation that in itself, without Hitler, could support national socialism, it has no effective choice: either it seizes the *whole power*, gaining through control of the state apparatus what it lacks in terms of social roots, — or its force disintegrates against the social structure which shows it political resistance and slams the door in its face. And because it can claim no prima facie identity with any one segment of this structure, fascism cannot, without undergoing fundamental transformation, be a mere partner in the exercise of bourgeois rule. For that is a rule based on social power and needs mass support only at the point where it anchors in society. Here lies the true crux of the present position. The fascist possibility of national socialism is over; its social one not yet found. Whether one will be found depends on if we can now really arrive at a new and productive reconsolidation or if the dead-end of a military dictatorship or of a return to social democracy awaits us instead.

Thus the burning question is this: does a *specific social possibility* exist for national socialism by which it can be transformed from a fascist movement into a power-sharing instrument of bourgeois control? Could it in this way assume the role previously played by social democracy? This discussion will be followed up in a second article.

B. The Incorporation of National Socialism into Bourgeois Rule (Published on September 20, 1932)

At a time when the reconsolidation of bourgeois rule is a matter of life and death, it will have to be possible, if necessary, to make short and violent shrift of fascism and the national socialist movement, — but in order to change it into a social organ which can be integrated into the bourgeois rule and made a part of its institutions and set-up. The varying ways in which this can be achieved can only very briefly be sketched out here.

The condition indispensable to any social reconsolidation of bourgeois rule in Germany since the war is the *splitting of the workers*. Any united, 'grass-roots' workers' movement must of necessity be revolutionary and no such rule can hold out against it even armed with military force. Given this universally necessary condition, the various systems of bourgeois reconsolidation differ according to the special conditions required to anchor the State and the bourgeoisie deep within the split ranks of the working class.

In the first post-war era of bourgeois reconsolidation, from 1923/24 to 1929/30, the splitting of the workers was brought about by the successful pay and social political standards which the social democrats had achieved by their participation in almost every rank of government and administration. As a result the revolutionary fervour and energy of the proletariat had been largely converted into fighting for earning and living conditions within capitalism. A sort of dam had arisen separating the well organised and relatively securely employed workers from the unemployed and fluctuating lower categories of labourers exposed to the insecurities of the economic downturns.

The political border between social democracy and communism runs fairly exactly along the social and economic contour of this dam and all the so far unsuccessful efforts of communism are aimed at breaking into this protected sphere of the unions. Moreover, the social democratic conversion of the revolution into

social policies coincided with the transfer of the struggle out of the factories and off the streets into parliament, the ministries and the chancellories, i.e. the struggle 'from below' was transformed into the guarantee 'from above'. And thus from now on not only social democracy and the trade union bureaucracy but all the workers that they led were chained lock, stock and barrel to the bourgeois state. And for how long? Firstly, until the very last of these social achievements remained to be defended in this way and secondly, until the workers ceased to follow their leaders.

There are four important conclusions to be drawn from this analysis: 1. The politics of the 'lesser evil' are not merely tactics but form the political *substance* of social democracy. 2. The ties of the trade union bureaucracy to the *state*, to the 'guarantee from above' are stronger than the ties to Marxism and apply to any type of bourgeois state willing to incorporate them. 3. The trade union bureaucracy's ties to social democracy stand and fall with the parliamentary system. 4. The question of whether monopoly capitalism can assume a liberal, social constitution depends on the existence of a mechanism which *automatically splits* the workers. A bourgeois regime interested in such a constitution must not only be parliamentarian but must base itself on social democracy and preserve social democracy's principle socio-economic achievements. A bourgeois regime that destroys these achievements must sacrifice social democracy *and* parliamentarianism; it must create a substitute for social democracy and go the way of an authoritarian social order.

Because the economic crisis has necessarily crushed these achievements, we have now reached a stage of acute danger, where the mechanism that splits the workers and relies on the achievements ceases to operate, and where the workers begin the slide towards communism and where bourgeois rule approaches the emergency borderline of military dictatorship. To cross this borderline, however, would be to exchange a crisis-ridden consolidation for an irremediable one. We can be rescued from this abyss only if the splitting and binding of the workers can be directed along different, *direct* paths now that the 'damming' mechanism has ceased its effective operation. Here lies the positive potential and function of national socialism. Its path points unequivocally in two directions. Either the sector of the workers employed within the free economy, i.e. the trade unions, is incorporated through an entirely new political affiliation into a corporate trades consitution or the attempt is made to lean on the unemployed by organising them under the yoke of a compulsory labour service as a separate

artificial sector of the economy.

Because they have become detached from social democracy, the trade unions are without their former political representation and in a non-parliamentary state or a very limited one. They need a new, completely different political leadership. If national socialism succeeds in assuming this leadership and in bringing the trade unions into an *authoritarian social order* (just as social democracy previously brought them into a liberal one), it would become the means of implementing a function vital to the future rule of the bourgeoisie and it would necessarily find its organic place in the social and political system established by this rule.

The danger of state-capitalism or even of state-socialism that is often cited to oppose such an incorporation of the unions under national socialist leadership would in fact be counteracted by such a development. The 'Third Front' propagated by the group known as the 'Tatkreis' belongs to the type of mistaken constructions that appear in times of social vacuum; it is the illusion of a transitional period in which the unions, freed of their former bonds and not caught up in new ones, give the appearance of leading an independent existence when, by definition, they cannot lead one. Between the two possibilities of reconsolidating bourgeois rule on the one side and communist revolution on the other, a third choice is out of the question.

However, alongside the incorporation of the unions, there remains, at least theoretically, the second path of bourgeois reconsolidation: to organise the unemployed population and bind it to the state by a *compulsory labour service* and by *forced re-settling*. This task seems particularly congenial to the inner spirit of national socialism with its own lack of organic roots and it has correspondingly thought it out most thoroughly. But it must be made clear that the two paths involve two very different directions for the *entire economy*. Any worthwhile incorporation of the unemployed into a social people's community through a labour service would be possible only by means of a far-reaching planned economy which for economic and financial reasons would necessarily *weaken* the *free* economic sector. Because this path could only be followed at the cost of the work force employed in this sector, such a regime would inevitably have to shift the brunt of its energies to agriculture. The extremely autarchistic policies required here would ditch the chances of the export industry and its allied interests to share in a world-wide economic upswing. This would further increase the unemployed section of the population finally freezing

the predominant part of the whole economy in a forced, state-legitimated system of poverty. Whether this could still be termed a 'reconsolidation', must appear doubtful.

Thus it is only partially and in a purely subsidiary framework that this path can facilitate the transition to a system of true bourgeois reconsolidation (as seen for instance in the economic programme of the present government) — this system will have to base itself now as before on the immutable core of the workers; the trade unions under new leadership.

17 The Class Structure of German Fascism

It must first be made clear what aspect of Nazi fascism is under analysis here. Naming it 'Behemoth', Franz Neumann* has masterfully dissected and portrayed the Nazi regime. In all essentials I am in agreement with him and would wish his conclusions to stand as a basis for this study, in particular his analyses of the bourgeois power base represented by its three pillars, monopoly capital, the army and the state bureaucracy. What concerns us here is above all the fourth pillar which does not stem from the arsenal of bourgeois tradition: the fascist party and the connections of its power with the economy. For the class structure of Nazi fascism becomes comprehensible only from a theoretical analysis which derives the setting up of a fascist dictatorship in Germany from the reaction of monopoly capital to the collapse of its own effectiveness in the world-wide economic crisis of the 1930s.

This crisis was something essentially different from the usual periodic cycle, the upsetting and the subsequent restitution of market equilibrium. It was a structural crisis which put the survival of the whole system in jeopardy. The reasons for its particular decline are to be found in the decisive changes to the industrial productive forces. These were changes which made it impossible for monopoly capital to revive production so long as the basic norm of market economy was adhered to, — the creation of reproductive values and marketable goods. Within the given boundaries of the market there was no longer any profit margin to be hammered out of the mode of production and the increases of capacity which had emerged from the rationalization of the 1920s; there was, moreover, not any to be hoped for, even if the economic climate were to revive. The continued existence of monopoly capital demanded the bursting of these boundaries, the escape from the strait-jacket which they represented. Non-marketable goods

**Behemoth. The Structure and Practice of National Socialism by Franz Neumann. Victor Gollancz Ltd. 1942.*

were to be produced, non-reproductive values for which the state would supply the demand and whose payment the state could impose on the population, values with which the old boundaries could be forcibly expanded and which would allow military as well as merely economic means of competition in the world market. But for this a different kind of state was needed from the bourgeois traditional one, particularly as the leap into fascism absolutely had to impose a coercive regime upon monopoly capital as well. It is precisely this link in the interconnecting chain that is easy to overlook.

Capital is only in possession of its private initiative to dispose freely over its means of production while it keeps to the market rules. But only if one sees the crisis as an economic catastrophe which shatters all these rules can one get the measure of its immense dangers. In this case capitalism can survive in the paradoxical shape of the 'corporate state' in which the contradiction between the social character of production and the private appropriation of capital assumes the form of a state-run economy on private account.

The state takes over the entrepreneurial, managerial function but capital remains, as ever, private. What is produced, how and by whom, with what profit margins and at what prices, all this is decreed by the state: the state determines imports and exports for each firm, the procurement and distribution of their raw materials; it calls a wage-freeze for the population as producers and a price-freeze for them as consumers; it decides what building, what textile production, what means of transport, what machine construction should be promoted or scrapped, what terms of credit the banks should assent to and which ones they should refuse, what promissory notes should be endorsed and which should be cancelled. But the profits and losses of all this are entered as private profits and private losses of capital although the proportion of consumption to accumulation of private profits is again decided by the state.

The terroristic power of the fascist party serves not only to eliminate political enemies. It is the suspension of bourgeois laws which is the hallmark of fascism and it is by this means that it finally guarantees that the state can wield its entrepreneurial function smoothly and can aid and abet monopoly capital in its state of peril.

The fascist regime emerged through the actions of private monopoly capital which had to re-group itself for this purpose; it was

thus its responsibility, and, in a manner of speaking, its own free decision. But in this freedom there lurked a dialectic which was at complete variance with it, that perverted it into nothing more than the freedom to dispense with its freedom. And the fatality of this decision remained hidden to its own authors. They had put their signature to something that continually rebounded in their faces, and allowed hardly any of their original schemes to run according to plan. To ignore this contradictory nature operating in fascism is to leave any interpretation wide open to error.

Never, of course, in the rational interests of humanity, should monopoly capitalism be permitted to side-track from its function of the economic reproduction of social wealth in order to pursue an economy of destruction. But if the political forces of social revolution fail to put an end to capitalism in its last struggle, then the blind causality of disaster is bound to take its course with all its murderous consequences.

I would call this process a natural catastrophe of economics, but when it occured in the 1930s in Germany it was not happening for the first time in history nor even without similar precedents. In actual fact this 'destructive' economy accompanies monopoly capitalism along its entire course, not merely as an alternative to a reproductive economy but actually compounded with it in varying degrees. Even when monopoly capital itself first emerged as a mutation helping capitalism out of its long depression from the 1870s to the 1890s a glance at historical events shows the same process in motion. In 1890 the Germans offered the English the rich island of Zanzibar in exchange for the barren rock of Heligoland, strategically indispensable for the existence of a German Fleet. In 1897 Tirpitz was made the State Secretary of the German Fleet and the following year the First Naval Bill was passed preliminary to the building of the Fleet. Meanwhile in 1893 the New Arms Bill had been passed which started the German armament drive followed by twenty years of intense international arms race directly leading to the First World War. The development of monopoly capitalism is inseparably bound up with these events.

There is indeed good reason to consider both the economic crisis of the 1930s and its fascist outcome as a replica of that first holocaust but in a dramatically telescopic form. In this case, even more unequivocally than before, events took their fateful cue from Germany, once more the link in the world imperialist chain most severely hit by the crisis. But in the later case its consequences more quickly affected the whole of the chain, for in other countries too,

and most particularly in America, monopoly capitalism was moving towards the brink of functional collapse. The switch towards a destructive economy imposed itself on the other powers as an external necessity, compelling them to join the arms race. It was only in Germany that fascism was required to produce the inner necessity to start the process, with ideological tools that caused Freud to believe in a hidden death wish, endemic to man. And this alternative to a life wish is indeed far from being a totally inadequate ideological interpretation for what was in economic terms a hard reality.

The genuine value categories of social life grow out of the roots of its reproductive economy. Fascism has to distort them into the opposite to dedicate the economy to war values. But one cannot deny that in Germany there were masses who flocked to the cry of Nazi propaganda as if, indeed, they had been waiting for it. Without a fascist party there can be no fascism. The party must first create the necessary mass basis for monopoly capital's unconstitutional form of rule and erect a smokescreen for a 'Volksgemeinschaft' (national community). But the social strata and classes which promoted the Nazi ascendancy and their election successes on their way to power are not the ones which served the Nazis when actually in power. The class structure of the first must therefore be strictly differentiated from that of the second. Nazism itself provided proof of this when, in the course of the war, Hitler passed laws which contributed more to the economic annihilation of his former voters than any other regime had ever dared before. And yet, to the great disappointment of many soothsayers abroad, this did not noticeably weaken the Nazis' inner power position. It is quite extraordinary to note in what pronounced contrast the class bases of the party stood in the two phases of Nazi history. In both, before and after the take-over of power, the class structure stood in an eccentric relationship to bourgeois society and yet for quite diametrically opposing reasons: the earlier one limped behind the bourgeoisie's state of development while the later one was in advance of it.

The Nazi ascendancy was carried by the strata and sections of the population which were in one way or another backward because they had fallen permanently behind the socially necessary average level of labour productivity. These were the small peasant farmers, the independent artisans and the rest of the multifarious mass of individual tradesmen, petty entrepreneurs, salesmen and shopkeepers. They were small-scale capitalists whose assets and liabilities too had been wiped out by the inflation of the 1920s. As a

consequence, they had been temporarily saved from financial liquidation but subsequently their inability to compete on the market had plunged them into new debts which now threatened to destroy them. The process is generally paraphrased as being a tendential proletarianisation of the middle social strata. But what preceded this proletarianisation was the revulsion against it, the fear of it and the emotions engendered by the threat of it and to which Hitler's emotionally perverted mentality was itself paradigmatically related.

In this respect the offspring of these middle strata were already one step further de-classed than their parents. They found themselves already in the definitive condition of wage and salary dependency but in addition they were unemployed; from the moment they left school a bleak hopeless future stared them in the face. At home with their parents they were without money, and unemployment condemned them to the monotony of inactivity.

The SA was recruited predominantly from the unemployed but precisely not those of proletarian, but rather of petty bourgeois stock. The inducement was firstly cheap clothing and footwear and at least one hot meal a day, and secondly the activity of marching, singing, clashes and street fights with communists, para-military training and the excitement of playing at soldiers; altogether a political camaraderie which they thought would give their own future a turn for the good and counteract their social downgrading.

'Take your place in the queue' was one of Hitler's slogans at the time of greatest unemployment. With it he promised everyone who joined the Party an official post in the future. The lower the party number, the sooner and more prominent the post. Increasingly, the young people changed their perspective. A post to which they could lay claim by assisting in Hitler's rise to power, promised them a position of dominance over the proletariat all the sooner the more thoroughly they vanquished the 'Marxists'.

The membership of the NSDAP (National-Sozialistische Deutsche Arbeiter Partei) soared at a rate of hundreds of thousands and then of millions. With his strategy of mass propaganda and with the continued growth of his election successes, Hitler held the initiative in the political power struggle. Under this pressure, the Communist Party executive allowed themselves to be misled into a struggle with the same weapons, but for them the wrong ones, of mass party and electioneering, and it was this that cost them their real chance of revolution. Because the fascist party was characterised by its

eccentric relationship to bourgeois society, there arose that propaganda rivalry between the NSDAP and KPD (Kommunistische Partei Deutschlands) which so confused the political field at the time.

Needless to say, the fascist party was not anti-capitalist. On the contrary, it thrived on capitalism, — on a capitalism struggling desperately for survival. Only when things went economically wrong for bourgeois society did the Nazi Party flourish and vice versa. Their election successes and membership rose and fell in exact parallel to the unemployment figures. During the years of prosperity between 1924 and 1928 the Nazis as good as disappeared from the political arena. But again, the deeper the capitalists subsided into crisis, the more firmly did the fascist party sit in the saddle over them. Thus it was that the Nazi propaganda painted the weaknesses and misfortunes, the contradictions and sicknesses of bourgeois society in as black a tint as possible. Communist propaganda did the same. Both often sounded the same trumpet, slipped into the same groove, poured their critical bile into the same wounds and only competed to see which one could do it louder and more brashly. And more often than not, it was Goebbels' 'Angriff' (Attack) rather than the 'Rote Fahne' (Red Flag) that won. Of course the jargons of their anti-capitalism — the genuine one of the Communists and the fake one of the Nazis — were worlds apart: class concepts here, racial ones there.

Economic arguments were for the Nazis only a pretence; for the Communists they were the stuff of reality. But nevertheless, the Communists never fully exploited the potential of their economic arguments. The only tangible alternative to the fascist solution for an end to unemployment would have been a full-scale economic plan linking the Soviet Union and Germany if the latter had become Soviet Germany. A detailed, long-term agricultural and industrial plan of co-operation between both countries, as Lenin had wished it, would have fully occupied the German production potential and defeated unemployment. That does not mean that this thought was not voiced here and there, but in the broad spectrum of propaganda and in the popular consciousness of 1933, it was missing. It has always been a mystery to me why the KPD left this stone unturned, though much the weightiest of its whole arsenal.

In contrast, the capitalists of the opposing camp fully appreciated the enormous value of trade with Russia, — particularly as the export surplus from trade with the Soviet Union for 1930/31 had

alone brought in a good 3 billion Reichsmark as well as earning currency and above all gold which in the financial crisis of spring 1931 saved Germany from the worst extremes of catastrophe. When it was debated in capitalist circles how the economic profit and the political danger of an industrialisation of Soviet Russia with German aid were to be weighed against each other, the profit perspective usually came off best, — the extra, tempting inducement being that whoever delivered the basic order would be assured of all repair and replacement orders for years ahead, for the Russians were beginners in technology and would remain so for a long time. And it was thought that Stalin was positively inclined to do business with large-scale German capital. Thus, if the capitalists held the mere prospect of foreign trade with Russia in such high esteem, how might the Communists have considered the prospect of a community of planning with the Soviet Union? Or was it perhaps that the Russians had certain misgivings regarding the effects of a German revolution for their Soviet industrialisation?

What sort of positions were they that Hitler promised party members according to their place in the queue? What attractions could he hold out? Surely we cannot assume that he had already the outline of the 'New Order' in mind which he later imposed upon Europe as far as his conquests would let him. But many of his unemployed party members, whose mentality I knew from frequent contacts, perhaps did have such notions at the back of their minds. One thing is certain, the great majority of party members would not want to return to the miserable small trade ventures of their parents' generation, but neither did they want to fall victim to the proletarianisation which is usually regarded as the only alternative to holding on to private property. Their hopes were to find employment in modern large-scale factories as a class in command of the workers.

The heavy productive forces now lying idle because they presented excess capacities relative to the peace-time markets were to be fully utilised by war-time conditions and rearmament. These were the type of modern mechanised mass-production plant characteristic of monopoly capitalism and analysed by Schmalenbach as we have seen in chapter 3 of this book. This structural development had a fundamental influence on the sequence of events in the Germany of the 1930s. One of the salient peculiarities of this modern production was the emergence of what was then called 'the new intelligentsia'. If we turn to one of the most influential exponents of modern management, Frederick Winslow Taylor, we can easily see

how this phenomenon arises. He emphasises in his book 'Shop Management' that his system 'is aimed at establishing a clearcut and novel division of mental and manual labour throughout the workshops. It is based on the precise time and motion study of each workman's job in isolation and relegates the entire mental parts of the tasks in hand to the managerial staff.'

In Germany at that time 'the new intelligentsia' was the term used to describe the engineers and technicians of the new order employed in the installation, operation, supervision and servicing of these large-scale modern plants and their comprehensively rationalized labour-processes. This expression is very well suited to our analysis because it attributes this intelligentsia to precisely that development which caused the inflexibility and inadaptability of production to the market. It is a development in which the classical form of capitalism has outgrown itself. It has put its economic effectivity into question and created the structural contradictions which are at best bridgeable, but simply not solvable, and which, in my understanding, constitute the basic cause of the onset of German fascism.

The 'new intelligentsia' in Germany occupied a problematic position between capital and labour and felt itself to be class-neutral. It stood, on the one hand, on the payroll of capital, on the same side as labour. On the other it was enlisted in the service of capital to be functionally dominant over the workers. Moreover, it looked to a past, if not a tradition, of strike-breaking: as the notorious 'technische Nothilfe' (technicians' emergency service) which operated during the revolutionary years of the 1920's. It constituted one of the formative elements of Nazism and there is no doubt that this 'new intelligentsia' provided the reliable technical staff of the Nazi Party when, in 1933, it took over large parts of State and productive administration. Their material interest was concerned only with their functional position in the production process; their career aspirations left them completely indifferent to the purposes of production. What counted for them was that production was maintained and did not stand still. It was this that determined their ties to Hitler, their unconditional trust in him. For them it was Hitler, not the capitalists, who revived production and promised it unlimited growth freed from any fears of crisis.

If one visited large factories and factory managements in 1934 and 1935, the years from which all my experiences originated, practically everyone, as in the wider society, identified with the Nazis to the extent of wearing the Nazi badge. However, there were

important shades and variations in their behaviour and general demeanour. As a rule the hard core of the workers, but to a lesser extent the younger ones and the new apprentices, were not Nazi and did not pretend to be Nazi. If one asked, then one heard everything from a disgusted spit to a mock humming or an ironic 'yes' according to who the questioner was and what his purpose might be. When their confidence was won one could hear all manner of home truths about the 'workers' whom the Nazis planted on the factory floor to spy and break the piece-rate; most were withdrawn just in time to save them from the revenge they deserved at the hands of the workers themselves.

On the opposite pole, the bosses made a show of being Nazis, or more correctly speaking, adopted an air which suggested that personally they had no need for it; it was rather their public position and the need to set a good example that obliged them to be party members. And so one *was* a Nazi, but in a cool and calculated, rather patronising, certainly not over-excited way. They declared their Nazism in the presence of others, privately they shrugged their shoulders, denied it and heaped abuse upon it. People either jeered and made jokes about Nazism or else they were white with fear. The one thing that did not exist in relation to Nazis was to treat them as normal people.

Personal courage did make a difference. When in the MWT office a Nazi 'high-up' held forth like Hitler on the corruption of the Weimar Social Democratic party officials, my boss, Dr. Max Hahn, screamed at him: 'You just wait until *your* people rob the public coffers!' His words echoed through the rooms and we would not have been surprised if they had led to his arrest. But although this was in March 1933 and thus at the early climax of the Nazi terror, he escaped untouched. I never asked him whether he was a party member or not. His sister, Grete Hahn, had been a Communist and he had great difficulty in getting her out of the concentration camp. I had good reasons to leave such personal questions unasked. He did not quiz me so I did not quiz him.

But the middle and lower white-collar workers were those for whom the party badge was a symbol of faith and who assumed unmistakeable Nazi bearings: the way they spoke, their impersonal, authoritative manner, their attitude to women, their arrogance, sloganising and boastfulness. The members of the 'new intelligentsia' were the most inflexible of these — the real rabid fanatics. They were the ones who threw up the riddle of why mere

managerial employees, and by no means particularly highly paid ones, seemed so passionately committed to the interests of capital without having any personal shares in its winnings. At the same time they were the ones who solved the riddle. In the hierarchical organisation of mass-production they occupied a position which was specific and profiled enough to possess the semblance of class character. But based on neither property nor income it was not a class in the traditional and accepted sense.

It was not any material advantage deriving from this position but the *specific function* in the new mode of production that was the defining feature. Since, however, material advantages were lacking, there was no visible reason why the 'new intelligentsia' had to assume a stance of antagonism to the workers. According to its technical and organisational function, it should have been able to co-operate and solidarise just as well with the workers. In order to bring its material interests to bear against capital, this is what would have been needed.

Thus the class character of the 'new intelligentsia' was primarily a merely functional one although to derive it from its function is difficult. And yet it was hard fact without anything ephemeral about it. The whole of the new order that Hitler planned for the Europe he would conquer was based on reserving for the 'German master race' every function above the level of proletarian labour in production, extending from organisation and direction, leadership and supervision right down to foreman and chief operator — while the 'mixed-blooded' and 'inferior races' which he subjugated would do the manual and dirty jobs of the proletariat. Thus the phenomenon has without doubt sufficient breadth and political weight to justify an in-depth study and an investigation of the authority structure peculiarly connected with the new mode of production.

If it is correct that the functions performed by the 'new intelligentsia' in the production process do not in themselves account for an antagonism of class and interests between it and the workers, then the antagonism which nevertheless existed under fascism must be merely secondary. The 'new intelligentsia' owed its position of authority over the proletariat to the fact that it performed its functions within the production process in the service of capital. Their members' elitist role — what made them such ardent Nazis — was merely a borrowed one. It did not stem from the content of their activity but only from the fact that this content lent strength to the exploitation, an extra intense exploitation, of labour power

by capital. Thus in order to bolster up its position of authority, the 'new intelligentsia' had to bolster up the capitalist system.

Conversely the rule of capital had become so weak, its economic and social basis so contradictory and precarious that it could only be kept upright by the crutches of fascism. Both sectors, capital and fascism, were chained together in a relationship of mutual dependency. It was not because of love that they held together but in spite of the fact that they hated one another. Each ruled in the fervent wish that it might be without the other. Their internal relationship consisted of a series of crises in which each intrigued and rebelled against, lied against and robbed the other so as to establish just once more that to do without each other was impossible.

There was no budgeting in the regular sense during the Third Reich. Just how the state coffers were robbed was never recorded. Admittedly it was internally known how Göring appropriated his industrial concern, his castles and art collections but what could the disappropriated parties do about it? Could they possibly have accused him?

Transferred to the magnified scale of the state and augmented by the amorality of fascist behaviour, the relationship between the fascist party and finance capital can best be compared to that which exists in private large-scale concerns between management and the moguls of capital itself. The analogy is in no way arbitrary. We have seen that in the switch from a reproductive to a destructive economy, capital relinquishes its power over its means of production and must allow this power to be wielded by the state which then becomes corporative. The result is a state-run economy for private profit. The contradiction reaches such a level that a fascist rule of terror is needed to master it. Now what is called 'modern management' is nothing more than the result of splitting the entrepreneurial function from the function of capital — a process which is achieved in the transition to monopoly capitalism. Therefore this justifies our analogy of the relationship between fascism and finance capital under conditions of a destructive economy.

My enquiry in this chapter was directed at the fascist party as the fourth pillar of the Nazi state and at the connection between its power and the economy. I could almost reduce my answer to the formula of a functional equation and say that the power of constraint that the fascist dictatorship exerts in the monopoly

capitalist state is equal to the power of constraint in the situation which has lead monopoly capital to create this state in the first place.

18 The History of June 30, 1934

The massacre of June 30, 1934 is a trivial episode compared with what was to come: the systematic extermination of entire peoples and of millions of concentration camp inmates. But it is significant for several reasons. It reveals the depth of Hitler's duplicity and ruthlessness, and the division between the SS and the SA. More important, the pathos surrounding the miserable end of the SA and the victimisation of many hundreds of people lies in the fact that the killings resulted, not from any internal fratricidal politics of the Nazis, but from the hidden, but blindly implacable, logic of a capitalism in mortal crisis.

The date when the history of the national socialist fratricide began is February 2, 1934. Up to then Hitler had not yet set foot in the Reichswehr, the Army Headquarters in the Bendlerstrasse. On that day he confronted the Chiefs of Army, Navy and Air Force, the powers he so humbly venerated and in whose service he had begun his career fourteen years before as an agent provocateur in the service of Captain Ernst Röhm. Now, as a Reichs Chancellor of one year's standing, he had been invited to appear before a mixed assembly of generals and admirals in order to make his political intentions known. That day would decide the future strength or the fall of his regime.

Hitler passed the test. When he entered the hall at eleven o'clock, his reception was one of cold formality and mistrust; when he left it just two hours later, it resounded with rapturous applause. Hitler had conquered the military. But what price did he have to pay? At first it was no more than a mere promise, — the fulfillment was to come on June 30.

To understand the context, it is necessary to retrace our steps somewhat. Three and a half months before this secret assembly in the Bendlerstrasse, on October 14, 1933, Germany had declared her departure from the League of Nations and from the Disarmament Conference and the foreign powers had let it happen. Germany was

thus free of the limitations and military controls which had up till then prevented her large-scale rearmament — the true content and purpose of Hitler's regime, in fact. Immediately afterwards the Defence Chiefs were called upon by the Government to draft the rearmament programme and in January the Chiefs of Staff agreed on a total budget of 21 billion RM spread over five years. Now the political question of who was to direct the construction of a military power in the new state became acute. Was it to be the traditional military caste of the Reichs army or the para-military power of the Nazis? The latter consisted of the SA or Storm-troopers and the SS or protective guard.* The SS were of a different formation to the brown-shirted SA and wore black shirts. Their centre group was the Gestapo, the secret state police.

For the Defence Chiefs of the Reichswehr there had never been any doubt that the military power of the new state should remain in their hands. To a great extent they had 'made' the Hitler regime and its continuation depended on their good grace. That Hitler should recognise their sovereignty in military affairs was the basic condition for their recognition of his political position. And if the Military thought this way, so too did finance capital, large-scale industry and agriculture which stood behind the Reichswehr. But for broad sections of the population, for the demagocially turbulent Nazi supporters and above all for the masses of the Party and of the SA themselves, things appeared in a different light. They had never been told that they were meant only to serve as a buffer and a protective smokescreen for the rule of the capitalist classes. In fact, to the Nazi masses the theme was daily reiterated from all sides that the regime was the result of their 'seizure of power', so that they really believed it was their own and that they only needed to stretch out their hands to grasp for themselves any position in 'their' state that was worth having. Although absent from the SS there was present in the SA a certain revolutionary energy, albeit confused and misled, directed against the big capitalist interests protected by the Army. And as far as the SA commanders were concerned, — the retired Captain Röhm, the killer Heines, the Dortmund baker's apprentice Ernst and all the other SA leaders of similar calibre — they all fervently hoped their 'OSAF'** would soon place them in the highest Army posts. They believed that their Chief of Staff Röhm would take over the Ministry of Defence and that the SA would form the basis of a great new German army. And indeed for them there was every reason to cherish such hopes.

**SA: Sturm-Abteilungen. SS: Schutz-Staffeln.*
***'OSAF': Oberster SA Führer — Supreme leader of the SA — Hitler.*

In the spring and summer of 1933, Hitler and Röhm had blown the SA up to a numerical strength of 3 million men; not only to destroy the opposition at home but mainly, as we have explained, to intimidate forces abroad. And it was particularly for this foreign political purpose that the phoney power of the brown army had to be exhibited before foreign observers as the fanatical 'common people's army'. That is why, if the trick was to work, there had to be an exaggerated military drill in the SA, exercises day and night, marches in all parts of the country, particularly in border areas; all in all, a theatrical show whose intentions to dupe and mislead claimed the SA itself as their very first victim. The SA had to be convinced of the seriousness of its war games before people abroad could be made to take them seriously.

Even by autumn 1933, the differences between Army and Party had come to such a head that the French Ambassador François-Poncet reported to his government after October 14 that it was not necessary to do anything, the regime would only last a few weeks. That was right in so far as the Hitler regime, in the eyes of the Army, was still in its experimental stage. And the Army was determined to remove the regime rather than lose the core of its authority to the Party. But the rank and file of the Party and particularly of the SA were becoming impatient. Doubts grew rife as to whether the 'national socialist revolution' was meant seriously. The SA men began to suspect that they were being deceived. Their demand was for a 'second revolution', a revolution against the Right, after the first revolution had done away with the socialist workers' movement, the 'Marxists'.

This demand had been heard ever since June 1933 and it made the true inner contradictions of the fascist regime gape even wider. The SA saw the Army in particular as being the 'rock of reaction'. Not only for their Chief of Staff, Röhm, and the leadership but for every half intelligent SA man it was obvious that national socialism could only be an illusory power in the state so long as the Army remained outside its control. Röhm was to become Minister of Defence, that was the plan. Then he would ensure that his SA ranks would get the good posts in the Army and that the SA-Stürme would be incorporated as a body in the Reichswehr to form its companies and battalions. But, precisely this idea was blocked by the Reichswehr.

In line with the cunning that was a predominant trait of his character, Hitler's attitude was consciously ambiguous. In August he had declared that the military were the only weapon-bearers in

the State, in September he gave new assurances to the SA. He could not alienate the masses whose blind support made him an object near and dear to the hearts of the reactionary classes. But the same consideration forced the Reichswehr Chiefs to a careful shift of position since they well knew how dependent they were on a political mass base. This weakness gave Röhm his chance, both in respect to Hitler and the Reichswehr.

After the toughest negotiations and two months later than planned, Röhm managed in December to get the 'salutes ruling' passed by which SA members were given equal status to the corresponding ranks in the official Army and each was obliged to salute the other. Men like Heines and Ernst were thus suddenly made equal to commanding generals in the Army. It is not hard to imagine the bitterness of the Bendlerstrasse over this humiliation. The order was obeyed but with grinding of teeth. In fact it represented the final zenith of Röhm's fortunes. He had even somewhat outdone himself and in order to pacify the Army Hitler arranged for him to be sent abroad on leave for two months, to Capri and to Yugoslavia. In the Bendlerstrasse it was sworn that he would never return.

The military chiefs were pushing for a decision and the budgeting of rearmament due in January ruled out any delay in the clarification of power relations in the state. And so it came to the meeting of February 2 in which Hitler was to show his true colours and give those present a clear 'yes' or 'no'. Incidentally, the meeting was made top secret — not so much with regard to interests abroad but for domestic consideration. The secrecy was remarkably well maintained.

At half past ten all the Military, Admiralty and Air Force Chiefs were assembled in the great hall of the War Ministry in the Bendlerstrasse. The place was resplendent with generals' and admirals' uniforms. An icy silence and reserve descended on Hitler's appearance on the stroke of eleven. He had never before spoken to an audience that was so unfavourably inclined. In a clipped, business-like manner devoid of all his usual bombast, he stepped onto the podium, fixed his gaze sharply on his tense listeners and, contrary to his custom, began to speak strictly to the point. Nothing about the 'fourteen years of shame and humiliation' but in a calm voice Hitler made straight for the vital issue.

'Gentlemen, you have put before the Reichs Government a total armaments programme costing some 21 billion RM. I have to tell

you, as the responsible Head of Government, that I cannot consent to an arms programme of such proportions.' A pause ensued in which the icy silence in the hall froze below zero. And then, in his most dramatic 'Hitler' crescendo: 'Gentlemen, I can only consent to an arms programme costing at least 35 billion RM!' That broke the spell, the mood switched spontaneously to jubilant excitement. The excitement increased still further to rapture and when Hitler left the hall at 12 o'clock, it was to a standing ovation. Hitler had conquered the Reichswehr.

However, the armaments budget — it was subsequently fixed at 33 billion RM, spread over six years — was by no means everything that he promised them. He emphatically repeated his assurance of August that the Army would be the sole weapon-bearer in the state. He declared that he would never tolerate any trespassing of the Party within the sphere of the Army. The sovereignty of the Army, particularly in matters of personal politics and promotion, was for him sacrosanct. And then came the fateful promise. Hitler pledged himself to the radical dismantling of the SA down to the minimum needed for internal purposes. Here of course lay the reason for keeping the meeting so secret and why this secrecy was so effectively maintained by all the participants. Hitler made only one request in return. He asked to be given their confidence and for the free hand and the necessary time to fulfil his promise.

However, in the next two months, February and March, nothing happened to reveal the existence of such a promise. On the contrary. The imminent referendum in the Saarland as to whether the territory was to be German or French and the propaganda and mobilisation of all the forces of the Party which preceded it had driven the mood of the SA and the SS to a new climax. Then, on February 12, came the last ditch battle of the Viennese proletariat against the fascism of the new Dolfuss regime. The Austrian Nazi organizations had been ordered to remain neutral but many of the proletarian groups among them fought side by side with the workers. Even the Nazi press in Germany, such as the 'Angriff' (Attack), was forced to give expression to the revolutionary hopes which had suddenly flared up. If my memory does not deceive me, it was around this time that the slogan of the 'second revolution' acquired general currency in the SA. Moreover, Röhm had now returned from his leave and the expectation that he would be taking over the Defence Ministry in the immediate future was hawked around with the certainty of a 'public secret'.

The Army chiefs were beset by new unrest. At the end of March Hitler was approached and, albeit with due regard for his difficulties, was reminded of the promise he had made on February 2. The idea was broached of dismantling the SA by the strategic veil of a general announcement of leave. In April plans were taken one step further. Someone in the Admiralty had the astonishing idea of resurrecting for Hitler a showpiece of the Kaiser consisting of a 'Northland Cruise' to the Norwegian Fiords on a special imperial Yacht which had taken place annually in the early spring. The real purpose, however, was to isolate him for a whole week from his Nazi surroundings and to saturate him with the sole company and ideas of Admiral Raeder and Generaloberst von Blomberg.

The trouble they took seemed to be crowned with success. Hitler could be persuaded to accept the leave plan for the SA and to agree on July 1 as the date set for it. The leave was to last at least a month and only a fraction of the SA was to return to duty at carefully staggered intervals to camouflage the decimation. With the exception of this last detail, the plan was deliberately leaked.

Now for the first time Röhm felt serious suspicions but only hesitatingly, and still incredulous that his adored Führer could possibly be such a rogue. It was well known that he was the only close, personal friend whom Hitler ever addressed as 'du' and Röhm was totally devoted to him. As the founder of the National Socialist Party he belonged amongst the most romantic adherents of its declared ideals and believed in the renewal of people and state which Hitler was to achieve and this all the more literally because he, the guardian of Hitler's career, had felt himself co-responsible for its inner mission.

A sell-out of the SA to the Army was for him a betrayal of the most vital, jointly cherished ideals. But his suspicions mounted so relentlessly that he could no longer bear to remain passive. He wrote to ask Hitler for an audience. Hitler excused himself on the grounds of being over-burdened with work. Röhm waited a week and wrote again. Once more Hitler evaded the issue. With this confirmation of his blackest fears, there was no stopping Röhm.

One evening at ten o'clock in the first days of June, he went unannounced to the Reichs Chancellory, stormed up the steps, brushed aside the SS guards and forced an entrance to Hitler's study.

And now began the éclat which Hitler, in his speech of justification

to the Reichstag on July 13, spoke of as though he had been the one to summon Röhm and haul him over the coals, preaching him morality and accusing him of poisoning the SA with his degeneracy. What really happened I heard from a friend of the man to whom Röhm went, totally broken, at three o'clock in the morning straight from Hitler and to whom he sobbed out every detail of what had happened. According to that account, Röhm and Hitler shouted at each other for five hours, bombarding one another with the coarsest insults, Röhm continually on the attack against Hitler, at times chasing him around the table, quoting facts, conjuring up memories, seeking to pin him down to a definite form of words, until at last he succeeded in cornering Hitler so completely that Hitler renounced everything and seemed prepared to give any form of assurance. For Röhm that was the moment to produce two carefully prepared decrees from his pocket and to lay them before Hitler. 'Here, sign!'

There, in quite unambiguous language, it was asserted that there was not a word of truth in the rumours of a concerted dismantling of the SA and that the SA would return from their leave in August at full strength. The one decree referred to Hitler as 'OSAF', the other as Reichs Chancellor. But Hitler refused to sign and did everything he could to slip out of the noose. Röhm tried again and again but the signature eluded him. He finally left, a defeated man.

The next morning, the newspapers published two decrees in heavy print, not with Hitler's but with Röhm's own signature. Even so, the effect was a thunderbolt which I myself will never forget. To the Reichswehr it sounded the alarm signal. The situation was acute. The generals decided to act.

The occasion they chose was again provided by the Admiralty. For the further enhancing of former glory, it had been decided to revive yet another imperial tradition, the Kiel Regatta, at the beginning of June. In order to maintain outer appearance, Hitler was invited to officiate at the ceremonious opening as the Kaiser had done in the past. And that is what happened — according to the newspapers. But what really happened they could not report because they were blissfully ignorant of it. When Hitler went on board the cruiser and entered the room in which the reception was to take place, he found himself unexpectedly confronted by the Staffs of both Army and Navy. Not a word of greeting, however, — instead, General von Fritsch, the Army Chief of Staff, got up and read a short declaration from a piece of paper. It was an ultimatum which said in plain terms that if Hitler did not want to keep the promises he

had made, the affairs of the Reich could quite well be conducted without him.

There soon came proof that the declaration really did mean what it said. On June 14 in the Great Hall of Marburg University, von Papen, then still Vice-Chancellor, spoke against the dangers of a 'second revolution' — a speech that understandably made a sensation at the time. It stated in terms that all could understand that, given the alternative of having a second revolution or ruling without national socialism, the decision could only be for the second. The purpose of the speech was to prepare the public for big events. At this time Hitler was on a bombastic 'Führer' visit to 'il Duce' in Venice.

And so it came to pass that Hitler, 'mighty statesman' and 'greatest of all Germans' sat like a mouse in a trap. He had no other way out than the one that actually occurred on June 30, the very eve of the SA leave. Rudolf Hess was instructed together with Himmler and Heydrich to fix the details. But Hess knew his 'Führer' well and with Himmler and Heydrich he insisted that Hitler himself should play the role of executioner. Otherwise they could well have become victims too. Goebbels and Göring were drawn into the plan as well. There was, however, a further difficulty. The SA Gruppenführer and Obergruppenführer, all the highest ranks in the SA — had to be assembled around Röhm in Wiessee so that the fabrication of an SA conspiracy, which Hess had thought up, would be credible. But Röhm could not be persuaded to convene the gathering. After his second refusal, Hitler went so far as to issue him, as his superior officer, with the express command to order the SA leadership to Wiessee on June 30 so as to hear a personal statement from the Führer. Röhm was on his guard. He excused himself saying that he was in bed suffering from an acute liver haemorrhage and could not move. So in the end the victims had to be brought to Wiessee by telegrams signed 'by order of the Führer p.p. Rudolf Hess.'*

**This revealing detail I obtained from an eye-witness, a certain Franz Stiller, who was a very frequent visitor to our office. He had gone to meet his cousin, Peter von Heydebreck, SA Gruppenführer in Pommern, on his journey to Munich in order to exchange personal news on the platform of the Anhalter Bahnhof in Berlin. There, to his astonishment, he saw other Gruppenführer on the train and on the platform. Stiller asked his cousin what on earth was going on and Heydebreck admitted that neither he nor any*

So the scene was set for the murders. In order that the victims should suspect nothing on the days prior to June 29, Hitler went on an inspection tour of labour service camps in West Germany; was best man at the wedding of Gauleiter Terboven in Essen; let himself be photographed with Krupp in front of the villa Hügel, and in every respect preserved the appearance of peaceful innocence. That was all the more necessary as the Army and the SS had been put on alert as early as June 25. On the evening of June 29, Goebbels, Joseph Dietrich and Lutze, the appointed successor to Röhm, having come from Berlin, met Hitler with his group in Godesberg near Bonn and at two o'clock in the morning they went by air together to Munich. There at five o'clock the first arrests took place in the Ministry of the Interior, then a long column of SS cars started out for Wiessee. The arrests at Wiessee followed without resistance, — the unsuspecting victims lay asleep in bed. Neither here nor in Munich nor anywhere else in the Reich was there any sign of the SA revolt with which Hitler later tried to justify the slaughter.

Those arrested were taken back to Munich to the prison in Stadelheim and the shootings were begun immediately, in the presence of Hitler, without any interrogation, without any accusations; Röhm himself had a revolver put in his cell, as a particular gesture of mercy, so that he could shoot himself. Indignant, he refused. 'If Adolf wants my life, the pig can shoot me himself!' he roared. Then the commando fired into the cell until Röhm lay dead in his blood.

On that day, 122 shootings followed in the prison yard of Stadelheim. At the same time murder raged in Berlin at the Cadet Training Institution in Lichterfelde. Throughout the entire country, party leaders, settling their private accounts, 'went beyond the scope of duty' as Göring later put it. Murder had carte blanche, no-one was taken to account for what they had done, for a long time no-one knew how many victims the blood-lust had claimed. For some time the killings went on, corpses were found in the woods surrounding cities. Even Hitler was not told the exact figures of those murdered. Every visitor who came to see him was subjected by Hess and Brückner, the personal adjutant of Hitler, to the most rigorous censorship of what he might or might not say. But in October, an 'accident' occurred when Hitler unexpectedly asked a German diplomat (Ambassador von Mackensen) after the well-being of an old Party friend and the visitor stammeringly gave

other of the high-ranking officials knew the reason for their change of location, whereupon he drew from his pocket the telegram which he gave Stiller to read.

him to understand that the man concerned had been amongst those shot. Not until then did Hitler demand from Hess a list of the victims. It was in the keeping of Heydrich and he refused to part with it. There was a crisis in the Gestapo which would have spelled the end of Heydrich had he not provided such good cover for himself. In November he had to go on leave for a week and only then did Hess manage to obtain the list for Hitler. It contained around 2800 names.

One of the most cowardly and despicable acts in Hitler's life was without doubt the attempt to preside as a moral judge over the victims and pour filth over their corpses. The homosexuality and gluttony prevalent in Röhm's coterie had been known to the whole of Germany and of course to Hitler too, for many years. In May 1927 in Munich before hundreds of SA men, he had proclaimed: 'The clique of the Bratwurstglöckl (the pub which these men frequented) are all of them men of paragraph 175: (referring to the paragraph in the penal code on homosexuality, then of course illegal) Heines, Röhm, Zentner or whatever their names are!' Actually up to June 30, 1934 Hitler had paid so little regard to this aspect that he had even approved the appointment of Heines as Police President of Breslau.

Amongst the shootings, those of General von Schleicher and his wife who threw herself in front of him aroused particular attention. The order for it originated with Göring who passed the buck to Hitler. Both had good reason for enmity with the 'political general', among other things for his attempt in December 1932 to split the Nazi Party by using Gregor Strasser as leader. The latter was also one of the victims. But the immediate cause was a hypothetical government list which Schleicher put into circulation with himself as Vice-Chancellor under Hitler, with Röhm as Minister of Defence and Gregor Strasser as Reichs Economic Minister. It had been drawn up without the knowledge of Röhm and Strasser. Even Hitler did not dare include this list in his public arraignment of those he had killed. Instead he accused Schleicher of treasonable machinations with François-Poncet whom he and Röhm were supposed to have met secretly. This meeting was in fact so little secret that Hitler himself had been invited to it but had declined.

I have endeavoured to explain and depict the wholesale murder of the SA leaders as the outcome of the cunning duplicity and ruthless determination of the 'Führer' in the position into which he had manoeuvered himself. It must be seen as one of the many crimes

perpetrated in the cause of preserving monopoly capitalism faced with its final crisis. This crisis emptied of all moral authority and mass support the institutions of the Nazi State. Popular acquiescence in the forced reconsolidation of capitalism required new forms of organisational expression. In the SA Hitler and Röhm had engineered a social mechanism which was functionally right for the internal and external needs of the ascendancy of Nazism and of the Nazi State. The SA was a genuine form of mass mobilisation of lower middle class youth and as such was quite different from the 'neutral' army and police, the SS and Gestapo of the later State. The very success of the SA gave it the potential significance of an autonomous social force antagonistic to German monopoly capitalism and as such it had to be eliminated.

19 Counter-Revolution and Anti-Semitism

My descriptions and analyses of events in Germany and Europe running up to the Second World War have, up to this chapter, been based on my own personal and eye witness evidence, gathered from the unique experience which accrued from my position in the offices in and around the Bendlerstrasse. This accounts for the seemingly astonishing fact that my report contains hardly a word of the anti-semitism which represents the cardinal ideology of National Socialism, of its 'Führer' and of practically every one of its organised followers. The explanation lies in the fact that the circle in which my employment placed me was entirely upper class, industrialist or agrarian and their high level salaried employees. In these circles the anti-semitic creed was an irrelevant side-line of Nazism which would have degraded anyone who took it seriously.

On the other hand no account of fascism is complete without dealing with this ideological aspect and without an account of the beginning of the fascist movement. For the descriptions which follow I depend on three main sources, the two volumes of Konrad Heiden, 'Der Fuehrer', the exhaustive account of the development of anti-semitism during the twentieth century by Norman Cohn, and the excellent pamphlet on racism and the National Front in Britain today by David Edgar.*

We have already referred to the 'Technische Nothilfe' — the Technicians' Emergency Service — acting as strike-breakers in the early

**Konrad Heiden, Der Fuehrer. 2 vol. Victor Gollancz Ltd 1944.*

Norman Cohn, Warrant for Genocide. The Myth of the Jewish World Conspiracy and the Protocols of the Elders of Zion. Harmondsworth: Penguin Books 1970.

David Edgar, Racism, Fascism and the Politics of the National Front. Race and Class Pamphlet No 4.

1920s against the revolutionary workers as one of the formative elements of German fascism. They considered themselves as a social stratum aspiring to a position like that of an officer corps in the labour process of production. Comparable to these would-be fascists, but emerging still earlier, were such remnants of the defeated imperial army of Germany who refused to accept defeat. Konrad Heiden when writing about the November Revolution of 1918 says: 'This was the downfall of the German 'Kaiserreich', the historic moment of the German Revolution. It was also the beginning of the officers' counter-revolution. In a purely military sense the war was not completely lost as yet; as statements made by the Allied generals show. But the military leaders of Germany preferred to lose the war and even to overthrow their Emperor in order to save the army and beat down the revolution.' (pp. 195/6)

One cannot give a more accurate description of the source of the Nazi movement. These counter-revolutionary officers were, in the main, young intellectuals in uniform who had originally been recruited into the army out of university or school and now, totally alienated from civilian society, refused to be demobilised and to accept the defeat. They formed themselves into fighting gangs under the name of 'Free Corps'. These existed with barely concealed allied approval. In fact the Armistice of November 1918 contained in Article 12 a clause, little publicised, stipulating that German troops should remain 'as long as the Allies considered it expedient in whatever Russian territory they occupied.'

The Free Corps at first took shape at the instigation of Captain Kurt von Schleicher (the same who later became a well-known General and even, for a while, Reichs Chancellor). As aide to Hindenburg at the time of the armistice he suggested that if only a small army of volunteers could be organised there would be practically no armed resistance and they would soon become 'master of the country.' In this assumption he was, of course, quite mistaken as events later showed. The Free Corps were widely known as 'murderers' armies', and, as far as their ruthless and unscrupulous acts were concerned they invite comparison with the gangs of mercenaries fighting against African liberation in the '50s and '60s. Their most immediate motivation was the suppression of the revolutionary movements inside Germany and of the workers' and soldiers' soviets which were being set up in many industrial centres of the country. For instance, the Corps were used against the Spartakus rising in Berlin. I vividly remember the fierce fighting there myself. It was the bandits of the Free Corps who murdered Rosa Luxemburg and Karl Liebknecht. They fought for the counter-

revolutionary Kapp-Putsch in Berlin in March 1920 and against the armed general strike arrayed against the Putsch in the Rhine and Ruhr, where the Free Corps and the regular army were heavily defeated by the workers.

Their main activity, however, was against the Bolsheviks in the former Russian Baltic Provinces where they became the spearhead of the wars of intervention against Russia from 1919 onwards. They fought for the possession of such towns as Riga and Reval. Again to quote Konrad Heiden: 'Some of the soldiers of the German Free Corps were soldiers of fortune of a very peculiar sort. They expected to receive from the new Governments of Latvia and Estonia a reward of land on which they could settle as farmers. When they were not supported in this by the German Government they tore the German cockades from their caps and sewed on the eagle of the Tsars.' (p. 196)

Meanwhile the Bolshevik Revolution had taken possession of Russia throughout 1917 and 1918 and forced the German army out of their country. Among the fleeing refugees was Alfred Rosenberg, a Baltic German who had lived in Reval and who escaped to Germany at the end of 1918 bringing with him his most precious treasure, the anti-semitic forgery 'The Protocols of the Learned Elders of Zion'. With this he was to make himself the leading light of the Nazi movement. He went from Berlin to Munich where he joined Rudolf Hess, a young officer, and Dietrich Eckart, an elderly writer, who became the main oracle of Hitler. There they founded a secret club under the name of the 'Thule Society' whose members rooted their implicit faith in the Protocols.

The all-important figure of the counter-revolutionary movement in Munich with whom they associated was Ernst Röhm. Then an army captain and aide to Colonel von Epp, chief of the infantry troops stationed in Bavaria, he was the real founder and cornerstone of National Socialism. He was another who absolutely refused to recognise the German defeat, and concentrated all his resources upon the creation of a new and illegal army. He writes in his own memoirs of a gigantic arsenal of weaponry left behind by the fallen German Army which, in the Peace Treaty, Germany had promised to destroy. The Allies supervised the process of destruction by control commissions. But in Bavaria Röhm undertook the task for them, deceiving them, and creating secret weapon stores for his own special army which went by the deceptive name of a mere 'Einwohnerwehr' or citizens' homeguard. He succeeded in surrounding the Allied officials with a dense net of counter-spies so

that a German reporting a secret arsenal would fall into the hands of a German masquerading as an officer of the Entente who would stammer in broken German, listen to the man's report and deliver the 'traitor' to eager assassins.

The main hostility of these militant counter-revolutionaries was directed against the democratic republican governments which had emerged from the November Revolution of 1918 and which, on the part of the central 'Weimar Republic' entailed the acceptance of the Versailles Treaty and the disarmament of Germany down to a professional army of 100,000 men. The reactionary organisations around Röhm and the Thule Society were the responsible instigators of a number of sensational political assassinations. Kurt Eisner, the Prime Minister of the democratic Republic of Bavaria was murdered in the open street in March 1919 by a member of the Thule Society. This caused such an outcry that a communist Soviet Republic was proclaimed without any violence in Munich under the leadership of Leviné and the poet and dramatist Ernst Toller. It lasted only until May 2, 1919, when the town was conquered by regular troops aided by the Free Corps counter-revolutionaries who carried out a bloody white terror of such unparalleled ferocity that it is still remembered to the present day. Toller succeeded in escaping, hidden in the wardrobe of a painter friend of his who very nearly lost his own life at the hands of the persecuting soldiers. (The painter friend, incidentally, happened to be Karli Sohn-Rethel, my own uncle.)

The most prominent of the innumerable murder victims were Matthias Erzberger, Minister of Finance in the central Government, Walther Rathenau the Foreign Minister, and the Deputy Gareis who planned to attack the secret murderers in the Bavarian Parliament but who was shot as he entered his house the night before. This regime of right-wing terror was carried out under the connivance of the President of the Munich Police-force, who when told that beyond a doubt there were organisations of murderers at large, said with an icy glance: 'Yes, but too few!' The Bavarian Minister of Justice was Franz Guertner, a man of equal calibre. One of the senior members of the police was Wilhelm Frick who was later proved to have employed murderers in his service but in 1933 became Minister of the Interior in the Hitler Government. But at the head of all these conspiratorial activities was Ernst Röhm, the actual founder of the National Socialist German Workers' Party (NSDAP). At this time Adolf Hitler was in Röhm's service as agent provacateur and a spy. His leadership of the party which Röhm founded gradually developed, thanks to his rhetorical talents. Röhm used his official position as Army Captain to

organise entire Reichswehr companies to march through the streets of Munich, wearing civilian clothing, and parading as National Socialists. Thus arose the formation which later became the SA.

* * *

The essence of fascism is counter-revolution in late capitalism when the standards of bourgeois society are utterly discredited. The activities of fascism must be conspiratorial in kind to make feasible the committing of crime and murder essentially involved in counter-revolution. The ideology found to be best suited for this undertaking was to uphold the existence of a conspiracy for the domination and exploitation of the world by Jews. Thus fascism could hide its own conspiratorial activities under the cover of the bogus one. The old German socialist leader August Bebel called anti-Semitism 'the socialism of the stupid' (den Sozialismus der Dummen). Anybody stupid enough to believe that capitalist exploitation is an invention of the Jews has his mind well sealed to social understanding of any kind.

The myth is presented in the guise of a documentary truth under the title of 'The Protocols of the Learned Elders of Zion' and not a few people still credit this piece of literature as genuine. But the great majority nowadays can be trusted to know that it is a forgery. At the end of the First World War when Alfred Rosenberg first produced the Protocols in Munich, he and his fellow conspirators of the Thule Society believed in them as in a holy writ. With ardent zeal they translated them and spread them to almost all parts of the world. When Hitler came to power this activity gained momentum through German Nazi organisations and sympathisers in foreign countries.

Jewish communities in Switzerland responded to the provocation by bringing an action against the leadership of Nazi organisations in their country and against certain individual Nazis. The charge was of publishing and distributing improper literature. The case was heard before the Court of Berne, partly in October 1934 and partly in May 1935, and was followed by an appeal case before the High Court. It became, in effect, an enquiry into the authenticity or spuriousness of the 'Protocols'. It attracted world-wide attention and was covered by journalists from many countries.

The first thing the Berne Court was able to establish was the fact that the text of the 'Protocols' is unmistakeably a plagiarism of a book written by a French lawyer Maurice Joly and published anonymously in Brussels in 1864. It was written as pure fiction in

the form of a satire against Napoleon III, Emperor of France. It bore the title 'Dialogue in Hell between Macchiavelli and Montesquieu, or the Politics of Macchiavelli in the 19th century, by a contemporary.' The 'demon' was supposed to represent Napoleon who would conquer the masses and dominate France. In the form of a pamphlet it was smuggled from Belgium to France, where it was banned and confiscated, and the author identified, arrested and sentenced to 15 months imprisonment. Needless to say Joly's writing has nothing whatever to do with Jewry.

The pamphlet, however, was discovered thirty years later by the head of the foreign section of the Ochrana, the Tsar's secret police, Pyotr Ivanovich Rachkovsky, then in Paris. Under his direction Joly's text was re-styled and given the form of the Protocols. Two-fifths of the entire text of the Protocols comprising 160 passages are clearly based on passages of Joly. The words Joly put into the mouth of a demon satirising Napoleon the forger put into the mouth of a mysterious lecturer, the nameless Elder of Zion. With Joly, Macchiavelli, representing Napoleon III, describes an existing state of affairs. But the Protocols recast this to a form of prophecy for the future. Macchiavelli argues that a despot may find in democratic forms a useful cover for his tyranny, but the argument is reversed in the Protocols so that all democratic forms of government are shown as being simply masks for Jewish tyranny. Similarly, ideas of liberalism are presented as being invented and propagated by Jews only to disorganise and demoralise gentiles. Furthermore Joly wrote of the domination of France whilst the 'Elders' scheme to dominate the world.

Interwoven with the plagiarism of Joly's text are two other pieces. The first is a novel called 'Biarritz' published in 1868 and written by a German, Hermann Gödsche who masquerades as Sir John Redcliffe the Younger. One of his chapters is set in the Jewish Cemetery of Prague where he describes as a horror story the meeting of twelve rabbis in a hair-raising scene. According to Konrad Heiden the rabbis are supposed to represent the twelve tribes of Israel and speak Chaldean. 'They set up a cry of Satanic glee, for through accursed gold, through its mighty bankers, Judah has conquered the world, bought kings and princes of the Church; Judah is wallowing in vice and glory.' This chapter, suitably modified, was reprinted as a separate pamphlet, and translated into foreign languages, notably Russian. 'And now, lo and behold, we have an 'authentic document', proving the existence of a Jewish world conspiracy!'

Still, Gödsche's literary outpourings could not hide its frankly fictional character, even with the pseudonym of an English aristocrat to deceive the reader. Konrad Heiden acknowledges the superior skill of the forgers in tarring Gödsche's childish figures with the 'worldly wisdom, the contempt of humanity, the seductive power of Joly's tyrant. Don't just make them avaricious braggarts; make them subtle and crafty; make them speak the accursed satirical wisdom of Macchiavelli, but in deadly earnest; finally confound the fabulous nocturnal conspiracy with an international Jewish congress which actually did convene to discuss such sober matters as the problem of emigration. Then we have before us, in all its bloody romantic horror, the demon of Jewish world domination gathered in a congress and fixed in protocol'. (p.15.)

Here we have the third major component of the forgery. An international congress indeed did take place in 1897 in Basel in Switzerland for the founding of the Jewish Zionist Movement with Theodor Herzl. The entire proceedings were held in public and the town was overflowing with journalists. But the speeches do not appear in the protocols; instead the text of Joly and of Gödsche is wrongly presented as the pronouncements of the Jewish Congress. Therefore, not only are the 'Protocols of the Learned Elders of Zion' a forgery, but in fact not a single document of Jewish origin has gone into the making of it. The first anti-semites faced with this revelation tried to comfort themselves with the idea that Joly was himself a Jew. But then his baptismal record was found, exploding this last hope. Heiden adds: 'since then, some anti-semites have declared merely that the 'Protocols' are 'deeper wisdom', beyond any possibility of documentary proof. Actually they do contain a deeper truth; but the demonstrable history of their origin' — and one must add of their consequences — 'shows that this truth involves not a Jewish but a fascist world conspiracy.' (ibid.p.18.) And this fascist conspiracy was possible because a nation modelled itself on the behest of a madman, Hitler.

Why was the unfathomable catastrophe possible that this lunatic could make himself ruler over seventy million educated and civilised people; could smash the German working class movement; could unleash a World War; could succeed in landing Germany in a crushing defeat with the loss of millions of war victims; could exterminate with abominable cruelty six million peaceful, reasonable civilians who happened to be Jews collected from all corners of Europe? How could it come about that this lunatic with his demoniacal voice could lead the German nation into such a bath of blood and murder?

In Mein Kampf, Hitler wrote of the Protocols: 'The Frankfurter Zeitung is for ever moaning to the public that they are supposed to be based on a forgery; which is the surest proof that they are genuine.' Also in Mein Kampf, referring to the presence of African soldiers of the French Army on German soil, he wrote: 'It was and is the Jews who bring the negroes into the Rhineland, always with the same secret thought of their own of ruining the hated white race by the necessarily resulting bastardization....to deprive the white race of the foundations for a sovereign existence through infection from lower humanity.'

It is not difficult to trace the connection between these insanities of Hitler with the avowed philosophy of the National Front. In their newspaper Spearhead of April 1971 is the following: 'It may well be that the masters of the campaign for world government know very well the truth concerning the cause of racial differences. If so, it would certainly explain why internationalist elements of all types are at the forefront of all attempts to encourage people of different races to interbreed and produce half-caste offspring. The reason for this is obvious. If separate races can be eradicated by the process of miscegenation and the whole of humanity submerged into a single slant-eyed khaki-coloured lumpen, then racial differences will have disappeared — along with any sense of national identity — and a world government system will be much more easy to impose.' And Spearhead of October 1964 openly proclaims: 'If Britain were to become Jew-clean she would have no nigger neighbours to worry about.' Their philosophy has not changed though it may be more tactfully expressed.

But who are the people who follow such leaders? I agree with David Edgar who writes 'Fascism is the mobilisation of a counter-revolutionary mass movement during a period of capitalist crisis...The participants in this mass movement tend to be drawn from those sectors of society — notably the lower-middle-class, unorganized workers, the peasantry and backward sections of the ruling class — which are facing a relative and progressive worsening of their economic and social position, but who nonetheless see no future in an alliance with the organised proletariat.'

As in German Nazism, so in Britain today, I would describe these middle strata, who follow their leaders blindly, as strata lacking a social contour as a class. They are the most insecure and fluctuating elements who feel menaced from all sides — both from the capitalists and the working-class and their socialist leaders. Their scape-goat is the Jew or the nigger.

According to Marx these intermediate middle classes between capitalists and proletarians should long have gone out of existence. But, on the contrary, in the last half century they have grown as human debris produced by the decomposition of capitalism, resulting from the structural change in its base. Anti-semitism acts as a common ideological denominator which converts the debris into an active political force — that of fascism.

In this book I have tried to show how the Nazis in Germany saved the capitalist system by destroying the independent organisations of the working-class, their political parties and trade unions. They slashed the workers' wages and laid the foundations of the Second World War. In one sense the Nazis fulfilled the needs of finance capital as the capitalists themselves could never have done. At the same time their brutalities almost destroyed the civilisation of a nation.

The contradictions of capitalism are greater than ever. Limited time-spans of prosperity may conceal the truth, but the cancer of fascism is in our midst. Can we learn from history?

Afterword

The relationship between fascism and capitalism remains as disputed now as it was when Max Horkheimer (1939) coined his famous epigram, 'Whoever does not wish to speak of capitalism must also stay silent about fascism'. Those words of course leave the relationship itself enigmatic and inexact. Even the most die-hard anti-marxist could hardly deny that fascism has been a product of capitalist societies; academic and political controversy still rages over the problem.

The key questions are still those posed by marxists and socialists in the 1920s and 1930s: Is fascism one solution to the economic crises of developed capitalism? Were fascist regimes helped into power by capitalist interests? Did industrial capitalism benefit directly from fascist rule? While the last two questions are susceptible to empirical historical investigation in the cases of Italy and Germany, the first is a theoretical question whose application is not confined to actual cases, but would extend to a whole era of capitalism, insofar as this can be specified. Within the wealth of political, polemical and academic writing on fascism, perhaps the greatest divide lies between those who do and those who don't accept the validity of this theoretical question. The former obviously acknowledge some degree of allegiance to marxism, though the diversity of views and interpretations coming under that term has never been greater than today. Yet, although the marxist literature is coloured by many shades of opinion, the deepest gulf is still that which separates it from non- or anti-marxist studies of fascism.

So bitter is this division that recently a young American historian who employed marxist categories to analyse some of the class conflicts leading to the collapse of the Weimar Republic, including the role of industrialists, was accused of fabricating evidence to support his case (Abraham, 1981; Abraham and Feldman, 1984; Turner, 1985, pp. xi-xii). The passions aroused in his opponents can be gauged by the fact that what began as a critique of his research methods ended in an all-out and apparently successful campaign to

destroy his career (Caplan, 1985). Perhaps one reason for the intensity of this dispute is that marxist or *marxisant* theories of fascism have undergone a considerable revival and process of sophistication in recent years.

There have of course been many non-marxist theories. Among the better-known are the philosophical ideas of Ernst Nolte (Nolte, 1963), and the older school of totalitarianism theory, which asserts the essential similarity of fascist and communist regimes in contrast with both democratic and 'authoritarian' states (Arendt, 1951; Friedrich and Brzezinski, 1956). Totalitarianism theory has certainly informed a good deal of historical research; perhaps it has been the most tenacious, and in publishing terms most productive, of the non-marxist theories. It has also undergone a recent revival, one which has clearly left its mark on current US foreign policy (Kirkpatrick, 1980). Other historians deny the value of fascism as a generic concept, or argue that Nazi Germany was a unique case which can't be subsumed under any general interpretation of fascism.

Marxist analyses, both academic and political, made great headway in the 1970s, largely in response to political events on the left since the 1960s and the impact these had on a generation of political activists and younger scholars.

Insider's View

It was in this context that the work of Alfred Sohn-Rethel was recovered and published, as he explains in his preface. At the time of the first publication of these essays in Germany in 1973, Sohn-Rethel was teaching at the University of Bremen, a centre of academic radicalism since the late 1960s. Before that he had been among the founders of the Conference of Socialist Economists in Britain in 1970. In these ways his ideas returned, after a long period of obscurity, to the centre of marxist debate.

What lent fascination to his essays was their unusual combination of theoretical and historical insight, coupled with the extraordinary facts of his personal history. True, Trotsky had published his pungent commentaries on events in Germany in the 1930s (Trotsky, 1971), and other contemporaries like Daniel Guérin or Charles Bettelheim had offered immediate analyses of the Nazi economy (Guérin, 1936; Bettelheim, 1945), but Sohn-Rethel's vantage-point was unique. As he explains in chapter 2, from 1931 to 1936 he was an employee of one of inter-war Germany's major capitalist interest groups, the Mitteleuropäischer Wirtschaftstag (MWT) or Central European Economic Congress, as well as being a secret communist sympathiser.

From that position he observed the internal workings and political objectives of an organisation whose primary purpose was to mediate between industrial and agrarian interests in Germany. These interests had had a particularly stormy relationship in modern Germany, partly because of the rapidity and voraciousness of German industrialisation in the nineteenth century. In the arduous economic circumstances of interwar Germany their relationship was further complicated both by the increasing divergence of interests among industrial capitalists and by the growing gulf between small farmers and agrarian capitalists (Abraham, 1981). The MWT was thus a forum for some of the German capitalists' most critical decisions, before and after the Nazi seizure of power in 1933. Sohn-Rethel's employment there spanned the momentous years of the final crisis of the Weimar Republic and the rise and stabilisation of the Nazi regime.

Only one of the texts collected in this volume dates from this period of Sohn-Rethel's life, however: the essay in chapter 16, which was originally written for the Deutsche Führerbriefe (DFB). This was a twice-weekly cyclostyled newsletter of insider business information circulated among about a thousand members of Germany's business and financial elite. It was closely associated with the views of Paul Silverberg, a coal-industry executive, whose industrial strategy in the 1920s included developing close relations with the trade union leadership, while resisting the march of government intervention (Neebe, 1981). Most of the remaining essays in this collection were written between 1938 and 1941, when Sohn-Rethel was an exile in Britain; the essay on the SA purge in chapter 18 remains undated. The English edition also includes as its final chapter a brief essay written specifically for this publication. The English edition further diverges from the German, in that the essays have been subjected to partial revisions and abbreviation, as well as some reorganisation. The original German edition of eleven substantial essays appears to have followed Sohn-Rethel's 1930s texts more faithfully.

All this emphasises the fact that the version we have here is a hybrid text in many respects. It contains elements of memoir, historical document, reconstruction and theoretical analysis, without belonging clearly to any one of these genres. Although both the theoretical and historical material in the essays has found acceptance in academic circles (e.g. Abraham, 1981; Neebe, 1981; Saage, 1976; Turner, 1985), the obscurity of their origins and the problems of verification have also led to controversy. Thus Sohn-Rethel's claim in chapter 16 that these articles were planted in the DFB and caused a 'political sensation' at the time has been challenged on the grounds that his line

of argument actually corresponded pretty closely with what the DFB was pushing for by 1932 (Neebe, 1981, p. 161). Similarly, shortly after the first republication of these articles in 1970, Sohn-Rethel was caught in a polemic with an anonymous East German author ('E. Berliner'), who insisted that Sohn-Rethel had never been a communist in the 1930s (Turner, 1985, pp. 290-1, 450-1).

In my own opinion, the essays are also of uneven quality. Chapter 18, for example, rests more on assertion and rhetoric than on evidence, and it is hard to evaluate it without knowing the date of composition. Similarly, chapter 19 draws on very limited and rather superseded sources to reach a somewhat simplistic functionalist conclusion about the nature of Nazi anti-semitism; it adds nothing to what Horkheimer and Adorno proposed years ago (Horkheimer and Adorno, 1947).

Industrial Rationalization

The most interesting essays, to my mind, apart from those that deal with the work of the MWT, are the group in which Sohn-Rethel develops his theoretical interpretation of fascism, especially chapters 3, 10, 13, 16 and 17. What is striking here is that Sohn-Rethel derives his theory from the core problem of the valorisation of capital — the creation of surplus value — rather than from second-level questions about the political status and relations of industry. Thus the problem of capitalist reproduction as an economic process lies at the heart of his analysis, unlike many other accounts which concentrate more on the political context of that process (e.g. Neumann, 1942).

Sohn-Rethel's case rests on the argument that in Germany the industrial rationalization process of the late 1920s threw industry into a structural crisis of valorisation, in that fixed costs formed an increasingly larger proportion of capital than its variable component. The result, as he puts it, was that 'when demand fell, forcing prices down, then if production slowed according to diminishing demand the unit cost rose in geometrical progression. Prices and costs moved in inverse proportion instead of parallel to each other' (p. 29). This formulation, which Sohn-Rethel developed from his reading of a 1928 essay by the Austrian economist Schmalenbach, closely resembles ideas developed by the Austrian marxist Otto Bauer, who also noted the problematic outcome of what he called 'flawed rationalization' (*Fehlrationalisierung*) (Bauer, 1931). Sohn-Rethel, holding to a strictly dialectical reading of this process, saw it at the same time as an expression of the socialist elements carried by the very mechanisms of capitalism; thus he argued that a full realisation by the working class of this dialectic might have ensured its victory. In

the event, however, this did not happen, though Sohn-Rethel is not very convincing as to why not, or what such a realisation would have looked like politically. Instead of the arrival of socialism, 'Capitalism [gave] birth to . . . the deformed monster of fascism' (p. 30).

The other key element in this theory is Sohn-Rethel's contention that fascism represents a reversion from the production of relative surplus value to that of absolute surplus value, terms he briefly explains on pages 92-3. They are drawn from volume one of *Capital*, where Marx presents these two forms of extraction initially as a sequence but then as an integrated combination (Marx, 1867, parts 3 and 4). Sohn-Rethel's use of the concepts implies that they are historically sequential, the long working day having preceded the intensification of productivity, even though this is not exactly what Marx argues.

Still, Sohn-Rethel's analysis has a certain force: he argues that under fascism the extraction of absolute surplus value was the *dominant* form, and was the means by which German capital was rescued from its valorisation crisis. This was made possible only by the Nazi regime's terroristic disciplining of the working class, which broke the connection between increased productivity of labour and reduction in the value of labour power. This was because the cost of wage goods did not fall, and there was little or no compensation paid for the increased working hours or intensity of labour. In other words, the price paid to labour fell below its value: wages did not rise sufficiently to cover the cost of reproducing labour power. This reversion to a more 'primitive' form of exploitation might perhaps be seen as evidence for Sohn-Rethel's view that fascism is not the 'highest stage' of capitalism, but its 'weakest link'. This also ties in with his argument that the structural crisis of German capitalism offered the German working class an opportunity to strike out on the road towards socialism (though in a strictly dialectical reading the highest stage is presumably *also* the weakest link).

Sohn-Rethel as Theory

It is clear, then, that Sohn-Rethel offers a highly theorised account of the structural relationship between fascism and capitalism which pays close regard to the premises of marxist theory as it existed in the 1930s. Whether his account is also an adequate historical representation, and what its value is for current political practice, are questions of a different order. As to the former, it is clear that the German economy *was* in a structural crisis in the late 1920s, even before the depression fully exposed the inflexibility of the highly capitalised and cartelised elements of industry dependent on high prices, strong demand and available loans (Abraham, 1981). An

additional factor that squeezed accumulation in the later 1920s was the cost to industry of Weimar's 'social contract', which involved among other things binding tariff wages and social programmes such as unemployment insurance. Even before the economic crisis, many German industrialists were keen to recover more freedom of action, both by expelling the state from 'their' sphere and by disciplining the workers to accept lower wages and longer hours. When the depression hit, with its calamitous effect on profitability, divisions within the capitalist class were deepened, as Sohn-Rethel describes, and class struggle intensified. A deeply-fractured and crisis-ridden society sponsored both the sudden growth of the NSDAP as a protest party with a wide social appeal, and the political paralysis of the state that enabled the Nazis to take over in 1933.

Sohn-Rethel's analysis is sensitive in particular to the economic divisions and political fragmentation of German capital in the early 1930s. Thus his account is superior to the more simple monopoly-capitalist interpretation developed by the Third International after 1935 and still current in East German historiography (Dimitrov, 1935). On the other hand, his account does not escape a certain functionalism in its representation of the services performed by National Socialism to capitalism, though in this respect he stands in a long line of marxist theorists (e.g. Poulantzas, 1974).

Moreover, his account of the social bases of the NSDAP (see, for example, pages 131-2) is no longer fully accepted by historians of the period. Although the idea of a 'lower-middle-class panic' was suggested by contemporary commentators and remained commonplace among historians subsequently, recent research has tended to show that this is not entirely adequate as an account of the appeal of National Socialism. The party's membership and electorate contained, to be sure, a significant and relatively stable bloc of this social group, but it also attracted a far broader social constituency after 1928, including people from both the upper and working classes (Childers, 1983; Hamilton, 1982; Kater, 1983; Mason, 1977). The model on which Sohn-Rethel leans here is also innocent of the question of gender in the support for Nazism, or indeed of women as a political factor in general. The NSDAP was not very popular among women of any class until the very end of the Republic, and probably least popular among white-collar women workers (Childers, 1980; Stephenson, 1983).

In general, then, Sohn-Rethel's account has some of both the strengths and the weaknesses of the period in which most of it was written. It has the authority of a sustained and sophisticated marxist

analysis but it lacks the depth attainable through empirical research, if understandably. Though these essays are undoubtedly fragmentary, and ought to be read critically in the light of other work on the subject, they still deserve serious attention from the student of fascism.

Relevance Today

Finally, what about the relevance of these essays to the present day? Recent analyses of fascism have tended to emphasise historically specific research as much as theoretical analysis. Many writers and activists on the left are also more wary now of expecting a few slogans or propositions to capture the complexity of a particular political situation.

Britain in the 1980s is obviously a very different place from Germany in the 1920s and 1930s, both economically and politically. Indeed, there is a large historical literature, dating all the way back to Marx, which emphasises just *how* different the British and German experience of capitalism has always been (Evans, 1985). Compared to Germany, Britain has had a much less highly cartelised industrial system, a tiny agricultural sector with — crucially — no peasantry, a more organically integrated bourgeoisie, and a labour movement that has not known the sharp conflicts of theory and practice that split the German movement after 1918. There are thus no easy parallels to be drawn between inter-war Germany and present-day Britain.

However, Sohn-Rethel's categories of analysis are in principle as appropriate to the investigation of the present as the past. He emphasises the importance of divisions within capital, for example, rejecting the reductionist view that the capitalist system or class is a single monolithic bloc with one set of shared interests. A British parallel to the internal problems and conflicts within German capital would be the deep differences that have historically divided the City from the manufacturers — financial from industrial capital. Sohn-Rethel also suggests how economic interests and conflicts are translated into the political arena, and how they may be transformed in this passage.

His own political prescriptions for the 1930s will certainly strike many readers as overly schematic and somewhat one-sided in their support of the German Communist Party in its conflict with social democracy in the early 1930s. Yet his interpretation of the disciplining of German workers under Nazism is a forceful and effective reminder of the costs paid by a working class disarmed of the

weapon of its own independent institutions. As the editors of the German edition point out, Sohn-Rethel's concept of a reversion to the production of absolute surplus value also gives us a fresh understanding of the hideous 'logic' enacted in the enslavement of a workforce and the unremitting workday of the SS concentration camps (Sohn-Rethel, 1973, p. 18). Finally, his comments about the place of the 'new intelligentsia' in Germany remain suggestive for those vastly expanded strata of technical staffs produced by the microelectronics sector in the current stage of capital development.

Other ways in which the 1930s offer lessons for the present are not directly addressed by Sohn-Rethel but are implicit in his account. Capitalism in the 1980s clearly does not have the buoyancy it recovered after the Second World War. The chronic problems of international trade and currency conversion since the early 1970s expose weaknesses in the international economic system which have had a major impact on national economies. The fragility of the capitalist economic system is further underlined by the rumbling crisis in international debts, which also has clear parallels with the 1920s.

As far as Britain is concerned, this has coincided with an aggressive governmentally-sponsored attempt to restructure capital which might in principle be compared with Brüning's programme in the early 1930s. But despite the tremendous social dislocation and distress this policy has produced in Britain, it has not yet failed to the extent of causing the massive swings in political alignments that helped to destroy the German democratic system and bring the Nazis into power. It is a mark of the differences between German and British political culture that prolonged economic crisis has not encouraged the growth of a new mass protest party. Rather, the left has been deeply disrupted, the centre realigned, and the radical right has entrenched itself in the existing party system, rather than hiving off to a new formation. This removes, for the time being at any rate, one of the essential features of the fascist conjuncture as such — though it should be remembered that one of the striking characteristics of the successful fascist parties in Europe was the speed with which they arose and captured the political stage.

It is important to remember that Germany was not predestined to fascism in the 1930s. Even if the roots of National Socialism can be traced far back in German political culture, one must distinguish between the party and ideology on the one hand, and the circumstances in which it was able to seize power on the other. Fascism came to power in Germany only after the exhaustion or

blocking of other possible solutions to the economic and political crisis, including for example a realigned centre or a military dictatorship.

This suggests a couple of pointers to the current situation in Britain. Firstly, we should not expect a British fascist party to resemble the historic fascist parties, any more than Mosley's British Union of Fascists was precisely like the NSDAP or Mussolini's fascist party. The one crucial structural feature that must be present, however, is that this party be largely autonomous from the existing political system: it is this detachment which helps to draw mass support, and from which a new set of power relations with existing elites is negotiated. Secondly, we should be alert to the signs of systemic economic and political crisis that might provide the context for the growth of such a movement, as well as to evidence of the closure of political alternatives.

Even though Britain has now experienced a prolonged period of economic distress and political malaise, it cannot be said to have entered on such a systemic crisis. Conventional political structures are not widely recognised to have failed, nor is it clear that the British political system has yet forfeited its capacity to reproduce itself by reformation. Yet the Thatcher agenda of coercive social discipline has included the division of the working class by mass unemployment and the strengthening of the police and security system which characterised the Brüning period in Germany (1930-32). These have already narrowed the opportunities for political dissent in Britain; that is, after all, their objective.

Whether this makes for an authentic 'pre-fascist' scenario can still be debated, however. It is easy enough to use 'fascist' as a comprehensive term of political ostracism, and also to designate periods of political stress as pre-fascist. Yet this approach may miss the point. There are other forms of political repression than the fascist — witness Gaullist France, as a recent example. The left should not become mesmerised by fascism as if it were the only threat on the political horizon. To do so would be to commit an error no less egregious than that of the many members of the German left in the early 1930s who failed to understand the specificity of National Socialism and thus helped to disarm themselves against their enemies.

Jane Caplan
October 1986

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Index

THE ECONOMY AND CLASS STRUCTURE OF GERMAN FASCISM

'It couldn't happen here', goes the complacent assurance that the horror of the Nazi state will not recur elsewhere, because surely it arose from unique circumstances. Within a long-standing debate over the real origins of Nazi Germany, this book offers a special contribution which integrates marxist theory with first-hand experience.

In the early 1930s Alfred Sohn-Rethel worked as editorial assistant at the **Führerbriefe**, a current affairs newsletter circulated exclusively among the upper echelons of German big business; meanwhile he passed on information to the anti-Nazi underground, until fleeing to England in 1936. Sohn-Rethel's book documents that inside information, as well as anecdotes about the lurid personalities of early 1930s Germany. He uses the material to characterize the Nazi state as a capitalist solution to economic crisis. Thus his argument provides a timely intervention into current debates among historians.

In her Afterword, Jane Caplan draws out the book's relevance to controversies about the origins of fascism, both then and now. She emphasizes Sohn-Rethel's account of Nazi rule as a means of disciplining labour, and discusses the implications for today's economic crisis.

Alfred Sohn-Rethel has taught at Bremen University.

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