

DEPRESSION POLITICS IN THE AUTHORITARIAN STATES

Nazi Germany

After Adolf Hitler assumed power in Germany in January 1933,¹⁰ the new Nazi regime adopted economic policies totally different from the deflation of Brüning. The external effects seemed nothing less than a miracle. Germany was transformed from the country hardest hit by the depression in 1932 to the frightening giant of 1938. Unemployment dropped from 6 million in 1932 to 164,000 by 1936. After 1936, Germany imported foreign labor to fill a manpower shortage.

This economic “miracle” was accomplished by policies as far removed from the return-to-the-soil jargon of Nazi intellectuals as they were from the nostrums of classical liberalism. There were basically three interrelated steps: a vast public investment stimulated production; the market mechanism of setting prices, wages, and allocating materials had then to be replaced by universal controls to avoid inflation; and the German economy was sealed off from the world banking and monetary system to insulate the mark from international speculation. Hjalmar Schacht, who had restored the German currency on neoliberal lines in 1923 and 1924, now adjusted his thinking to become chief financial and economic planner of a managed economy closer to the economic control of the First World War than to any liberal model.

The first step was a great surge of government expenditure. Since rearmament was still theoretically forbidden under the Treaty of Versailles, the most conspicuous early project was a network of four-lane superhighways, the *Autobahnen*. After open rearmament began in 1935, military spending rose to 60 percent of the budget by 1938, or 21 percent of the gross national product.¹¹

In a free-market situation, this full-throttle rearmament would have triggered another inflation. Building on the precedents of the war, the government organized all branches of industry and agriculture into cartels, set prices, regulated wages through officials of the Labor Ministry (trustees of labor), and allocated raw materials according to a Four-Year Plan. Owners were no longer free to make individual business decisions, but to many that seemed a small price to pay for order and prosperity. Furthermore, labor unions were dissolved and wage disputes handled by civil servants.

A major obstacle to such measures in a liberal economy was their expected effect on the country's currency abroad and on foreign trade. The Nazi solution was autarky, or economic self-sufficiency. Foreign trade had fallen sharply anyway as a result of the depression, and the partisans of autarky were happy to leave it at about a third of the 1928

¹⁰Hitler's assumption of power and his new regime are treated in Chapter 12, pp. 352–64.

¹¹These rates of military spending were comparable to those of the United States in the late 1960s, but they were unprecedented in peacetime before the 1930s.

and 1929 level, even in 1938.¹² Instead of depending on imports, the German economy was supposed to become self-sufficient in agriculture and invent synthetic substitutes for materials it could not produce.

Major steps toward isolating the German economy were taken in 1936 with the announcement of the second Four-Year Plan. Schacht, who had wanted to expand foreign trade now that the economy was reviving, was replaced by Hermann Göring, head of the Air Force. The Reich began to produce several very expensive synthetics: Buna, which cost seven times as much as natural rubber, and synthetic oil. Steel was also produced expensively with low-quality ore in the Hermann Göring factory.

The dynamism of the German economy by 1938 was an object of fear and wonder in the struggling liberal countries. Unlike them, Germany had full employment, growth, and stability—at the price of individual liberties. It had smashed trade unions and organized the economy into universal cartels. As in liberal capitalism, owners of farms and factories continued to own them, although they had renounced some liberty of economic decision (including the unwanted liberty to make wrong economic decisions). Unlike the situation in liberal capitalism, however, the owners were subject to a planned and managed economy, in which they contended with civil servants for predominance. Some observers tended to lump this experiment with communism as two faces of a single totalitarianism, but it must be remembered that in Hitler's Germany there was no social displacement of owners of farms and factories.

Who profited from the new German dynamism? By 1938, the real purchasing power of German wage earners had risen to the levels of 1913 and 1929, years of maximum pre-Nazi prosperity. Deprived of the strike weapon, however, German workers failed to keep pace with the enormous growth in national production. Compared with 1929, wages and salaries made up a smaller share of the national product; profits in trade and industry a larger share.¹³ Even so, after the Weimar nightmare, most German wage earners were reconciled by full employment and nationalist excitement.

Small farmers and the middle class, who had supported the Nazis most enthusiastically, continued their long slow decline in the face of bigger enterprises. Production was oriented away from consumer goods, and savings were funneled off into the great enterprises of the regime. For example, small savers poured 285 million marks into advance down-payments on Ferdinand Porsche's brilliantly designed cheap "peoples' car," only to find when Volkswagens began to roll off the assembly line in 1939 that they all went to the Army. But most middle-class Germans were too enthusiastic over the destruction of socialism and over revived German power to object.

¹²Gustav Stolper, *The German Economy: 1870 to the Present*, 2nd ed. (New York, 1967), pp. 144-45.

¹³David Schoenbaum, *Hitler's Social Revolution: Class and Status in Nazi Germany, 1933-39* (New York, 1967), p. 97.

Big business leaders grumbled at having to share the costs of such expensive projects as the Hermann Göring steel mill, and some great speculative fortunes were lost. Huge industries like the Krupp armament works and I. G. Farben chemicals, into whose growth the nation's energies and savings were channeled, were clearly the principal gainers from the Nazi economic miracle.

The most important decisions affecting the Nazi economic system were not taken solely on their economic merits, however. The political aims of the regime took precedence over mere economic efficacy. The decision to seek autarky was motivated in large part by the desire to overcome the material shortages that had condemned the German Empire during the war. That decision forced the German people to pay for expensive substitutes and to consume lower quality goods (such as ersatz coffee). The drive for autarky may also have made territorial expansion more attractive to the Nazi leaders, who coveted the wheat and oil of Eastern Europe. For those political aims the German people were eventually to pay very highly indeed.

Corporatist Italy

Despite the serious difficulties of modern industry in the north of Italy, the depression gave the appearance of being less cataclysmic in Italy than in other countries. Unemployment was easily concealed in Italy's backward south and in its numerous small shops. Immense publicity was given to "progressive" projects like the draining of the Pontine Marshes for settlement,¹⁴ and to the famous trains that ran on time. And Italy seemed to be free of social discontent. The system that was alleged to produce these combined boons of progress, efficiency, and order was called corporatism. Since corporatism was widely praised and imitated in the 1930s, it deserves more than passing mention here.

Corporatism was not Mussolini's idea. Intellectually, it derived from several attempts in the late nineteenth century to discover a solution to worker misery that would be neither liberal nor Marxist. Catholic social thinkers made one such attempt. They contrasted the atomized city world, easily whipped up into artificial class alignments by demagogues, with an organic society in which natural groupings, such as families, villages, or crafts, lived and worked in harmony. Pope Leo XIII's encyclical *Rerum Novarum* (1891) castigated liberal capitalism for its impersonal financial ties and its heartless exploitation, proposing instead the application of Christian charity to the economy and a revival of organic social groups.

Another intellectual root was syndicalism, the revolutionary labor union movement that was powerful in southern Europe. The syndicalists' basic unit of action was the *syndicat*, or labor union, organized by factory or village rather than by craft. When the "great day" of the

¹⁴Only 19,000 families were actually settled there.

revolutionary general strike came, each *syndicat* would simply seize its factory or village. Together they would abolish the state. Thereafter, the workers would run things themselves, with the *syndicats* as the only remaining organizations in a free society.

Despite their profound differences, Catholic organic social thought and revolutionary syndicalism had some elements in common. Both distrusted parliamentary and electoral action; both preferred local "natural" groupings to the centralized bureaucratic state. People from both traditions would be able to cooperate in an anti-Marxist, antiparlamentarian reconstruction of the social order.

Corporatism had pragmatic roots as well as intellectual ones. Cartels were widely used in highly concentrated industries for bringing a whole branch of production together to limit free competition in the marketplace. The experience of managed economies during the war, while too bureaucratic for most industrialists' tastes in good times, revealed the possibilities of regulation as a remedy for distorted economies in bad times.

Drawing from all these sources, corporatists proposed to regroup each branch of industry, agriculture, and commerce in its own syndicate, or corporation. Each of these could then regulate its own affairs: allocating resources, dividing up the market, rationalizing production, and replacing the liberal free market with planned, managed economic activity. The main questions, of course, were who would run the corporations and whom their decisions would favor. The answers to those questions were not immediately apparent when Mussolini assumed office in 1922.

One of Mussolini's first associates was the ex-syndicalist Edmondo Rossoni, an IWW (International Workers of the World) organizer among Italian immigrants in New Jersey before he joined Mussolini. Rossoni began to apply corporatism as a form of updated syndicalism: workers and managers would cooperate in the new corporations around a goal of higher productivity. Expanded production, rather than a revolutionary redistribution of property, now seemed to Rossoni the solution to poverty. Businessmen could agree with that, but they were alarmed by the way Rossoni promised a direct role in economic management to active new worker associations. By 1928 Mussolini had removed Rossoni from influence.

Businessmen and big landowners had contributed money to Mussolini, and the *Duce* had apparently promised a group of industrialists headed by Alberto Pirelli, the tire manufacturer, before the March on Rome in 1922, that he meant to "reestablish discipline particularly within the factories and that no outlandish experiments would be carried out."¹⁵ By the late 1920s it was clear that Mussolini intended to develop the same kind of pragmatic working relations with industrial and agricultural

¹⁵Roland Sarti, *Fascism and the Industrial Leadership in Italy, 1919-40* (Berkeley, Calif., 1971), p. 37.

leaders as he was establishing with other traditional Italian power blocs, including the king, Army, and papacy. The Fascist regime talked less and less of corporatism while quietly shifting economic influence from Fascist ideologues like Rossoni and from state agencies to the Italian businessmen's association, the General Confederation of Italian Industry (CGII).

When Italian businesses began to suffer after 1929, however, Mussolini devised on paper a system of economic organization which was called "corporatist" for public effect. The National Council of Corporations was set up in 1930, within which twenty-two different branches of industry and trade were organized into "corporations" by 1934. The replacement of the Chamber of Deputies with the Chamber of Corporations in 1938 was designed to transfer representation from the discredited liberal system of elected citizens to spokesmen for economic interests. Although Fascist propaganda talked much about the harmonization of "natural" interests within corporatism, the whole machinery was in fact staffed by the CGII. Workers were not only excluded from these organizations but also had long since lost the right to strike.

The most lasting monument to what corporatism meant in practice in fascist Italy was the IRI (Institute for Industrial Reconstruction). When some important Italian businesses approached bankruptcy as the depression worsened, the IRI was established in January 1933 to lend them money. By the time the IRI was made permanent in 1937, the government owned a controlling interest in Italian steel, heavy machinery, shipping, electricity, and telephones. In this way, the Fascist regime rescued unprofitable sectors of the Italian economy by what amounted to partial nationalization. Even then, however, civil servants had little role in so-called corporatism. Organized business continued to manage the cartelized economy very much on its own terms. Wages remained low, and production failed to gain very much. Fascism permitted Italian businessmen to ride out the depression freed from meddling bureaucracy, independent trade unions, and responsibility for unprofitable sectors of the economy.

The Soviet Union's "Second Revolution"

By 1927, the Bukharin policy of slow, steady economic growth based on the productivity of a satisfied small peasantry had yielded disappointing results.¹⁶ The decline of world agricultural prices lowered the value of grain, Russia's main commodity, and the peasants produced too little food. The world's first socialist state was in danger of becoming economically becalmed in a sea of 25 million small family farms. Now all-powerful at the head of the Russian Communist party and freed from the left opposition of the earlier 1920s, Stalin turned on Bukharin

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A group of kulaks (peasants prosperous enough to employ others) is deported from a Russian village during the first stages of land collectivization, 1930. The banners read, "The kulak class must be eliminated."

in December 1927 and adopted the left's economic policy of stimulating industry through the profits extracted from collectivized farms.

Stalin's first intention was to collectivize only the lands of the wealthier kulaks, the larger farmers who employed wage labor and accounted for perhaps 14 percent of Russia's farms. The collectivization was widely resisted, however. Whole rural communities, including the poorest peasants, responded with the traditional weapons of hoarding crops and slaughtering livestock. In reaction to this unexpectedly strong resistance, and convinced by the Wall Street crash that the era of "capitalist stabilization" had ended, Stalin and his party bureaucracy sharply escalated their program. Close to half of all peasant households—10 million families—were forced into collectives by March 1930. When agricultural production subsequently plummeted, Stalin called a temporary halt on the grounds that Russia was "dizzy with success," but there was no way to proceed but forward. By 1934, Russia's 25 million family farms had been combined into 250,000 collectives. Not only was grain production far lower than in 1928, but the slaughter of livestock was so widespread that 1928 levels in meat production were recovered only in the 1950s, a quarter century later. Stalin himself admitted years later to British Prime Minister Winston Churchill that 10 million peasants died in the artificially imposed famine of 1932 and 1933,¹⁷ and the figure may have been higher.

Soon after the collectivization of farms was under way, Stalin launched the first of what was to be a series of Five Year Plans to stimulate Soviet

¹⁷Winston Churchill, *History of the Second World War: The Hinge of Fate* (London, 1950), p. 498.

industrial production. The First Five Year Plan, to run from October 1928 through 1933, was the most important internal decision of Stalin's career. It was a virtual economic revolution, this time from above, and it sealed Russia off from the world economy in an effort to build "socialism in one country." Since the wealth necessary for the crash program could come only from expropriating a resisting peasantry, the plan engendered a far harsher authoritarian control than anything seen in the relatively open mid-1920s. The Soviet example offered rapid industrial growth and full employment at a time when capitalist Europe could offer neither, but it did so at the price of renewed starvation, tens of millions of deaths, and eventually an unspeakably harsh system of labor camps and political purges.

The economic changes in Russia after 1929 constituted a profounder revolution than that of 1917. The ancient ways of Russian village life, where the vast bulk of the population still lived, were completely transformed. The Soviet Union was on its way to becoming an urban, industrial nation within one generation. It is incorrect to suppose that Russia had no significant industry before the Five Year Plans began; Russia stood fifth in world production in 1929. Only thirty years later, however, it stood second, behind only the United States. The wealth skimmed off the land by requisition from the rural collectives was poured into the construction of factories, dams, and entire new cities. By 1937, heavy industrial production had increased by three to six times (depending on whose statistics are used) since 1928. A new city such as Magnitogorsk could grow from a population of zero to 250,000 in a few years. The Soviet Union advanced from fifteenth to third place in the production of electrical power during the time of the first three Five Year Plans (1929–41). Regardless of whether one accepts the Soviet figures of an annual growth rate of 20 percent a year in overall production or the more cautious Western figures of 14 percent a year, the effects were astonishing to a world sunk in depression.

Stalin's "great change" was possible only because the party bureaucracy had been strengthened under his sole command. That iron rule was made even more necessary by the chaos that accompanied forced collectivization and the discipline needed in new industry. Factory workers were no longer permitted to change jobs. A regime of low wages, speeded up production, and steeply differentiated piece rates in industry, was sweetened by propaganda and praise for sacrifice for the new socialist state. Aleksey Stakhanov, a coal miner in the Donetz Basin who exceeded his quota by 1400 percent in 1935, became a model for other workers to emulate. "Stakhanovites" were paid in praise rather than in consumer goods, however, and the Soviet economy under the Five Year Plans bore no relation to a consumer economy on Keynesian lines.

The rigors of forced collectivization and industrialization were harsh enough in themselves. Even harsher was the treatment of peasant resisters, industrial misfits and saboteurs, and political opponents, who

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swelled the populations of forced labor camps in Siberia in the early 1930s. But the worst was yet to come in the great purges of 1936 to 1938, a product of Stalin's own suspicious temperament coupled with his drive for sole control of decisionmaking.

Until 1934, the weight of political repression had fallen on old tsarist personnel and those who obstructed the new course. At the end of 1934, the Communist party secretary in Leningrad, Sergei Kirov, was assassinated, and the left opposition was officially accused of the act. Revelations in the de-Stalinization speech by Nikita Krushchev in 1956 make it appear likely that Stalin himself arranged Kirov's execution in order to remove a troublesome new rival. In any case, the assassination was followed by an ascending spiral of denunciations and arrests as virtually the entire remaining Old Bolshevik leadership, as well as all those suspected of supporting it, was decimated. The most astonishing aspect of the great purge was the series of show trials in which many Bolshevik leaders confessed to various crimes of treason before being shot. The left opposition leaders Kamenev and Zinoviev were tried in 1936; sixteen other eminent Bolsheviks in 1937, including Marshal Mikhail Tukhachevsky, who had defeated the Poles in 1920; and another twenty-one, including Bukharin, in 1938.

At lower levels, an orgy of denunciation and spy-mania engulfed the party, the state apparatus, and ordinary citizens. The purge was particularly severe among senior army officers, diplomats, and others who could be shown to have had foreign contacts (including contacts with foreign communists). It is likely that 8 million Russians, including many party members, perished in the great purge. Tens of millions more were sent to Siberia, that world of prisoners and outcasts that the novelist Aleksandr Solzhenitsyn (who was later one of them) has described as "the mysterious and terrible country of 'Gulag' . . . with its own social system, its written and unwritten laws, its population, its customs, its rulers, and its subjects."¹⁸

The poisoning of Soviet Russian life by the purges of the late 1930s has aroused passionate controversy. For some sympathetic Western observers at the time, the Old Bolsheviks' confessions proved that the Soviet experiment was indeed under fascist and capitalist attack and was forced to depart from judicial norms in order to protect itself. It seems likely today that the confessions were extorted, if not by physical torture, at least by promises to spare the wives and children of the accused. Other Western observers concluded that despotism had always been inherent in Lenin's concept of a vanguard party exercising dictatorship in the name of a backward proletariat. Still other Westerners, such as George Kennan, attributed the purges to Stalin's own paranoia.

The most interesting debate about Stalinist rule has raged within the

¹⁸Aleksandr Solzhenitsyn, *The Gulag Archipelago, 1918-1956*, trans. Thomas P. Whitney (New York, 1974), as described by the Soviet historian Roy Medvedev in the *New York Times*, February 7, 1974, p. 10.

Soviet Union. Nikita Khrushchev opened a Pandora's box of criticisms of Stalin at the Twentieth Party Congress in 1956. The Soviet historian Roy Medvedev has argued that Lenin's imperfect but promising beginning was perverted by Stalinism, a personal aberration that built on elements present in party rule but which was not inevitable. Solzhenitsyn came to believe that Lenin had erred fatally in trying to create socialism in an underindustrialized country, and that Stalin simply "followed in Lenin's footsteps."¹⁹

Whatever its proper explanation, the Stalinist blood bath made the Soviet economic achievement considerably less attractive after 1936. The British Labour party intellectuals Beatrice and Sidney Webb had referred to the Soviet Union in 1936 as "a new civilization." A later Western journalist called the 1930s Russia's "new iron age."²⁰ It was that, in two senses of the term: an extraordinary achievement in heavy industrial production and a descent into barbarism.

CONCLUSION

Governments dealt with the challenges of the depression with widely varying success. The authoritarian regimes expanded their industrial power and kept order despite low wages. The liberal regimes sank ever deeper into unemployment as they tried deflation and lapsed into internal social conflict. Liberal politics and liberal economics were completely discredited. From the vantage point of the bread lines and soup kitchens of London, Paris, or republican Berlin, either Communist Russia or Fascist Italy looked like greener pastures, according to one's predilection. Then when Nazi Germany grew into the industrial and military giant of the Continent by the mid-1930s, the comparative impression of decadent liberalism and burgeoning authoritarianism grew much stronger.

The British novelist E. M. Forster summed up the air of doubt and lassitude felt in the major liberal states with the title of his volume of essays, *Two Cheers for Democracy*. The liberal states were deprived by their depression remedies of both the material and moral means and the will to oppose the dictators resolutely. In the 1930s, fascism seemed the wave of the future.

¹⁹*Ibid.*

²⁰William Henry Chamberlin, *Russia's Iron Age* (Boston, 1934).