
REVIEW ARTICLES

Economic Theories and Political Interests: Scholarly Economics in Pre-Hitler Germany

Juergens Backhaus
Auburn University, Alabama

Since George Garvy¹ documented some of the writings of pre-Keynesian economic activists in pre-Hitler Germany, it has become rather generally known that Keynesian economics had been anticipated not only in Chicago² and Stockholm,³ but also by several German writers. After all, when the General Theory appeared in 1936, the first large scale experiment in Keynesian demand management had already successfully been completed in Germany. This, by itself, neither necessarily establishes a link between the writings of German theorists and practitioners on the one hand and economic policies pursued by their country on the other, nor does it dissociate Keynes from German economic policies. As a matter of fact, Keynes's writings and public presentations of his views were rather carefully studied by some German economists and politicians.⁴ Therefore, his impact on policy formation can, to that extent, by no

* These remarks were prompted by reading Claus Dieter Krohn, "Wirtschaftstheorien als politische Interessen: Die akademische Nationaloekonomie in Deutschland 1918-1933." Frankfurt, New York: Campus Verlag 1981 (Campus Forschung Vol. 226), pp. 285.

¹ "Keynes and the Economic Activists of Pre-Hitler Germany." *Journal of Political Economy*, 83.2, 1975, pp. 391-406.

² See J. RONNIE DAVIS, *The New Economics and the Old Economists*, Ames, Iowa: The University Press, 1971.

³ For references see the memorial issue for Bertil Ohlin (1899-1979), *History of Political Economy*, 13.2, 1981, esp. pp. 179-277.

⁴ Notably Keynes's Hamburg address. See HEINRICH BRUENING, *Memorien 1918-1934*. Stuttgart: DVA 1970, p. 137.

means be dismissed as insignificant. On the other hand, the German economists who anticipated Keynes, to a varying degree and at different times, indeed had access to public authorities and were taking part in economic policy formation in pre-Hitler Germany.

Leaving aside the question of with whom Keynesian ideas for policy prescription originated, as it is obvious that it was Keynes who propagated them most effectively and since therefore the approach will always bear his name, the more interesting questions concern the timing of putting the ideas into practice. The German experiment lasted roughly from 1932-1934. It started on Sept. 5, 1932, with Chancellor von Papen's programme, which is generally credited with having already achieved a perceptible reduction in unemployment.

The recovery programme was continued in December with Chancellor von Schleicher's programme of December 15, January 6, and January 28, and concluded with the two Reinhardt programmes of June 1 and September 12, 1933. Since the theoretical basis had been available for Keynesian stimulation policies prior to 1936 and the details of the approach had been worked out by 1932, what remains to be explained is why the first successful stimulation programme took place where and when it did. Concentrating on the *timing*, the question thus remains threefold:

1. Why would Germany not start policies in the Keynesian spirit before 1932, when the effects of the world wide economic crisis had been felt already far more than two years and had started to erode her social and political fabric?
2. Why did the German recovery not coincide with rearmament? Instead, from an international point of view, the German economy followed a separate path. And relatedly:
3. Why were the German recovery programmes launched precisely between September '32 and September '33?

In principle, two different kinds of arguments could be formulated. An economic historian would look for answers to these questions by singling out institutional, economic, social, technological, geopolitical or other material conditions to account for Germany's separate politico-economic experience.

Alternatively, a historian of economic thought might be tempted to argue that scholarly research in economics in Germany took a different course and provided new and different solutions which were implemented accordingly.

It is only one of the more apparent puzzles of Dr. Krohn's study that although he seems to follow the second (history of thought related) line of arguments, he tries to argue exactly the opposite hypothesis. It is Krohn's thesis that.

German economists, with the exception of the demand-oriented reformers, were captives of political interests, unwilling or unable to perform their analytical task.

He consequently proceeds to document what he perceives to be the poor performance of German academic economists and contrasts their work with the

contributions of some of the demand-oriented reformers, who are roughly identical to those covered by Garvy. In Krohn's description, they stand out as shining examples of progressive economic researchers anticipating Keynesian remedies. Since Krohn's thesis implies that economic theories can be closely linked to political interests, ideally one wants to see it being demonstrated:

1. Which political interests were operative?
2. How these interests were transmitted to the scholarly community?
3. How economic theories could in turn be introduced as powerful weapons into the political battle?
4. Why the balance of interest changed abruptly in the second half of 1932; and
5. Why political interests took advantage of partisan instead of neutral economic research in academia?

In order to learn some answers to these questions from Krohn's extensive study, let me first describe its structure and approach. Krohn has not introduced an explicit model which could cover an analysis of interests group interaction. He identifies some of the major interest groups, notably the coal and steel industry, the machine tool industry, and the export-oriented chemical industries, as well as the trade unions. The enumeration would probably not capture the main interest groups commanding a strong political base during the years of the Weimar Republic; but Krohn is already reluctant to view the trade unions as just another interest group and treat it equally with their adversaries, notably the industrial associations. Secondly, his is not a study in the history of thought; rather he tries to look at the linkages between economic theories and political interests from an economic historian's point of view. This may have some pitfalls, but renders the account all the more lively. Since Krohn indiscriminately regards scholarly output as the object of his study, much second and third rate material, which a historian of economic thought would simply push aside as irrelevant, is conveniently included. For a study like his, this is important since it cannot be argued on a priori grounds that the better theories are also the more influential ones. Krohn, however, seems to have taken it for granted that history proved some theories wrong and others right.

Thus, he seems to be convinced *e.g.* that scholarly economists would today look very favorably upon the work of such theoreticians and political figures as Neisser, Lederer, or Woytinski, while brushing aside with either contempt or regret the contributions *e.g.* of Friedrich von Hayck. Although it has to be admitted that as far as the business cycle problem is concerned, all of these contributions during the late twenties and early thirties, from today's point of view, have an embryonic character, in the light of contemporary discussions this a priori evaluation of different positions can not be easily defended. Krohn's partisan approach to the study of economic history, however, has the advantage that we can almost live through the discussions as if they took place today,

and rely on the author as an equally dedicated and thoroughly biased reporter of academic debates, animosities and intrigues.

Roughly one third of the whole book is devoted to the endnotes, references and the index. Of the main part about 12 per cent is devoted to the introduction and the first part on "Economic Research in Germany after 1918". Part two on "Ordo Theories against the Interventionist Welfare State" covers the "Social System of the Weimar Republic", "Orthodox Liberalism: Ludwig von Mises", "Manchester Liberalism as Social Theory: Adolf Weber and his School", "Bourgeois Social Politics for the Revision of the Status Quo", and the "Critique of Bourgeois Social Politics by Eduard Heimann". This longer part (roughly 22 per cent of the main body of the book) is followed by a shorter one on "Ordo Theories and Monopoly Power", which notably discusses Schmalenbach's unorthodox contribution and takes up roughly 10 per cent. Part four (approximately 24 per cent) covers business cycle research after the stabilization of the German currency and mentions among others contributions by Schumpeter, Spiethoff, Lederer, Hahn, Mises, Hayek, Eucken, Roepke, Mueller-Armack, Collin, Loewe and Alexander Ruestow. The final part is rightly the most extensive (32 per cent) and addresses the "Oscillation of Bourgeois Economics Between Crisis and the Authoritarian State". Here we find discussion of some of the recovery programmes, their criticism and a number of chapters which try to show how economists of both the liberal and the historical school found it possible to avoid inconsistencies between their own views and those of the National Socialist Party. In all these chapters, we find very instructive details about the institutional background of academic research in Germany and the circumstances, propensities and predilections of major and minor protagonists in economic research. The account is based on both published archival material as well as interviews; and the author is very successful in whetting one's appetite for further material and complementary research.

In terms of the five questions mentioned above, we notice that mainly industry-based political interests were operative in pursuit of a change in the post Versailles political and economic system probably including a revision of the democratic order itself. How these political interests found their way into the academic community is not really very obvious. Krohn mentions the political interests and inclinations of some, like Adolf Weber, who repeatedly addressed (even regional) gatherings of industrialists. And we learn of Ruestow's activities on behalf of the trade associations he worked for. However, Alexander Ruestow as much as he tried to keep in touch with (mostly younger) German economists whom he tried to engage in his various political activities was himself a business lobbyist who pursued his scholarly interests mostly in exile and thereafter. In this respect, he was rather different from his brother Hanns Jochaim,⁵ who

⁵ See his commentary "The Economic Crisis of the Weimar Republic and How

for a while worked in the Imperial Ministry of Economics along with Lautenbach, but receives only scant attention in this book. Likewise, Stolper's dependence on subscriptions for his magazine "Der deutsche Volkswirt" cannot adequately explain his opposition to policies of stimulation such as the Wage-mann proposal. On the basis of this and similar information we cannot off-hand dismiss the hypothesis that factors internal to the scholarly community determined the focus and perhaps also the tendency of some of the implications of the research carried out.

How could economic theories in turn influence the political process? Keynes in a famous quotation held that the views of defunct economists shape current political action.⁶ As for the political decisions taken in 1932 and 1933 it is doubtful that any contemporary university-based economist had an immediate effect. For instance, Dr. Luther, the president of the Reichsbank, is said to have changed his mind after a long conversation with the banker Max Warburg.⁷ The Imperial Chancellors, including Heinrich Brüning, were aware of the political and economic potential of Keynesian policies. Brüning's policy was consistently followed by his successors, including Hitler, since stimulating policies were introduced almost immediately after Germany was relieved of the burden of reparations. This was essentially Brüning's success, but he was denied the political profit.

Hence, fourthly, we cannot, even on the basis of Krohn's account, dismiss the hypothesis that it was in the national interest of Germany to initiate the change in economic policy at precisely the time she did; and that the other, in particular the industry, based, political interests simply reflected the overriding national purpose.

Was it, fifthly, really in the best interest of the various political groups and parties to draw academic economists into their respective camps? It probably wasn't, and perhaps they didn't. Let us try a test of robustness of Krohn's main thesis and ask three questions.

1. Have the leading German economists contributed to their analytical task?
2. Were the propagators of credit-based demand management without relevant ties to leading interests groups?

it was Overcome: A Comparison with the Present Recession." *Cambridge Journal of Economics*, 2, 1978, pp. 409-421; *Theorie der Vollbeschäftigung in der Freien Marktwirtschaft*. Tübingen: Mohr/Siebeck 1951.

⁶ JOHN MAYNARD KEYNES, "The General Theory of Employment, Interest, and Money." New York: Harcourt, Brace, and World, Inc., 1936, p. 383.

⁷ See ANDREAS KORSCH, "Der Stand der beschäftigungspolitischen Diskussion zur Zeit der Weltwirtschaftskrise in Deutschland." in GOTTFRIED BOMBACH *et al.* (eds.), *Der Keynesianismus*. Berlin, Heidelberg, New York: Springer, 1981, p. 107.

3. Was the choice of research topics dictated by political interests or possibly prompted by genuine scholarly concern?

If we try to recall the names of the three most important occupants of chairs in economics in Germany during the late twenties and early thirties most probably Schumpeter, Sombart and Spiethoff come to mind. Can we ignore Schumpeter's new view of money and credit, in particular as stimulants of entrepreneurial innovation, his treatise on money and his work on business cycles?⁸ Should we dismiss Sombart's highly interesting essay⁹ in which he not only advocated credit-based demand management, but at the same time insisted on the requirement that the public expenditure programmes meet a test of public profitability? Should we ignore that this essay and the accompanying programmes were given close attention at various echelons in the Imperial Ministry of Economics, as evidenced by the marginal notes on the surviving copy? After all, the issue of the productivity of the expenditure programmes tended to be neglected by both Keynes and his disciples. At the same time, Spiethoff continued research on his much acclaimed theory of the business cycle, upon which both Schumpeter and Wicksell built further contributions. These contributions, and in particular Sombart's, were rather different in spirit from those which receive most of Krohn's attention. The Kiel group, in particular Neisser and Lederer, proposed measures of demand management, but again in a partisan spirit bolstering trade union demands. As we can learn from Krohn, they neglected their scholarly work in order to campaign for the trade unions, and they proposed, accordingly, increases in wage levels irrespective of their repercussions on productivity, Germany's international competitiveness and employment. On the other hand, the leading Keynesian theoretician who in the Imperial Ministry of Economics worked out the plans which were later put into effect, Wilhelm Lautenbach, receives rather shoddy treatment in Krohn's account. We learn of Lautenbach's changing political convictions in the tens and twenties and an unsuccessful attempt to secure a professorial position; all this at the expense of

⁸ JOSEPH ALOIS SCHUMPETER, "Das Sozialprodukt und die Rechenpfennige." *Glossen und Beiträge zur Geldtheorie. Archiv fuer Sozialwissenschaft* 44, 1917, pp. 627-715. Translated as "Money and the Social Product". and JOSEPH ALOIS SCHUMPETER, *Das Wesen des Geldes*. Aus dem Nachlass heruagegeben und mit einer Einfuehrung versehen von Fritz Karl Mann. Goettinger: Vandenhoeck & Ruprecht 1970. This book, which had been announced by the prospective publisher, Springer, in 1929, was completed in 1930 before Schumpeter took off from Bonn to spend a year at Harvard as a visiting professor. When he returned, he refused to have it printed in its present form, presumably because Keynes had published his *Treatise on Money* in the meantime.

⁹ WERNER SOMBART, "Zum Problem der Arbeitsbeschaffung." *Die Wirtschaftswende*, Sonderheft February 1933, pp. 25-30. This expert opinion had been written by Sombart for the "Studiengesellschaft fuer Kredit- und Geldwirtschaft", which submitted it to the Imperial Chancellor on August 10, 1932.

a thorough treatment of his widely noticed contributions in both scholarly journals and internal memoranda for the Imperial Ministry. This emphasis flies in the face of the general consensus in the literature about the period, and it contributes little to proving the main thesis.¹⁰

What about the choice of research topics? Do we really want to explain German economists' preoccupation with the structure of the economic order and with the interdependence between political institutions and economic performance as merely reflecting partisan interests at a time when this same order and these same institutions were about to undergo a dramatic and fundamental change? It would seem that this research effort was quite topical, although some of its results may not have proved to be analytically successful in the long run.

¹⁰ Wilhelm Lautenbach's preeminence in this respect is invariably noted by almost any student of the area, see e.g. CHARLES KINDLEBERGER, *The World in Depression 1929-1939*. Berkeley, Los Angeles: University of California Press 1973, pp. 17, 176, 177. See also JUERGEN BACKHAUS, "Wilhelm Lautenbach: Anticipator of Keynesian Economics." History of Economics Society Annual Meeting May 23-26, 1982.

