

Helmut Schmidt Prize Lecture

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Austerity: Views of Chancellor Brüning's and President Hoover's Fiscal Policies from Across the Atlantic, 1930-32

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0. Acknowledgements and thanks

Helmut Schmidt died exactly one month ago, on the tenth of November. As opinion polls show, he ranks as the most highly esteemed chancellor that the Federal Republic of Germany has ever had. The Helmut Schmidt Prize pays tribute to him for his part in transforming the framework of transatlantic economic cooperation. I would add that with his pragmatism and common sense he has been the most Anglo-Saxon of all chancellors in Germany's history. I think that he would have appreciated the transatlantic perspective of my lecture today.

My admiration for Helmut Schmidt has other roots as well. First, I was very impressed by the pragmatic and results-oriented instead of rules-oriented way he handled the flood in his city of Hamburg in February 1962, in his capacity as the city-state's Senator of the police force and shortly thereafter of the interior. Second, ten years later, in the fall of 1972, I witnessed the skillful way Schmidt calmed down a group of very upset leading industrialists at a meeting of the

Federation of German Industry in Cologne. I was working then in the federation's foreign trade department and was in charge of transatlantic relations. On July 7, 1972, Schmidt had just taken over the Federal Ministries of Finance and of Economics from Karl Schiller. The industrialists were upset because Jochen Steffen, a major political figure on the SPD's left wing, had proposed during a party convention the previous November that the government of Chancellor Willy Brandt test "the load carrying capacity of the economy" by increasing social expenditures and, with that, taxation. This was understood by the captains of industry as a full-blown anti-capitalist attack on the well-balanced grounding of West Germany's social market economy. Third, I admired Schmidt's courage in standing up to the Red Army Faction's terror attacks in Germany and on the German embassy in Stockholm, even when the lives of hostages were at risk. Fourth, in Max Weber's classification Schmidt lived the ethics of responsibility and stayed away from ideology. "A person with a vision should consult a doctor," is one of his famous quips. And he often emphasized how deeply rooted his thinking was in Karl Popper's theory of cognition.

When the study on "Public Debt: Causes, Effects and Limits" that I and a group of other experts had prepared for Germany's National Academy of Science was published in June 2015, I sent a copy to the *world economist* Helmut Schmidt, since 1983 co-editor of the weekly *Die Zeit*. He responded in a two-page letter on August 18. He expressed his personal thanks and wrote that he had read the study with great interest. He found it very helpful in a period of public controversy over public debt. He went into details of the study's findings and expressed full agreement with its main recommendations, namely that public debt as such is not the issue. The more important issue, he agreed, was the question of what purpose debt is intended to serve. It is true that sustainability of debt should be the goal of fiscal policy. But debt financing would be justified, if the revenue from public borrowing were used to finance investments that promote economic growth, he concluded.

And now let us start on the more mundane matters of today's event.

The Helmut Schmidt Prize might not be the Nobel Prize, but the fact that the two are being awarded on the same day this year makes me feel as honored and as joyous as I am sure those other prize winners in Stockholm are feeling today.

Remember John F. Kennedy's "I am the man who accompanied Jacqueline Kennedy to Paris, and I have enjoyed it."¹ He said this on his state visit to France, where charming Jacqueline, fluent in French, upstaged her husband. Upon his arrival on May 31, 1961, his speech writer Ted Sorensen - or was Pierre Salinger or Jacqueline the originator? – had made him quote Benjamin Franklin, the first U.S. ambassador to France: "Every man has two countries – France and his own."

To summarize the essence of my personal and academic life I say accordingly: Ever since my exchange student year at Creighton Prep high school in Omaha, Nebraska, in 1959–1960, I have had two countries – Germany and the United States. No wonder that my academic affiliation at the Free University in Berlin since 1983 has been with the John F. Kennedy Institute for North American Studies. And last September, I attended the 55th anniversary reunion of my class in Omaha, as I did five years ago for our 50th and three years ago for our joint 70th birthday party in Las Vegas.

Looking at the list of five previous recipients of the Helmut Schmidt Prize, I feel that I am in familiar company, both professionally and personally. I am of course well acquainted with their publications. It's in our publications that we scholars live on after we have died. The works of Jerry Feldman, for example, who as president of the Friends of the GHI was not eligible for the prize, but has always been working in its spirit, plays a big role in my current research on the history of the German Economics Ministry during the Weimar Republic. On a personal level I have been friends with Jerry and his wife Norma. We've enjoyed many excellent dinners and conversations in Berlin restaurants.

Richard Tilly, although being only ten years older than I, is a sort of father to me, i.e. my academic father. When he started teaching economic history at the University of Münster in the fall of 1966 and thereby implanted the theoretical and quantitative methods of the *new economic history* in Germany, I had just received my degree in economics in Münster and became his assistant and doctoral student. I am deeply indebted to him, both intellectually and personally. And for many decades now we have enjoyed a warm friendship.

Harold James has been my companion on many scholarly and private ventures, like visiting the desert in California. He went out of his way on a European visit

¹ He made the comment during "Remarks and Question and Answer Period at the Press Luncheon" in Paris on June 2, 1961. <http://www.ldcfitzgerald.com/jfk-i-am-the-man-who-accompanied-jacqueline-kennedy-to-paris-and-i-have-enjoyed-it/> (Accessed 8 October 2015).

to make sure he could be a surprise guest at my 70th birthday party almost four years ago in Berlin. I have known him and his wife Marzenna for many years and cherish their friendship.

Charlie Maier entered my life, when I spent a year at the Center for European Studies at Harvard as a John F. Kennedy fellow in 1975/76. Then an assistant professor, he was a member of the Center, before he got his first tenured position at Duke University in North Carolina in 1976. Whenever I came back to the Center for European Studies, of which he had subsequently become director, and whenever he came to Berlin for research after Germany's reunification, we met for events, luncheons, and talks.

During my stay at Harvard in 1975/76, I met Mary Nolan at dinners at Thomas Philipp and Goli Bayat's house in Newton, MA. The Philipps shared an assistant professorship in Middle East History at Harvard. They have been my friends ever since. Thomas Philipp, originally from Berlin, became a professor for Middle East Studies at the University of Erlangen-Nürnberg in Germany. He died just half a year ago in June 2015. With him and his wife Goli I have often talked about Mary Nolan and the course of her life and career. So she was also close to me beyond her presence in person and in publications.

Volker Berghahn and his wife Marion are a phenomenon. I first ran across their names when they started *Berghahn Books* in 1994, a real breakthrough for the study of German-American economic history. I have met Volker on several occasions in Berlin and elsewhere, most recently last year and again in October of this year in Berlin. I am proud that he took responsibility for my formal introduction today. Let me thank you and the GHI's new director Simone Lässig for your warm welcome. Mind you, this is also my homecoming to the German Historical Institute here: I have been a member of its advisory board for 13 years, from 1990 to 2003. And a homecoming to Washington, DC in general: I have been a fellow of the Woodrow Wilson International Center for Scholars for a year in 1982/83.

1. Introduction

The two most advanced industrial economies in the world, the U.S. and Germany, were in competition to take over Great Britain's hegemonic role in the world economy well before World War I. Brooks Adams had called attention to

this rivalry as early as 1900.² The *Great War*, as the British call World War I, settled the issue. In my view, it's very remarkable how Ernst Troeltsch, the extremely sensitive and insightful observer of developments in Berlin in the early postwar period, summarized the War's long-term consequences in 1919: "The Anglo-Saxon world domination has been decided upon. [...] At the same time this Anglo-Saxon empire represents the victory of Anglo-Saxon individualism. It will adopt from Germany, as in the past, some social reforms, and thereby defeat socialism. Their workers will share the enjoyment of world domination and will not destroy their advantaged position by pursuing world revolution. The European peoples will become bilingual, they will have to speak and write in English for the world, and for their private purposes they will continue to use their traditional languages like dialects."³ Troeltsch published this on June 26, 1919, when the dice had been cast that the German government was determined to sign the Treaty of Versailles two days later. The efforts of France to cripple the German economy were in essence opposed by its Anglo-Saxon allies, Britain and the U.S., who were interested in favorable economic relations with their former enemy. Thus Germany remained the strongest industrial power in Europe, but of course was second behind the U.S. from a global perspective at the time of the Great Depression.

The depression hit the U.S. and Germany harder than the other industrial countries. The dimensions of the two countries' economic setbacks were quite similar. In 1932 real GDP stood at 74.4 percent of the 1929 level in the U.S. and at 74.7 percent in Germany. During the same period stock market prices dropped to 30.8 percent of the 1929 level in the U.S. and to 38.5 percent in Germany. Although the unemployment rate in Germany had been about three times higher than in the U.S. in 1929, both countries saw their unemployment rates shoot up by around 20 percentage points over the next three years.⁴ Even the percentage-

² Brooks Adams, *America's Economic Supremacy*, New York: Macmillan, 1900. See also Charles P. Kindleberger, "Germany's Overtaking of England, 1806 — 1914", Part I and II, *Weltwirtschaftliches Archiv* 111 (1975), pp.253-281, 477-504. C.P. Kindleberger, *World Economic Primacy, 1500-1990*, New York: Oxford UP, 1996. François Crouzet/ Armand Clesse (eds.), *Leading the World Economically*, Amsterdam: Dutch UP, 2003.

³ Ernst Troeltsch, *Die Fehlgeburt einer Republik. Spektator in Berlin 1918 bis 1922*, Frankfurt am Main: Eichborn, 1994, p. 61. My translation.

⁴ Nicholas Crafts/Peter Fearon, „Depression and Recovery in the 1930s: An Overview“, in: N. Crafts/P. Fearon (eds.), *The Great Depression of the 1930s. Lessons for Today*, Oxford: UP, 2013, p. 3, Table 1.2.

point drop in marriage rates from 1929 to 1932 was quite similar: 2.2 per 1,000 residents in the U.S. and 2.7 per 1,000 in Germany.⁵

Two countries facing similarly deep economic problems were bound to be interested in watching each other's economic policies to counteract the depression. I have singled out German and U.S. fiscal policies during 1930 to 1932 for three reasons: first, **to study the different policies which created results that were practically the same: neither** President Hoover nor Chancellor Brüning managed to reverse the slide into depression during their respective terms of office; second, to find out, how closely American newspapers tracked and commented on Brüning's fiscal policies and what German newspapers had to say about Hoover's and Congress's budgetary policies; and third, to re-examine the conclusion of so many scholars, myself included, that Brüning could have attenuated the effects of the depression in Germany with a less restrictive fiscal policy and thereby perhaps have prevented Hitler's accession to power.

2. Fact and circumstance: similarities and differences

Similarities:

First, Hoover did not have a nickname, but his name became a multipurpose term of derision during the Great Depression. Newspapers used by the poor as blankets were called "Hoover Blankets," pieces of cardboard used to patch damaged shoe soles "Hoover Leather," empty pockets turned inside out "Hoover Flags," shanty towns built of discarded wood and scrap metal were called "Hoovervilles," immobilized vehicles towed away by horses "Hoover Wagons," and lean wild rabbits that the homeless caught "Hoover Pigs."⁶ Brüning's nickname expressing the same circumstance was simply "Hungerkanzler," starvation chancellor.

Second, Brüning refused to step up grants-in-aid to state and local governments. So did Hoover before he slightly raised it in fiscal year 1932. In the U.S. case

⁵ Barry Eichengreen/Timothy J. Hatton, „Interwar Unemployment in International Perspective“, in: B. Eichengreen/T.J. Hatton (eds.), *Interwar Unemployment in International Perspective*, Dordrecht: Kluwer, 1988, p. 47, Table 1.13. Here also, the starting levels in 1929 were quite different: 10.1 in the U.S. and 18.4 in Germany.

⁶ Florian Pressler, *Die erste Weltwirtschaftskrise. Eine kleine Geschichte der Großen Depression*, Munich: Beck, 2013, p. 67.

such federal assistance had been a trifle anyway.⁷ In the German case, it had become extensive during the 1920s Weimar Republic. Then came Brüning, whose budget cuts starved state and local governments fiscally and left them in the lurch as they grappled with their responsibility for poverty relief and welfare programs.⁸

Differences:

First, when Hoover took office on March 4, 1929, the U.S. economy was booming. Not until August 1929 did the first signs of a slowdown in industrial production appear. In Germany, by contrast, the economy had already been in recession for more than a year when Brüning took office on March 30, 1930,⁹ and the number of unemployed in Germany already stood at 3.0 million, double the number of March 1928 and half the number of March 1932 around its peak.¹⁰

Second, the U.S. exited World War I as the world's largest creditor nation, Germany as the largest debtor country. This was due not only to reparations but also to capital imports facilitated by the stabilization of Germany's currency in November 1923 and by the 1924 Dawes Plan, which temporarily reduced the annual reparation payments.

Third, the U.S. had come out of WW I with greatly increased industrial and agricultural production (capacity). Production capacity in Germany, in contrast,

⁷ U.S. Bureau of the Census, *Historical Statistics of the United States. Colonial Times to 1970*. Bicentennial Edition, Part 2, Washington, DC: GPO, 1976, p. 1126. It was the Roosevelt Administration that boosted it in 1933/1934.

⁸ Ursula Büttner, *Weimar. Die überforderte Republik 1918-1933. Leistung und Versagen in Staat, Gesellschaft, Wirtschaft und Kultur*, Stuttgart: Klett-Cotta, 2008, pp. 436-438.

⁹ For real GNP figures showing the decline after 1928 see Albrecht Ritschl, *Deutschlands Krise und Konjunktur 1924-1934. Binnenkonjunktur, Auslandsverschuldung und Reparationsproblem zwischen Dawes-Plan und Transfersperre*, Berlin: Akademie Verlag, 2002, p. 297, table B.9. There has been a well-known scholarly exchange of arguments between Peter Temin and Malcolm E. Falkus, whether the earlier downturn in Germany than in the U.S. was caused by less inflow of American capital into Germany due to the speculation leading up to the stock-market crash in October 1929 and the Fed's prior raising of interest rates. Peter Temin, "The Beginning of the Depression in Germany", *Economic History Review* 24 (1971), pp. 240-248. Malcolm E. Falkus, "The German Business Cycle in the 1920's", *Economic History Review* 28 (1975), pp. 451-465. Theo Balderston, "The German Business Cycle in the 1920's: A Comment", *Economic History Review* 30 (1977), pp.159-161. Peter Temin, "The German Business Cycle in the 1920's: A Comment and Reply", *Economic History Review* 30 (1977), pp.162-164. Malcolm E. Falkus, "The German Business Cycle in the 1920's: A Reply", *Economic History Review*, 30 (1977), p. 165.

¹⁰ Institut für Konjunkturforschung (ed.), *Konjunkturstatistisches Handbuch 1933*, Berlin: Hobbings, 1933, p. 15.

had been greatly diminished. Only in 1928 did German industrial production reach its prewar level.

Fourth, Hoover was operating in a stable democratic constitutional system that had even withstood the challenge of civil war in the mid-nineteenth century. Brüning was faced with the very shaky foundations of Weimar democracy, with opposition not only to policy decisions but to the very concept of democracy.

Fifth, Brüning himself would soon become a contributor to the demise of democracy in Germany by relying almost exclusively on governing by emergency decree. He invoked the emergency powers provided by article 48 of the Weimar constitution not only to maintain law and order, but also for fiscal policy (*Notverordnung* of Reich President Paul von Hindenburg). Hoover, in contrast, needed majorities in Congress to implement his fiscal policies, with all the give and take that such a process requires to achieve a compromise result.

Sixth, while *welfare capitalism* financed by business on a voluntary basis had been the road to more social security in the U.S. after World War I, Germany's road to that aim during the Weimar Republic had been an extensive enlargement of the *welfare state* that Bismarck had pioneered in the 1880's. This found expression in the fact that in 1929 central government expenditure as a share in GNP was only 3.7 percent in the U.S.,¹¹ but 8.8 percent in Germany.¹²

Seventh, Hoover was well aware of the crucial role that sustaining demand in all categories of private and public expenditures could play in counteracting a recession.¹³ He (and Congress) expanded federal expenditure throughout the depression. To an even larger extent, shortfalls in revenue created growing budget deficits. Hoover also summoned U.S. business leaders to the White House and won pledges from them to maintain investment, wages, and employment. Hoover likewise urged municipal and state governments to launch work-creation programs. These measures proved unsuccessful, however, and major banking crises in 1930 and 1931 caused the economic situation to deteriorate further. In 1932, Hoover finally consented to offer federal money for

¹¹ Calculated from expenditure figure in http://www.usgovernmentspending.com/year_spending_1929USbn_15bs2s (accessed 17 October 2015) and official GNP figures in U.S. Bureau of the Census, *Historical Statistics of the United States. Colonial Times to 1970*.

¹² Calculated from: Statistisches Bundesamt (ed.), *Bevölkerung und Wirtschaft 1872-1972*, Stuttgart/Mainz: Kohlhammer, 1972, pp. 229, 260.

¹³ That nothing could be further from the truth than the popular stereotype of Hoover as an uninspired do-nothing president is theme of William J. Barber, *From new era to New Deal. Herbert Hoover, the economist, and American economic policy, 1921-1933*, Cambridge: UP, 1985.

loans to private businesses and to provide \$2 billion for state and local job-creation programs. The vehicle for these programs was the newly founded Reconstruction Finance Corporation (RFC).¹⁴

Brüning, in contrast, although having a doctorate in economics, did not show any understanding of the circular-flow model of macroeconomics and of the necessity of sustaining demand to counteract a crisis. He was determined to balance the federal budget no matter what tax increases and drastic expenditure cuts might be required. He cut federal expenditure from 8.2 billion Reichsmarks in 1930 to 5.7 billion in 1932.¹⁵ Although competent government officials confronted him with the latest Keynesian ideas that had also found expression in the British Macmillan Report of July 1931, Brüning (and Reichsbank President Hans Luther) didn't budge. Names like Wilhelm Lautenbach, Hans Staudinger, Hans Schäffer and Ernst Wagemann, all senior civil servants, come to mind. Against the background of sarcastic attacks by the Nazis, Brüning failed to stabilize the budget. The Nazi party, which saw its support at the polls grow strongly during Brüning's chancellorship, was well aware of demand-side recipes for counteracting the depression. It demonstrated this successfully after coming to power on 30 January 1933. Its propaganda had called Brüning's last fiscal emergency decree of December 8, 1931, a "Verordnung zur Abkurbelung von Wirtschaft und Finanzen" (*decree to crank down economic activity and public finance*).¹⁶ Hoover failed in stabilizing the economy and thereby in stabilizing the budget as well, while Brüning failed in stabilizing the budget and thereby in stabilizing the economy. As the equally high unemployment rates in Germany and the U.S. at the bottom of the depression in 1932 demonstrate, Hoover's fiscal stimulus and Brüning's fiscal contraction did not really affect the course of their respective countries' economies as planned. This leaves us with the conclusion that the remote cause of the Great Contraction, as Milton Friedman and Anna J. Schwartz called it, lay in the financial and monetary spheres, in other words in the banking crises and in central bank policies.¹⁷

¹⁴ Paul S. Boyer et al., *The Enduring Vision. A History of the American People*, Lexington, MA/Toronto: D.C. Heath, 1990, p. 874.

¹⁵ Statistisches Bundesamt (ed.), *Bevölkerung*, p. 231.

¹⁶ „Vierte Verordnung zur Abkurbelung von Wirtschaft und Finanzen. Vom 8. Dezember 1931“, *Wirtschaftspolitische Beobachter. Nationalsozialistische Wirtschaftszeitung für die Schaffenden aller Stände und Berufe* (ed. by Fritz Reinhardt) 8 (1931), Dec. 19, 1931, p. 1. My translation.

¹⁷ Milton Friedman/Anna J. Schwartz, *A Monetary History of the United States, 1867-1960*, Princeton: UP, 1971, pp. 299-419.

3. Chancellor Brüning's fiscal policy in American public opinion

Brüning was sworn in as chancellor by President Paul von Hindenburg on March 30, 1930, just three days after the last parliamentary coalition government of the Weimar Republic under chancellor Hermann Müller had resigned. He did not command a majority in the Reichstag, i.e. the German parliament, because Hindenburg had obligated him to form a cabinet without the Social Democrats. But he enjoyed strong backing by President Hindenburg who could bypass parliament in promulgating laws on the basis of Article 48 of the Weimar constitution. Its second paragraph said: "In case public safety is seriously threatened or disturbed, the Reich President may take the measures necessary to reestablish law and order, if necessary using armed force." Article 48 also stipulated that the President had to inform the Reichstag of such measures immediately and that "The measures have to be suspended immediately if the Reichstag demands so." But in that case the President was equipped with the power to dissolve the Reichstag and to mandate a new election within 60 days after its dissolution.¹⁸

When the above-quoted paragraph 2 had been written into the German Constitution by the National Assembly in Weimar in 1919, nobody had imagined that 11 years later it would apply to the rebalancing of a public budget in deficit because the provision "if necessary using armed force" makes no sense in fiscal policy. But legal experts can be surprisingly innovative: towards the end of the Weimar Republic an unbalanced budget was identified as a serious threat to public safety that would justify invoking Article 48 in order to rule by emergency decree. It seems to me that this was a stab into the heart of democracy by those politicians who asked for this redefinition of threat to public safety and those legal experts who provided it because in a democracy control of the budget is traditionally the supreme right of parliament.

Gordon Craig has already pointed out in 1978 that Brüning possessed "undeniable gifts" when he was called to the chancellory. "These qualities of mind were not accompanied, however, by the psychological gifts that politicians need if they are to be successful. Brüning was a man who thought in terms of measures rather than people, and he over-valued the power of reason and logic. [...] To the German people, who like leaders who are not afraid to show their

¹⁸ Article 25 of the Weimar Constitution.

feelings, he seemed cold, over-intellectual, and unsympathetic, and this, as much as anything, was the cause of his undoing.”¹⁹

During Brüning’s tenure in office from 1930 to 1932 a common goal of all non-Nazi parties in general and of Hindenburg and Brüning in particular was to keep Hitler and his party out of power. State elections in 1929 had shown the Nazis’ growing strength in tandem with growing unemployment. With that common goal in mind, Brüning thought he might be able to trade a few concessions in exchange for the SPD’s backing for the first austerity program he presented the Reichstag. But the SPD did not support him. Brüning then had Hindenburg enact the fiscal measures by two emergency decrees of July 16, 1930. A majority of the Reichstag, including the SPD with its 30 percent of the votes, demanded their suspension on July 18. Brüning and Hindenburg responded the same day by dissolving the Reichstag and setting an election 60 days later on September 14, 1930.²⁰ In the interim, an emergency decree issued on July 26, 1930, gave legal force to even more stringent austerity measures than parliament had been asked to enact.²¹ With the Reichstag dissolved there was a vacuum for demanding its immediate suspension.

Four further emergency decrees imposing drastic tax increases and expenditure cuts would follow.²² The decrees were issued on:

December 1, 1930, because the crisis had deepened and the budget deficit had widened;

June 5, 1931, after signs of recovery had disappeared again during spring, and the banking crisis in Vienna had added a new dimension to the crisis;

October 6, 1931, after the devaluation of the British pound (and of other currencies in its orbit) on September 21 had drastically worsened Germany’s international competitive position;

December 8, 1931, as a second reaction to Britain’s devaluation of the pound.

The Reichstag did not suspend the latter four emergency decrees because the outcome of the September 14, 1930, elections had been a shock domestically and internationally. The Nazi party had jumped from a mere 2.6 percent of the

¹⁹ Gordon A. Craig, *Germany 1866—1945*, New York: Oxford UP, 1978, pp. 537—538.

²⁰ For more details see Heinrich August Winkler, *Weimar 1918-1933. Die Geschichte der ersten deutschen Demokratie*, Munich: Beck, 1993, pp. 379-381.

²¹ *Notverordnung „zur Behebung finanzieller, wirtschaftlicher und sozialer Notstände“*.

²² They were called *Notverordnung zur Sicherung von Wirtschaft und Finanzen* and numbered 1 to 4.

vote in 1928 to 18.3 percent, thus becoming the second-strongest party in the Reichstag behind the SPD with 24.5 percent this time. The SPD thereafter tolerated Brüning's austerity measures – as well as more than 90 other pieces of legislation enacted by emergency decrees – out of fear. The Center Party threatened to pull out of the “Grand Coalition” with the Social Democrats in Prussia, the state comprising two-thirds of the German Reich's territory and two-thirds of its population. The Social Democrats were also haunted by the thought that the dissolution of the Reichstag and another round of elections would benefit only the Nazis. And without the SPD's support the anti-Brüning forces in parliament, i.e. the Nazis, the Communists, and the radicalized German National People's Party under Alfred Hugenberg lacked a majority to topple the emergency decrees.

And with this background story I finally come to how leading American newspapers viewed and reported on Hindenburg and Brüning's five fiscal emergency decrees. I have used the database *Historical Newspapers* for this purpose.²³ We keep an eye not only on the content of articles, but also whether they were published on page one or further back.

The July 27, 1930 edition of The New York Times carried a two-column article on the emergency decree issued the day before on page 14. It started with: “Taxation without representation became a fact in Germany today” and went on to report that the program differed “somewhat from that presented to the Reichstag before the latter's dissolution in that it is more drastic than the one for which it proved impossible to obtain a majority.” The Berlin correspondent called the decree “the climax to more than three months of fruitless effort to meet all the demands presented by the various Reichstag parties.” He summarized the most drastic measures: “striking out \$40,000,000 from the budget, raising the unemployment insurance premium from 1 per cent [‘by 1 percentage point’ would have been correct here] to 4¹/₂, the imposition of a 5 per cent increase in the income tax and a 10 per cent increase for bachelors, and a special additional 2¹/₂ per cent ‘sacrifice’ tax to be levied upon all civil servants. Another feature is the granting of permission to communes to levy an increased beer tax and a head tax. A portion of the measures planned for agricultural relief in the Eastern provinces is also included.” He also reports “that the government will no longer make up whatever deficit the unemployment insurance funds incur.” The article contains no judgment on Brüning's measures, if one doesn't

²³ I thank my research assistant Tobias Luthe for doing a fine job in browsing the online newspapers for relevant articles.

interpret the opening slogan “taxation without representation” as a critical remark.

The Washington Post on December 2, 1930 reported on Hindenburg/Brüning’s second fiscal emergency decree, issued the previous day, also on page 14. It was a one-column article that gave only a very condensed summary of the content of the decree. It said that the decree “embraces three groups of laws: 1. Minor alterations of the emergency decrees of last July, when Article 48 was invoked. 2. Twenty-six laws through which the government’s financial and economic reform proper will be effected. 3. Measures for the relief of agriculture.” The author of the article speaks of “ruthless slashing of public expenditures, sweeping reduction in public salaries, beginning with a 20 per cent cut in that of Von Hindenburg; halting of government contributions to various doles and blocking of the upward march of taxes. General amnesty for tax charges is contained in the section aimed at citizens who have been hiding their wealth in Switzerland and other foreign countries for fear of what might happen to it in Germany. Figuratively, it says to them: Come home and all will be forgiven.”

The Washington Post article reports that Brüning’s fiscal program “recently received the approval of the Reichsrat, or federal council, but the chance of its being passed by the Reichstag – the principal legislative body – appeared so faint that the chancellor appealed to Von Hindenburg to use his constitutional right to go over the Reichstag’s head.” But the author also criticizes Article 48 as establishing “a semidictatorship” and points out – as if he had doubts about the legality of its use - that it “can be invoked legally only ‘when public peace and safety are in danger’.” He speaks of a “financial drama” and draws attention to the fact that “the legislative body has the right to revoke this. [...] The Fascists, avowed enemies of parliamentary government, will be in an unusual position Wednesday [when the Reichstag convenes]. They must accept the situation as it is or insist on the sacred right of a parliamentary system – that of revoking a presidential decree.” The critical message between the lines was: Germany is becoming a dictatorship.

The Los Angeles Times obviously drew on the same correspondent in Berlin because the page 3 article it published on December 2 under the headline “Brüning’s Plan Germany’s Law” presented almost exactly the same information as contained in The Washington Post article. However, the subtitle of the article declared explicitly: “Von Hindenburg Exercises Dictator’s Power.”

On December 3, 1930, the day the Reichstag reconvened, The New York Times published a one-column article under the title “Hindenburg and the Reichstag” on page 22. It pointed out that the Hindenburg/Brüning emergency decree “does not require the approval of the Reichstag, which reassembles today. It is enough if the Reichstag refrains from formally expressing its disapproval. [...] That such a demand will not be forthcoming is the general belief in Berlin. A majority of the Deputies are convinced of the necessity of drastic action to save the Government’s financial health, and will be glad that the Brüning cabinet has spared them the odium, personal and party, involved in cutting salaries and unemployment grants. It is one thing to vote for such sacrifices on the floor of the Reichstag; it is another to abstain from challenging the wisdom and patriotism of President Hindenburg.”

Finally, on December 7, 1930, The New York Times published a long two-column article by Guido Enderis on page 16 under the headline “Reichstag Accepts Brüning’s Reforms.” The subtitle added “Refuses to Dissolve Decree for Enforcement of the Chancellor’s Economic Measures. Vote Stands 292 to 254. Government also Victorious on Motion of No Confidence and in Two Other Contests. Long Struggle Is Ended. Brüning Can Now Proceed With Attempt to Avert Recourse to War Debt Respite.” According to the article, the Reichstag’s strongest party, the SPD, had decided the night before “to back President’s von Hindenburg’s decree with its 143 votes. [...] Chancellor Brüning and his Minister of Finance, Dr. Hermann Dietrich, reaped their reward for one of the stiffest fights ever waged by a pair of government leaders with a recalcitrant Parliament. Behind them throughout stood the venerable [sic] Field Marshal-President, whose moral support of the government in its struggle to bring order into the Reich’s chaotic finances was the decisive propelling force that heartened Dr. Brüning in his determination to push through his reforms, either via the normal course of parliamentary procedure or with the aid of dictatorial expedients.” The New York Times is clearly signaling its approval here of Brüning’s financial measures, no matter how they might be enacted. There is also praise for the SPD: “here again the Socialists, the strongest party in the Reichstag, voluntarily subordinated party expediency to the consideration of the republic’s political welfare.” The article also reports: “The government in today’s voting was again solidly opposed by Dr. Alfred Hugenberg’s Nationalists [DNVP], Adolf Hitler’s Fascists and the Communists.” By praising the stance of the SPD although it was similar to those of the three extremist parties not represented in the Brüning cabinet, The New York Times distanced

itself from the three anti-democratic parties. Two of those parties, the nationalist DNVP and Hitler's NSDAP, would eventually destroy German democracy after they had managed to win *the venerable* Hindenburg's support in early 1933.

On the next Brüning/Hindenburg fiscal emergency decree of June 5, 1931, after a slight recovery during spring had petered out and the outbreak of the banking crisis in May in Vienna had added fuel to the fire of the crisis,²⁴ The New York Times was very quick to report on page 2 of its June 6 edition from a "Special Cable" of its correspondent Guido Enderis in Berlin that Hindenburg had signed the decree and "then took the night train for East Prussia, where he will spend the greater part of his annual vacation on his old family estate at Neudeck. [...] It was not exactly an auspicious prelude to an eagerly awaited sojourn on his old family estate, this dictatorial pronouncement on the tax-ridden people". The only concrete information in the article came in the subtitle: "Emergency Acts Calculated to Produce \$400,000,000 to \$500,000,000 Revenue."

But on June 7, 1931, The New York Times ran a very long article by Kendall Foss, cabled from Berlin the previous day, on page 1 under the headline: "Reich's 'Last Effort' Put Forth in Decree." The three subtitles added: "Government, Imposing Further Burdens, Calls Relief From War 'Tribute' Imperative. Sees Limit of Sacrifices. Promises German People That Drastic Emergency Taxes and Pay Cuts Will Be Last." The author points out that this was the first time that the term 'tribute' was used in an official document in place of "reparations." He also noted that the "decree is a frank admission on the part of the Brüning government that all previous attempts to put the public finances in order and balance the budget have failed because of the unexpected duration and severity of the depression." The decree was also an admission that "Dr. Brüning's cherished dream of establishing order at home before taking up the question of the revision of the reparation commitments has had to be abandoned." Revision would now have to be seen "as a necessary prelude to any successful re-establishment of financial soundness within the Reich." The government's claim that with these measures the budget would at last be balanced "is seriously doubted among experts, who declare that after the way the last decree fell below expectations it is highly unsafe to predict the successful collection of sums which are still only on paper." It is telling that the

²⁴ The course of the world-wide financial crisis of 1931 and its role in deepening the depression far beyond imagination has been ably presented by Stephen V.O. Clarke, *Central Bank Cooperation 1924-31*, New York: Federal Reserve Bank of New York, 1967, pp. 182-219.

article quotes the very patriotic conclusion of the preamble of the decree without any affirmative or dismissive judgment: “Germany is at the crossroads. If we believe in a future, then we must give our all to realize it. The government finds it impossible to believe that the younger generation is too small, the older too weak to stand shoulder to shoulder in the fight for the rebirth of German greatness and idealism as they have done in previous fateful hours.” A very detailed description of the measures contained in the decree follows, which I will spare you. Just think of Greece in recent years! But the difference is: Austerity was imposed on Greece by its creditors in exchange for further credit that was necessary to save the Greek government and banks from bankruptcy. In the German case, in contrast, it was the government itself under Brüning and Hindenburg that chose drastic measures to balance its budget without the assurance of further foreign credit. Rather, the austerity’s proximate aim was to pressure the Allies into giving up on reparations.

On June 9, 1931, The Wall Street Journal reported in one article on page 8 on the emergency decree and Brüning’s subsequent meeting with British statesmen at Checkers Court. “There the Bruening government staked its existence on a scheme for meeting reparations and still maintaining the solvency of the Reich. It cannot hope to retain office unless it can without delay convince a majority of Germans that it is making actual progress towards a substantial reduction of the reparations debt.” In the event that Brüning’s government fell, the Journal predicted, “A Teutonic brand of fascism would be little less troublesome for the world than a Germany going communistic. [...] no successor to the Bruening cabinet would be any more successful in holding the country in line for fulfillment of the Young Plan.” But the article also contains criticism of the Brüning cabinet’s position: “This flat and final declaration that Germany has reached the limits of her endurance will be met in certain American quarters with the objection that it is the special pleading of one of the parties to the contract.” But governments outside of Germany are also held accountable: “the course of German political events in the near future will depend greatly upon the attitude of other European governments, which in turn will be largely influenced by the attitude of Washington towards a possible revision of war debt settlements. Secretaries Stimson and Mellon are about to sail for Europe. If the Bruening cabinet can maintain itself until arrival, a practical and effective cooperation between American and British governments to bridge the reparations crisis should by all means be attempted.” This is an appeal to Hoover and the Congress to take responsibility for the reparations issue and thus for

ensuring a non-communist and non-fascist future for Germany. And in fact, on June 20, Hoover offered to the German government a one-year moratorium on all intergovernmental debts, comprising debts between the wartime Allied and Associated Powers and reparation debts, if, for face-keeping purposes, President Hindenburg would ask him for it, which, of course, the German President did.²⁵

Next in line was the emergency decree of October 6, 1931, triggered by Great Britain's decision to go off the gold standard on September 21, 1931. The British step hit the global economy like an earthquake and turned a normal (like 1920-21) depression in the U.S. into the Great Depression, as Harold James argues against the Friedman and Schwartz's explanation.²⁶ It resulted in a devaluation of the pound of about 30 percent by December 1931.²⁷ Different leading financial experts in Britain, among them John M. Keynes, and the Governor of the Bank of England, Montagu Norman, initially suggested that Germany should also devalue its currency.²⁸ But Brüning was determined to stick to the letter of the Young Plan and to the Reichsmark's parity to gold until the Germany's reparation debt was cancelled.²⁹ He thereby, for the time being, accepted the large deterioration of the German economy's international competitiveness vis-à-vis Britain and all the other devaluing countries, from the British Empire to the Scandinavian countries which mostly pegged their currency to the pound.³⁰ He preferred to break the promise he had made on the occasion of the previous emergency decree that those sacrifices would be the last ones he would demand from the German people to violating the letter of the

²⁵ Winkler, *Weimar*, p. 415. The crucial role that the International Chamber of Commerce, especially during and after its congress in Washington, DC May 4-7, 1931, played behind the scene in paving the way to the Hoover moratorium has been shown by Monika Rosengarten, *Die Internationale Handelskammer: wirtschaftspolitische Empfehlungen in der Zeit der Weltwirtschaftskrise, 1929-1939*, Berlin: Duncker & Humblot, 2001, pp. 216-222.

²⁶ Harold James, *The End of Globalization. Lessons from the Great Depression*, Cambridge, MA: Harvard UP: 2001, pp. 75-80. How much the resurrected interwar gold standard contributed to the severity of deflation and depression after 1929 is discussed in Ben S. Bernanke/Harold James, "The gold standard, deflation, and financial crisis in the Great Depression: an international comparison" in Ben S. Bernanke, *Essays on the Great Depression*, Princeton: UP, 2000, pp. 70-107.

²⁷ Clarke, *Central Bank Cooperation*, p. 218. Charles P. Kindleberger, *The World in Depression, 1929-1939*. Revised and enlarged edition, Berkeley: UC Press, 1986, pp. 158-159.

²⁸ Jürgen Schiemann, *Die deutsche Währung in der Weltwirtschaftskrise 1929-1933. Währungspolitik und Abwertungskontroverse unter den Bedingungen der Reparationen*, Bern/Stuttgart: Haupt, 1980, pp. 185-190.

²⁹ *Ibid.*, p. 187, fn. 3. See also Heinrich Brüning, *Memoiren 1918-1934*, Stuttgart: DVA, 1970, pp. 221, 367. Brüning and Reichsbank president Hans Luther had secretly planned on a 20-percent devaluation of the Reichsmark after the end of reparations. Brüning's position has been defended by Knut Borchardt, "Could and should Germany have followed Great Britain in leaving the gold standard?" *Journal of European Economic History* 13 (1984), pp. 471-497.

³⁰ Leland B. Yeager (*International Monetary Relations: Theory, History, and Policy*. 2nd edition, New York: Harper & Row, 1976, p. 344) provides detailed information on which countries pegged their currency to the pound and which didn't.

Young Plan. The rationale behind this emergency decree and the one that followed was to effectuate a devaluation, comparable to the pound's, by cutting costs and prices in Germany if possible by at least 20 percent. The symbol of this effort was the officially enforced reduction of the price of a *Brötchen* (a roll), which was and is a German's favorite breakfast companion, from five to four *pfennigs*. And for this purpose alone, a new four pfennig coin was minted and added to the money in circulation.

Now let's see what US newspapers reported on the Brüning/Hindenburg emergency decree of October 6, 1931. All American papers that I could find in the Historical Newspapers database with articles on the decree covered the issue with a one-day delay on October 8, due to the whole cabinet's resignation one day after the decree.

The New York Times covered events in Germany on October 8 on page 1 in an article cabled from Berlin the previous day entitled "Reich Cabinet Out; Bruening To Remain." It reported, first, that "Brüning's 'extra-parliamentary' Cabinet, which for eighteen months has virtually been carrying on by means of executive decrees under Article XLVIII of the Federal Constitution, resigned in a body today" and that President Hindenburg had accepted the resignation and had entrusted Brüning with the formation of a new government "which the President directed should not be tied to any of the parties." It reported, second, that as its final act the retiring Cabinet had issued a new emergency decree "giving the government far-reaching financial, economic and police powers." Its full label was emergency decree for "the protection of economy and finances and the suppression of acts of political terrorism." It was pointed out that officially the decree was a provisional measure and part of a "comprehensive plan of reorganization to be worked out soon." This plan would include: "lowering the German level of prices, the cost of production and interest rates, whereby Germany hopes to create a solid basis for international negotiations." This, of course pertains to the reparations issue.

Let me summarize The New York Times' account of the main features of the decree: "All imports that are not vital will be avoided henceforth [...] Bakers will be forced to use a larger quantity of domestic potato flour in order to reduce agrarian imports." Unemployment insurance payments were to be cut from 26 to 20 weeks. The Unemployment Insurance Agency would be authorized to provide unemployment relief in commodities, chiefly foodstuffs, up to a

maximum of one third. “All public building projects are prohibited for the next three years. State pensions are reduced 5 to 15 per cent. Private enterprises are authorized to cancel upon short notice long-term contracts with employees receiving more than \$3,571 annually in order to reduce salaries.” I won’t go into the new police powers that the article also reported on.

But three more items of the article are noteworthy: First, “The decree provides for the prolongation of the current budgetary year until June 30, 1932, as the new budget would otherwise have to be placed before the Reichstag by Nov. 1. It is understood that the Government wants to avoid long budget discussions by the Reichstag, which is to adjourn after a short session. Moreover, the government wants to wait for the reparations question to be cleared up before drawing up the budget.” Second, “As far as pressure on him from the nationalist Right or the Socialists is concerned, Dr. Brüning may be expected firmly to oppose extreme demands from either side and seek to shape the government’s policy along the middle road as the nation’s interest may dictate.” Third, the article also reported that the newspaper *Germania*, the organ of the Center Party, had discovered an analogy in the situations confronting Brüning and Hoover. In the U.S., too, problems arising from the depression were promoting extra-parliamentary government. The article quotes from *Germania*: “The United States, too, has confirmed the experience that the parliamentary machine – which on the other side of the Atlantic works with particular awkwardness – is unequal to the new tasks and breathless speed of contemporaneous history, and that even the government of what is still the best consolidated country in the world finds itself compelled to face Congress with accomplished facts for subsequent constitutional approval.” The author of the report seems on the whole to approve of developments in Germany.

The Washington Post article of about equal length on October 8, 1931, also on page 1, entitled “Cabinet Falls; Hindenburg in Dictator Role” cites as its source “AP.” It reports on the content of the decree in much the same terms as the The New York Times article. But in addition, it traces Brüning’s performance since he came into office in late March 1930. And the author’s attitude differed from that of the author of The New York Times article. He points out the dictatorial character of governing by emergency decrees and describes Hindenburg as “the nation’s stern and old warrior president.” But on the other hand, the article acknowledges that the Brüning cabinet resisted “the Nationalists’ demands for renunciation of the Young plan and for a radical stiffening of foreign policy”

and that it “persisted in a continuation of the Stresemann policy of conciliation abroad and cooperation with the League of Nations.”

Two shorter articles also cover those events in Germany. The Los Angeles Times on October 8 came out with a story on page 1 entitled “New Order in Berlin,” subtitle: “Dictator-Cabinet to Rule Teutons.” It is almost identical with the first part of the article in The Washington Post. This is not a surprise as here too “AP” is quoted as the source.

The Wall Street Journal, also on October 8, but only on page 11, published an article entitled “German Cabinet Resigns Posts,” Subtitle: “Rigid Dictatorial Regime Established – Brüning to Form New Ministry.” Here the source was different: United Press (U.P.). The main focus of this article is clearly different from that of the articles in the other papers mentioned. After reporting on the resignation of Brüning and his cabinet, it described the economic measures in the new emergency decree in detail and only then reported briefly on the new police powers granted to the government. The main focus in The Wall Street Journal article is the political rather than the economic measures of the decree. And one wouldn’t expect that from a paper that specializes on business and economic policy. The article is replete with concern about and criticism of developments in Germany. Here are some examples:

“A rigid dictatorial regime has been established and basic constitutional rights in Germany have been suspended. [...] Dictatorial powers were given the government [...]. Among the basic constitutional rights suspended were inviolability and personal freedom of the home; rights of expression of thoughts through the press and letters; rights of coalition and assembly; and constitutional guarantees of personal property. [...] The decree authorized the censorship of the press, of private mail, and of telephones and telegraphs. The state governments or the minister of the interior of the Reich may prohibit films passed by regular censors. The publication of a substitute paper to evade a newspaper ban may be punished by three months in prison. Gathering places of radicals, such as restaurants patronized regularly, may be closed by the police if the public safety is considered endangered.”

Does the absence of criticism in The Wall Street Journal’s detailed report on the decree’s economic measures imply agreement with them? Or does it mean that

the paper is much more concerned about the future of German democracy than about another round of deflationary measures?

And now we come to the last and most painful of the Brüning/Hindenburg emergency decrees, the one of December 8, 1931. The Washington Post came out the following day with a long article on page 1, based on U.P. this time, entitled “Hitler Warned as Hindenburg Cuts Salaries,” subtitles: “Wages, Retail Prices and Rents Slashed; Fear of Violence Held. Bruening, in Radio Talk Hits Fascist! Chancellor Says Martial Law Will Meet Any Effort to Overthrow Cabinet.” The first part of the article deals with Brüning’s handling of the fascist danger and says explicitly that “the government leaders expected that it [the decree] would strengthen the Fascist party, which has been winning political victories in all parts of Germany recently.” In his radio talk the “soft-voiced, iron-handed chancellor denounced the Fascist party, but refrained from an attack on Hitler by recognizing that the Fascist leader has been careful in asserting he is willing to employ only legal means in his campaign to gain power.” But just in case, the Post explained, the decree included a clause that prohibited all mass meetings from December 9 to January 3. And Brüning announced on the radio that his government “would resort to martial law if necessary to prevent illegal overthrow of the cabinet.” In foreign policy he appealed to other governments to abandon ‘inadequate’ methods of dealing with the reparations problem. Only a ‘generous solution’ would overcome the world economic crisis.

Only in the second half does the article present some details of the decree’s draconian economic measures: “1. Reduction of wages and salaries not to exceed 10 per cent, unless the wages have not been reduced since July 1, in which case it may be 15 per cent. 2. Reduction of prices of coal, iron, public utilities. 3. Reduction of rents by 10 to 12 per cent. 4. Reduction of rates of interest on public and private loans,” by one quarter in most cases. The ‘turn-over tax’ was increased by 1.15 percentage points to 2 per cent. And capital flight was to be punished by a 25 percent tax on total wealth of the person involved. The article reported with some misspellings that the mayor of Leipzig, Carl Goerdeler, had been empowered to regulate prices as a ‘price dictator’.

The Los Angeles Times, also on December 9, 1931, and on page 1, printed an equally long article drawn from Associated Press entitled “Foes Defied at Berlin,” subtitle: “Bruening Warns He’ll Use Army.” Despite these headings the economic measures of the decree were placed in the foreground and the political

powers granted the government to subdue mass protests and insurrection were reported on only in the second part of the article. I refer to economic measures only insofar as I have not mentioned them in my previous paragraph about The Washington Post article.

“The radical character of the measure was indicated by its reduction of wage scales to the level of January 1, 1927.” As this was a domestic decision, it somewhat contradicts the article’s explanation that the decree “was designed to provide the final wind-up for what Dr. Bruening called the ‘deflation period imposed on Germany.’” Cuts of physicians’ fees were reported, the above-mentioned issuance of a new four-pfennig coin, the introduction of compensatory taxes on imports and of protection for landowners “against forced auction sales by providing that no bid under 70 per cent of the property’s value need to be accepted.”

On December 10, 1931, The Los Angeles Times printed on page 3 a shorter sequel to its article of the previous day entitled “Dictatorship Grips Germany,” subtitles: “Nation’s Independence Gone, Business Realizes. Bruening and Goerdeler in Supreme Command. Hitler Followers Arrested for Wearing Uniforms.” The source was also AP, cabled December 9 from Berlin. Twenty-four hours of meditation on the decree “brought home the fact that two men now rule Germany, economically as well as politically. The men are Chancellor Heinrich Bruening and Dr. Carl Goerdeler, the ‘price dictator,’ who has absolute control over all business. [...] Tonight Vice-Chancellor Hermann Dietrich followed up the Bruening broadcast of last night by hammering into the nation’s ears the necessity for the emergency decree. All Germany is waiting in suspense to see if Dr. Bruening’s ‘only way out’ will bring enduring relief.”

The New York Times covered the emergency decree of December 8, 1931, also the following day on page 1 under the title “Price and Pay Cuts Decreed in Germany; Hitler To Be Curbed,” and subtitles: “All Government and Industrial Employees Suffer 9 to 10 Per Cent Reductions Jan. 1. Turnover Tax Increased. ‘Price Dictator’ Will Force All Businesses to Meet Order for 10 Per Cent Drop. Interest Also Trimmed. Bruening Threatens State of Siege in Radio Talk, Scores [probably a misprint for *Scorns*] ‘Nazis’ and Pledges Blocking of Coup.” The very long article reported primarily on the economic measures of the decree and at the end only in a short paragraph on the provisions of the decree for

safeguarding domestic peace. Neither these provisions nor the drastic economic measures came in for criticism.

But a New York Times article cabled from Berlin by Guido Enderis on December 9 and published on page 6 on December 10 under the title “Reichsbank Leads in New Sacrifices” contains some additional information and judgments. The decree “curbs the rights of citizens and business corporations with a severity equaled only by war-time measures.” The praise Brüning received for his measures “is largely inspired by his warning to Hitlerism, his economic program receives serious consideration, but reservations are not lacking.” American bankers with branches in Berlin would judge the government’s new drive as “a constructive and ambitious undertaking and [...] was wholly in keeping with Dr. Bruening’s slogan of ‘self-help.’ They said the decree would be a big moral asset to Germany in connection with the reopening of reparation negotiations.”

The New York Times followed up the next day, December 11, with an article on page 10 based on a cable from Harold Callender in Berlin the previous day. The title was “Bruening to Crush Any Move by ‘Nazis’”; the three subtitles announced: “Chancellor Pledges Use of All Germany’s Forces to Block Attempt to Seize Control. Defends Economic Decree. He Believes Confusion Resulting From German Measures Will Lead to Reparation Cut.” The article went beyond the decree itself. It opened: “Berlin, Dec. 10 [Let me add that today is the 84th anniversary of that very day!] Speaking to foreign correspondents today for the first time in several months, Chancellor Bruening declared with great emphasis that the German Government would use all the powers at its command to prevent Adolf Hitler’s National Socialists capturing control of the State by illegal means. He referred to the ‘Nazi’ movement by name and recalled recent speeches by its leaders and interviews they had given to foreign newspapers, which, he said, had created a false impression abroad of the situation in Germany.” Brüning had added that his government was in full agreement with General Wilhelm Groener, the minister of defense and of the interior, “to keep the reins in its own hands and not to tolerate any attempts at a revolution” and to use the army, if need be.

The article does not elaborate on “the extremely drastic emergency decree.” Instead a large passage in the article on the meeting with foreign correspondents covers Brüning’s attempt to lay the blame for Germany’s drastic measures,

which would force other nations to follow suit, on the reparations creditors and to use their fear of Nazism to relieve Germany from the burden of reparations. “In times such as Germany has gone through in the last two years and in view of the country’s sufferings during the last seventeen years, it is inevitable that radical tendencies should be at work in the nation. It would be remarkable, indeed, if this were not the case. If certain apprehensions have arisen in foreign countries because of the National Socialist movement, they must remember that 50 per cent of the responsibility for it lies with the world economic situation and the policies and tendencies of the past. [...] The payment of reparations as well as interest on our huge foreign debts obliged us to maintain a favorable trade balance at the same time as deflation is under way. [...] There is a limit to this process, however, because it is a race between falling prices and wages, on the one hand, and falling revenue, on the other. [...] If Germany must pay her reparations out of her exports instead of her loans, it will throw the world into confusion until it is realized it is impossible to pay them. It is my hope that, after the harm which the present policies have caused becomes apparent to the world, it will come to the point of making a comprehensive settlement. The Chancellor was asked what he had to say of the French contention that a settlement must be made within the framework of the Young Plan. He smiled and said, ‘We hope the conference will decide otherwise.’”

The article also mentioned that Brüning evidently “is not going back into his seclusion again right away, for he will address the annual banquet of the American Chamber of Commerce in Germany on Saturday [December 19], being the first head of a German Government to do so.”

On December 12, 1931, The Wall Street Journal ran several reports on the financial measures already taken around the world in the fear that the international depression was going to deepen and that Hitler might soon be taking power in Germany. Its page 1 coverage carried the headline “Congress Faces Debts’ Impasse” and two subtitles: “Bruening, Hitler Agree Reparations Impossible – France Demands Like Reductions. Senate Still Fiddling.” It featured a long article by W.R. Huff and shorter reports credited to U.P. and to the Journal itself. The lead article highlights that Hoover had suggested debt concessions to the Congress. But both houses and the majorities of both parties were opposed. “Bruening, asked how much reparations Germany is ready and able to pay, inferred that the government would stand for no payments whatsoever. It is unimaginable how Germany can pay in view of the growing

tendency abroad to resort to economic self-sufficiency.” “Strictly confidential conversations between 11 American bankers headed by Albert H. Wiggin of New York, other foreign bankers, and representatives of German finance and industry began at the Reichsbank at 11 a.m. The negotiations were expected to determine measures to be taken after the standstill agreement on private debts [\$2,500,000,000 in short term credits] expires February 29.” From Basle the article reports: “The committee of experts here is now engaged in a discussion of the German budget outlook. Recent decree will permit savings Rm. 4,000,000,000 for the Reich, states and commons [probably a misprint for *communes*].” Last but not least, the article informs the reader that the “Hessian Centrist Party has agreed in principle to a coalition with the Hessian Fascists.” This small news item may well mean that The Wall Street Journal might have wanted to keep the fear of a Fascist accession to power alive in order to diminish opposition in the Congress to Hoover’s plan for debt concessions. The article reported that “Ogden Mills, Under-Secretary of the Treasury, arranged a conference for this morning with Senators who have opposed any move toward allied debt revision.” Although all the financial activity around the world indicated that a revision of international debt obligations was urgent – for political and economic reasons - and was in the making, the article cautioned: “It is unlikely, therefore, that an international conference on reparations will be convened for a long period unless such a climax as is now looming compels quicker action.” In my view, it was unfortunate not only for German, but also for world history that ‘quicker action’ did not materialize.

4. *President Hoover’s fiscal policy as mirrored in a German newspaper*

There are three reasons why I was not able to collect a broader range of German views on Hoover’s fiscal policies. First, the only newspaper of the period that is accessible online is the *Vossische Zeitung* from the left-liberal – in the European, not American sense – political spectrum, which was represented mainly by the *Deutsche Demokratische Partei* (German Democratic Party). Second, it is more difficult to find reports on American budget legislation in German newspapers because such legislation was proposed and enacted through the normal functioning of the American democratic system. The slow, routine operation of the American legislative process was less newsworthy than the Brüning government’s issuing of emergency decrees on specific dates. Third, the *Vossische* reported much more on the state of the American economy and of

the U.S. budget than on measures taken to affect the revenue or the expenditure side of the budget.

On November 22, 1930, the *Vossische* ran a short article entitled [here and in the following my translation] “America Increases Income Tax” on p. 2. It reported on diminishing government revenues and a considerable budget deficit and that this had prompted a discussion whether the process of paying down the national debt, which according to law could be done only with the proceeds from German and Allied loan repayments, should be scaled back. The sums thus saved could perhaps be used to keep up the temporary (one year) tax reduction of one percentage point enacted the previous year as a first reaction to the economic downturn. Hoover stopped this discussion by arguing that in his opinion the debt retirement plan could not be changed. The focus of the second part of the article is not clear on account of missing text in the online edition. But evidently an income tax increase was in the making. The article closes with the piece of information that America after the income-tax increase [as scheduled after the temporary reduction had expired] from $\frac{1}{2}$ to $1\frac{1}{2}$ for the lowest tax bracket would remain the country with the lowest tax burden in the world.

On February 19, 1931, the *Vossische* printed an article on page 3 entitled “Hoover Contra the Senate. The Battle for Aid to American Veterans.” It reports that there were very large majorities in both houses of Congress in favor of a bill that would raise the lending limit on veterans’ life insurance policies with a capital value of \$1,000 from 25 to 50 percent. The article also reported that Hoover was threatening Congress with his veto, if only to delay enactment.

On August 20, 1931, the paper covered a declaration by the White House that for the first time the U.S. government had decided on a constructive measure against unemployment. To counter the growing calls for a national unemployment relief program, the administration announced a plan for emergency assistance. For this purpose Hoover had commissioned AT&T president Walter S. Gifford to establish an agency in Washington to coordinate a joint federal, state, and municipal relief program.

On September 23, 1931, the *Vossische* reported that Hoover’s attempt to use moral-suasion at the beginning of the depression to persuade big business not to cut wages had not yielded the desired result. Wages had fallen by 10 to 20 percent. But as prices had also significantly diminished, real wages were not much affected.

On December 14, 1931, the paper covered the bleak U.S. budget situation in a rather long article on page 1. It explained, among other things, why Hoover's budget message to the Congress contained only recommendations and no concrete proposals. As the Democrats had controlled big majorities in both houses of Congress since November 1930, Hoover tried to shift responsibility for the budget and for the unpopular measures necessary to reduce the huge deficit to the Congress and thereby to the Democrats.

On April 1, 1932, the *Vossische* published an article by Wilhelm Schulze on page 1 entitled "Paying Taxes Like Never Before. The Worse to Come in U.S.A." It reported that in record time the House of Representatives had opened the way to increase government revenue by more than one billion dollars by raising the inheritance tax from 20 to 45 percent, by introducing a new turnover tax of 1½ percent, by increasing the corporate tax rate by 1½ percentage points, by raising postage for letters, and by allowing the possibility of levying a stock exchange turnover tax. These measures stand as proof, the *Vossische* concluded, that regardless of political system, history, and national traditions, all governments have to undertake similar measures to cure their budget ills.

On June 7, 1932, the paper reported under the title "Hoover Plugs the Deficit. Tax Increases as Never Before" that the new tax bill has passed both houses of Congress and has been signed by President Hoover. It aimed at balancing the budget for the next fiscal year that would begin on July 1. It included new tariffs on copper, petroleum, coal and wood; a three-percent surcharge on electricity bills; an increase in income tax rates; the levying of amusement and manufacturing taxes and a new tax on writing checks; and all the other revenue measures mentioned in the article of April 1. The very short article notes in closing that the enactment was due to the fact that Congress had been in session daily for about ten hours since the previous December and hence its members were so overworked that they were unable to continue their bitter fight over the now rather imperfect tax act.

On December 8, 1932, after Hoover had lost the November election, the *Vossische* published a very short article on page 1 entitled "America's Gigantic Deficit." It reported that Hoover had sent his budget message to Congress for the fiscal year beginning July 1, 1933. The projection for the deficit amounted to only \$307 million. This was to be balanced by administrative savings and a 2½-percent tax levied on [the turnover of] all manufacturing businesses except producers of food stuffs. In addition, civil-service salaries and defense

expenditures were to be cut. It is also reported that the fiscal year 1931/32 closed with a deficit of \$2.9 billion, because revenue had fallen to 50 percent of the level of the previous year, while expenditures for emergency measures had increased. It was estimated that the deficit for the current year would come to \$1.1 billion.

On January 12, 1933, the *Vossische* ran a long article on page 1 of its business and finance section by its New York correspondent Dr. Arthur M. Wolkiser entitled “Again a Fudged Budget.” The author dives deep into the details of budget making then going on in the Congress on the basis of Hoover’s budget message. The conclusion of his examination is succinctly conveyed in the article’s title.

5. *Conclusions*

First, there was hardly any criticism in leading American newspapers of Brüning’s deflationary measures. Most of the papers targeted their criticism at the (semi-)dictatorial manner in which fiscal and law-and-order measures became law in Germany. The exception was The New York Times. Not only did it not criticize Brüning’s fiscal measures. It expressed understanding for Brüning’s and Hindenburg’s authoritarian approach to governing by drawing a parallel between their bypassing of the Reichstag and Hoover’s presentation of *faits accomplis* to Congress for later approval.

Second, it wasn’t economic reasoning that inspired fiscal and foreign-debt policies during the Great Depression, but on the Allied side the fear of losing Germany to a fascist or, more remotely, a communist dictatorship.

Third, Hoover pursued remarkably modern demand-oriented fiscal policies until 1932. He increased expenditures, while revenue was shrinking drastically, and thus accepted huge U.S. government deficits. He also put pressure on business leaders to keep their employees and workers on the payroll and not to cut wages and investments in order to keep up demand. But this did as little to counteract the depression and deflation in the U.S. as Brüning’s draconian wage, price and budget cutting helped the German economy out of the doldrums.

From this I derive two conclusions. First, state and local governments that were, either due to balanced-budget requirements (in the U.S.) or to poor credit rating during the depression (in the U.S. and especially in Germany), unable to go into debt transformed their large revenue losses into equally large expenditure cuts. Neither the expanding deficits in the U.S. budget nor the shrinking deficits in Germany's federal budget did - by magic of the recent idea of 'expansionary austerity'³¹ - counterbalance the impact of spending cuts at the state and local levels. Second, evidently it wasn't fiscal, but monetary policy that failed crucially in the U.S. and in Germany for overcoming the depression, a lesson that we also learnt from successful anti-deflation and -depression policies of the two most powerful central bankers, Ben Bernanke³² and Mario Draghi, during our recent Great Recession.

³¹ Alberto Alesina/Silvia Ardagna, "The design of fiscal adjustments." *Tax Policy and the Economy* 27 (2013), pp.19-68. Also as NBER Working Paper 18423.

³² The key lessons that Bernanke had learnt from his extensive studies of the Great Depression of the 1930s are collected in Ben S. Bernanke, *Essays on the Great Depression*, Princeton: UP, 2000.