

# Arnold Brecht on Heinrich Brüning's Policy of Deflation (Retrospective Account, 1967)

## Abstract

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After assuming the office of chancellor on March 29, 1930, Heinrich Brüning set out to consolidate the budget. At the same time, though, he deliberately exploited the economic crisis in an effort to achieve a top-priority foreign policy goal: to revise the Treaty of Versailles and rid Germany of the burden of reparations. His version of the "fulfillment policy" envisioned Germany initially paying reparations in accordance with the Young Plan. Subsequently, the country would seek to be exempted from reparations by arguing that there was no alternative to a policy of austerity. In addition, Brüning's government wanted to stimulate German exports by reducing production costs. In the end, however, the idea that the economic crisis could be overcome by exports proved illusory: protective tariffs were rampant throughout the world and in September 1931 the British devalued the pound. Numerous Keynesian proposals for government intervention in the crisis were debated in the public arena (Keynes was well known in Germany because of his criticism of the Treaty of Versailles). These proposals were presented to the German government, but rejected by Brüning and Reichsbank President Hans Luther. By recklessly adhering to his policy of deflation, Brüning accepted the impoverishment of a broad cross-section of the German population, which earned him the nickname of "the hunger chancellor." This excerpt from the memoirs of Arnold Brecht (1884-1977), a civil servant and staunch republican, describes Brüning's economic policy decisions in retrospect.

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It has become a highly controversial question whether Brüning's policy of deflation was the right one. Lowering the cost of production by 20 percent was apt to improve Germany's competitive position on the world market, provided other countries did not meet this challenge by appropriate counter-moves. Great Britain indeed answered by three measures of her own. She devalued the pound by more than 20 percent in September, 1931; she reduced the salaries of civil servants and public employees by 10 to 15 percent in the same month; and she introduced protective tariffs in 1932. These measures more than met the German challenge on the foreign market.

The United States had already increased protective duties in 1930. Therefore Germany did not gain much on the world market. Inside Germany, on the other hand, the reduction of wages, salaries, pensions, and unemployment payments irritated and antagonized the great mass of the German people who depended on these payments for their meager livelihood, and made them an easy prey for antidemocratic propaganda from the Right and the Left, especially since the whole system was built on mere emergency decrees.

Even the soundest economic measure may be unreasonable if it overturns the political equilibrium to such an extent that the country is thrown into the confusion of revolt and revolution. Could a different economic policy have produced better results? In this autobiography I can merely relate that I watched the rigorous consistency with which the plan of simultaneously lowering wages and prices was being carried through, with considerable amazement, even admiration, but with growing concern about political consequences. I thought it urgently necessary at almost any cost to remove the unemployed from the streets to places of employment before they were all turned into political radicals. To say this sounds rather trivial today, and it was no less trivial at that time. For the real problem was how it could be done.

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I saw two possibilities, as mentioned before. One was stretching the available work by radically shortening the work hours. The other was making jobs available on a grand scale by organizing public works to be financed by those billions of marks that would be saved in unemployment compensation by spreading available jobs among more workers, and by loans, if necessary compulsory loans. My comparative research on public expenditures in the main countries had convinced me that Germany in consequence of her annulment of interior war debts had unjustifiably low domestic debts. No political or economic objections could be justly raised if these domestic debts were increased by billions of marks for the purpose of giving jobs to unemployed workers.

Prussian Minister-President Braun sent a letter to this effect to Chancellor Brüning in April, 1932. I had drafted it together with State Secretary Hans Staudinger (Prussian Ministry of Commerce) and Ministerial Director v. Leyden, expert for communal affairs in the Prussian Ministry of the Interior.

Mastering the situation was by no means simple. Although it is widely recognized today that in order to create jobs for unemployed workers a country's government, as practiced for instance under Franklin D. Roosevelt in the New Deal, can finance public works by loans without thereby starting an inflationary process (Keynes), there did not yet exist any scientifically grounded theory of this type in 1930. It was, rather, generally believed that every spending of public money for production of a non-self-liquidating character would lead to inflation. And the fear of inflation was overwhelming in Germany, with the memory of the unlimited inflation of 1920–1924 still vividly alive. Nor was the floating of long-term loans in Germany as easy as it was in the United States. Even borrowing small amounts for undisputed projects frequently proved impossible. To provide billions of Reichsmarks for unprofitable projects would have required additional printing of paper money or financial methods yet untried.

Source: Arnold Brecht, *The Political Education of Arnold Brecht, An Autobiography 1884–1970*. Princeton, New Jersey: Princeton University Press, 1970, pp. 321–23.

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