False Hopes: Communism and Fascism

Jesús Fernández-Villaverde

September 26, 2021

1University of Pennsylvania
Two alternatives to liberal democracy

- The end of the WWI witnessed the appearance of two alternatives to liberal democracy (market economies + representative governments):
  
  1. Communism: Russia (Soviet Union), later China.

  2. Fascism: Italy, later Germany.

- Both alternatives:
  
  1. Saw liberal democracies as inherently flawed and incompatible with “true” human nature.

  2. Proposed a radical departure from the current economic system.

  3. Justified the use of violent means to achieve a radical reorganization of society.

- For the first time in history, ideological fights were focused on principles of economic organization and not on power, income, or religion.
Communism: A basic bibliography

- Best general overview: Richard Service, *Comrades!: A History of World Communism*.


- Soviet Union economic history: Robert Allen, *Farm to Factory* and Chris Miller, *The Struggle to Save the Soviet Economy: Mikhail Gorbachev and the Collapse of the USSR*. 

Communism

- Karl Marx and Friedrich Engels had surprisingly little to say about how to organize a socialist economy.

- They were much more concerned with an analysis of capitalist societies, the “exploitation” of labor, and how the current system would collapse because of its inherent contradictions.

- In their view, at capitalism end, production would have been concentrated on a few large manufacturing corporations.

- Therefore, taking control of them and using their productivity powers would be an easy task, closer to engineering than to economics.

- Distributional issues would need to be worked out in some detail during the transition to communism, but this was not foreseen to be a challenging issue.
Revolution in Russia

- However, on the way, something odd happens.

- The revolution instead of happening in the leading industrial country, Great Britain, or in the country with the strongest social democrat movement, Germany, actually occurs in a backward, peripheral country: Russia.

- Indeed, it was not really a revolution in the “romantic sense”: on October 25 (November 7, Gregorian Calendar) 1917, Bolsheviks in Petrograd took over the offices of the Kerensky Provisional Government.

- This was a coup d’etat that started a civil war.

- Lenin’s theory of party and revolution.
  1. He thinks his “capital” will be Berlin, not Moscow.
  2. German is the official language of Comintern (Third International).
Revolution in Russia

- The “real” revolution was in February (February 23-March 3 / March 8-16, Gregorian Calendar), which brings the end of the monarchy.

- In the November election for a Russian Constituent Assembly, the Bolsheviks only get 24% of the vote.

- Communists were able to win the civil war (1917-1923) despite long odds.

- Key role of Leon Trotsky.

- Victory is not total: Finland, Estonia, Latvia, Lithuania, and Poland establish independent republics.
War communism

• Original Lenin’s plan, firmly based on Germany’s economic mobilization during WWI.

• Main features:

  1. Collective property of all industry.
  2. Centralized control of the economy (Gosplan).
  4. State monopoly on foreign trade.
  5. Requisition of food from peasants.
  6. Role of money minimized.

• By 1921, it is clear that the economy cannot work in this way (production only around half of the level of 1913).
In March 1921, a New Economic Policy (NEP) is introduced.

Main features:

1. Monetary reform ($5 \times 10^7$ old rubles for 1 new ruble).
2. Peasants could sell their surpluses to private traders.
3. Artisans and small industry liberalized.
4. Small trade liberalized.

Main proponent, Nicolai Bukharin.

Fast growth from 1921 to 1926, when the economy is back to 1913 levels.
At Lenin’s death, Stalin takes total control of the party and the Soviet Union.

Why? General Secretary.

Trotsky, who was a much deeper intellectual (although also a murderous one), never really understood the logic of a totalitarian system.

Inherent dynamics of revolutions.

Paranoid psychopaths have a clear comparative advantage at becoming dictators.

In addition, Stalin had a prodigious memory and worked harder than anyone else.
A diagnosis

Rosa Luxemburg, The Russian Revolution, 1918

“When all this is eliminated, what really remains? In place of the representative bodies created by general, popular elections, Lenin and Trotsky have laid down the soviets as the only true representation of political life in the land as a whole, life in the soviets must also become more and more crippled. Without general elections, without unrestricted freedom of press and assembly, without a free struggle of opinion, life dies out in every public institution, becomes a mere semblance of life, in which only the bureaucracy remains as the active element. Public life gradually falls asleep, a few dozen party leaders of inexhaustible energy and boundless experience direct and rule. Among them, in reality only a dozen outstanding heads do the leading and an elite of the working class is invited from time to time to meetings where they are to applaud the speeches of the leaders, and to approve proposed resolutions unanimously – at bottom, then, a clique affair – a dictatorship, to be sure, not the dictatorship of the proletariat but only the dictatorship of a handful of politicians... Yes, we can go even further: such conditions must inevitably cause a brutalization of public life: attempted assassinations, shooting of hostages, etc.”
Josef Stalin

“We are fifty or a hundred years behind the advanced countries. We must make good this distance in ten years. Either we do it, or they will crush us.”

• Main pillars:

  1. First five-year plan in 1928.

  2. Collectivization.

  3. Great Purge.
Развитие транспорта — одна из важнейших задач... 1929
Marx thought (wrongly) that “primitive accumulation” of capital that allowed the industrial revolution was primarily due to the enclosure movement in England in the late 18th century.

Stalin (and Trotsky, Gomulka, Mao Zedong and many others) thought that they needed to do to their farmers what Marx had told them English businessmen had done to their farmers.

First, use of price “scissors”: changes in relative prices. However, peasants were less ready to exchange grain for luxuries than noblemen.

Collectivization was the party’s response: by expropriating the rich peasants (Kulaks) and providing landless peasants with an epsilon more consumption than before through collective farms, the Party could extract all the agricultural surplus and use it for industrialization.

Moreover, it destroyed a potential class enemy.

Collectivization: around 12 million deaths!
УДАРНИКИ ПОЛИЕЙ.
В БОЙ ЗА СОЦИАЛИСТИЧЕСКОЕ РЕКОНСТРУКЦИОННОЕ СЕЛЬСКОЕ ХОЗЯЙСТВО!
ЗА ОРГАНИЗАЦИОННО-ХОЗЯЙСТВЕННОЕ УСИЛЕНИЕ НОЛКОЗОВ!
ЗА РЕШИТЕЛЬНОЕ ПОВЫШЕНИЕ ЭФФЕКТИВНОСТИ НОЛКОЗОВ!
ЗА ПОВЕДЕНИЕ В НИКУЛЬШЕЙ ШЕЩИ ЗАЩИЩАЕМЫЕ УСЛОВИЯ НАШЕЙ ПОБЕДЫ!

"К ЭНЦУ ПЯТИЛЕТНИКУ КОЛЛЕКТИВИЗАЦИИ СССР ДОЛЖНА БЫТЬ В ОСНОВНОМ ЗАКОЧЕНА:" (И.СТАЛИН)

"...РАБОЧИЙ КЛАСС СОВЕТСКОГО СОЮЗА ТВЕРДО И УВЕРЕННО ВЕДЕТ ВПЕРЕД ДЕЛО ТЕХНИЧЕСКОЕ ПЕРЕВОРУЖЕНИЯ СОВЕТСКОГО СОЮЗА ТРУДОВОГО КРЕСТЬЯНСТВА." (И.СТАЛИН)
Figure 1 shows consumption per head from 1928 to 1939. These new consumption estimates accord with the usual view that living standards fell during the first Five-Year Plan (1928 to 1932), recovered during the second Plan (1933 to 1937)—indeed, living standards surged forward at this time—and then fell with the approach of the Second World War. 1937 has always been regarded as an exceptionally prosperous year since the grain harvest was so large, and Table 6 confirms that view. Between 1928 and 1938 consumption per capita rose 22 percent in the Soviet Union (2.0 percent per year) and that rate is probably a fairer indicator of the pace of advance than the higher growth rates realized between 1928 and 1937.

Table 6 shows that the nonagricultural population always had the higher income, so the shift of employment from farm to factory raised average consumption. With the farm and nonfarm incomes at their 1928 levels, the shift of population to the nonfarm group would have raised the averaged income from 1,208 to 1,289 rubles per year in 1938. The increase equals 30 percent of the overall rise in per capita consumption.

Malafeyev’s consumer price index for state and cooperative shops. This index is consistent with the rate of inflation implicit in Table 4 for 1928 to 1937. Malafeyev’s index is not annual, so it was necessary to interpolate values for 1933-1936 and 1938-1939.
Stalinism III: the Great Purge

- At least 750,000 executions and around 2 million died in the Gulag archipelago.

- Armed forces: 3 of 5 marshals, 13 of 15 army commanders, 8 of 9 admirals, 50 of 57 army corps commanders, 154 out of 186 division commanders, 16 of 16 army commissars, and 25 of 28 army corps commissars.

  1. Poor performance of the Red Army during the first year of the German invasion directly linked to this purge.

  2. It also makes Germans believe they can defeat the Soviet Union.

- Of the 44 German communists that belonged to the Politburo of the KPD, more were killed by Stalin than by Hitler (Hugo Eberlein, a friend of Rosa Luxemburg, perhaps the most famous).
• Can we make sense of this policy?

• Big push: Murphy, Schleifer, and Vishny (1989).

• Multiple equilibria.

• Why?

• Externalities. Example: who wants to use a phone if you are the only person with one?

• In Soviet Union, Preobrazhensky.
During WWII, the Soviet Union reaches a level of mobilization perhaps never seen before.

Thanks to this tremendous mobilization, it can out-produce Germany.

Human costs are staggering: $\approx 17,000$ deaths per day for nearly four years.

Recovery is slow and painful, 1.5 million deaths in 1946 by famine.

Stalin returns to his old habits: Doctor’s plot of 1951-1953.
### Table 1. Soviet GNP by final use, 1940 and 1942 to 1944 (billion rubles at 1937 factor cost and percent)

<table>
<thead>
<tr>
<th></th>
<th>1940</th>
<th>1942</th>
<th>1943</th>
<th>1944</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross national product</td>
<td>253.9</td>
<td>166.8</td>
<td>185.4</td>
<td>220.3</td>
</tr>
<tr>
<td>Net imports</td>
<td>0.0</td>
<td>7.8</td>
<td>19.0</td>
<td>22.9</td>
</tr>
<tr>
<td>Total final demand</td>
<td>253.9</td>
<td>174.5</td>
<td>204.4</td>
<td>243.2</td>
</tr>
<tr>
<td>Fixed capital formation</td>
<td>39.9</td>
<td>10.1</td>
<td>9.4</td>
<td>18.4</td>
</tr>
<tr>
<td>Inventories</td>
<td>10.2</td>
<td>–10.7</td>
<td>8.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Defence</td>
<td>43.9</td>
<td>101.4</td>
<td>113.2</td>
<td>117.2</td>
</tr>
<tr>
<td>Government &amp; security</td>
<td>10.1</td>
<td>5.4</td>
<td>6.0</td>
<td>7.9</td>
</tr>
<tr>
<td>Communal services</td>
<td>27.0</td>
<td>15.6</td>
<td>17.2</td>
<td>20.7</td>
</tr>
<tr>
<td>Household consumption</td>
<td>122.8</td>
<td>52.6</td>
<td>50.5</td>
<td>77.1</td>
</tr>
<tr>
<td>— per worker</td>
<td>100%</td>
<td>68%</td>
<td>63%</td>
<td>81%</td>
</tr>
<tr>
<td>— per head</td>
<td>100%</td>
<td>..</td>
<td>58%</td>
<td>..</td>
</tr>
</tbody>
</table>

Source: Harrison (1996), 104. Total final demand is the value of domestically produced and imported goods and services available for household and government consumption and investment, and equals GNP plus net imports.

### Table 2. Soviet GNP by sector of origin, 1940 to 1945 (billion rubles at 1937 factor cost)

<table>
<thead>
<tr>
<th></th>
<th>1940</th>
<th>1941</th>
<th>1942</th>
<th>1943</th>
<th>1944</th>
<th>1945</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>69.9</td>
<td>44.1</td>
<td>27.4</td>
<td>30.5</td>
<td>45.1</td>
<td>47.3</td>
</tr>
<tr>
<td>Industry</td>
<td>75.1</td>
<td>73.3</td>
<td>64.8</td>
<td>75.7</td>
<td>84.9</td>
<td>71.9</td>
</tr>
<tr>
<td>— defence</td>
<td>10.5</td>
<td>16.8</td>
<td>38.7</td>
<td>47.8</td>
<td>52.3</td>
<td>36.7</td>
</tr>
<tr>
<td>— civilian</td>
<td>64.5</td>
<td>56.5</td>
<td>26.1</td>
<td>27.8</td>
<td>32.6</td>
<td>35.2</td>
</tr>
<tr>
<td>Construction</td>
<td>10.6</td>
<td>6.9</td>
<td>3.2</td>
<td>3.4</td>
<td>4.4</td>
<td>4.5</td>
</tr>
<tr>
<td>Transport &amp; communications</td>
<td>19.3</td>
<td>17.8</td>
<td>10.2</td>
<td>11.8</td>
<td>13.7</td>
<td>14.9</td>
</tr>
<tr>
<td>Trade &amp; catering</td>
<td>11.1</td>
<td>9.3</td>
<td>3.8</td>
<td>3.5</td>
<td>4.1</td>
<td>5.0</td>
</tr>
<tr>
<td>Civilian services</td>
<td>46.4</td>
<td>42.3</td>
<td>28.2</td>
<td>30.6</td>
<td>37.7</td>
<td>35.3</td>
</tr>
<tr>
<td>Military services</td>
<td>7.9</td>
<td>11.1</td>
<td>17.4</td>
<td>18.2</td>
<td>18.7</td>
<td>18.6</td>
</tr>
<tr>
<td>— Army &amp; Navy</td>
<td>6.8</td>
<td>9.9</td>
<td>16.2</td>
<td>17.0</td>
<td>17.5</td>
<td>17.3</td>
</tr>
<tr>
<td>— NKVD troops</td>
<td>1.1</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Net national product</td>
<td>240.3</td>
<td>204.7</td>
<td>155.1</td>
<td>173.6</td>
<td>208.6</td>
<td>197.4</td>
</tr>
<tr>
<td>Depreciation</td>
<td>13.6</td>
<td>14.0</td>
<td>11.7</td>
<td>11.8</td>
<td>11.7</td>
<td>11.7</td>
</tr>
<tr>
<td>Gross national product</td>
<td>253.9</td>
<td>218.7</td>
<td>166.8</td>
<td>185.4</td>
<td>220.3</td>
<td>209.1</td>
</tr>
</tbody>
</table>

Source: Harrison (1996), 92.
<table>
<thead>
<tr>
<th></th>
<th>1940</th>
<th>1941</th>
<th>1942</th>
<th>1943</th>
<th>1944</th>
<th>1945</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Germany:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ground and air munitions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rifles, carbines</td>
<td>1352</td>
<td>1359</td>
<td>1370</td>
<td>2275</td>
<td>2856</td>
<td>665</td>
<td>9877</td>
</tr>
<tr>
<td>Machine pistols</td>
<td>119</td>
<td>325</td>
<td>232</td>
<td>234</td>
<td>229</td>
<td>78</td>
<td>1217</td>
</tr>
<tr>
<td>Machine guns</td>
<td>59</td>
<td>96</td>
<td>117</td>
<td>263</td>
<td>509</td>
<td>111</td>
<td>1156</td>
</tr>
<tr>
<td>Guns</td>
<td>6</td>
<td>22</td>
<td>41</td>
<td>74</td>
<td>148</td>
<td>27</td>
<td>318</td>
</tr>
<tr>
<td>Mortars</td>
<td>4.4</td>
<td>4.2</td>
<td>9.8</td>
<td>23.0</td>
<td>33.2</td>
<td>2.8</td>
<td>77.4</td>
</tr>
<tr>
<td>Tanks and SPG</td>
<td>2.2</td>
<td>6.2</td>
<td>10.7</td>
<td>18.3</td>
<td>4.4</td>
<td>45.6</td>
<td></td>
</tr>
<tr>
<td>Combat aircraft</td>
<td>6.6</td>
<td>8.4</td>
<td>11.6</td>
<td>19.3</td>
<td>34.1</td>
<td>7.2</td>
<td>87.2</td>
</tr>
<tr>
<td>Warships, units</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Submarines</td>
<td>40</td>
<td>196</td>
<td>244</td>
<td>270</td>
<td>189</td>
<td>0</td>
<td>939</td>
</tr>
<tr>
<td><strong>USSR:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ground and air munitions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rifles, carbines</td>
<td>1462</td>
<td>2421</td>
<td>4049</td>
<td>3438</td>
<td>2451</td>
<td>703</td>
<td>14524</td>
</tr>
<tr>
<td>Machine pistols</td>
<td>92</td>
<td>95</td>
<td>570</td>
<td>643</td>
<td>555</td>
<td>272</td>
<td>2227</td>
</tr>
<tr>
<td>Machine guns</td>
<td>96</td>
<td>149</td>
<td>356</td>
<td>458</td>
<td>439</td>
<td>109</td>
<td>1608</td>
</tr>
<tr>
<td>Guns</td>
<td>15</td>
<td>41</td>
<td>128</td>
<td>130</td>
<td>122</td>
<td>77</td>
<td>514</td>
</tr>
<tr>
<td>Mortars</td>
<td>38</td>
<td>42</td>
<td>230</td>
<td>69</td>
<td>7</td>
<td>3</td>
<td>390.1</td>
</tr>
<tr>
<td>Tanks and SPG</td>
<td>2.8</td>
<td>6.6</td>
<td>24.7</td>
<td>24.0</td>
<td>29.0</td>
<td>22.6</td>
<td>109.7</td>
</tr>
<tr>
<td>Combat aircraft</td>
<td>8.3</td>
<td>12.4</td>
<td>21.7</td>
<td>29.9</td>
<td>33.2</td>
<td>20.9</td>
<td>126.4</td>
</tr>
<tr>
<td>Warships, units</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major naval vessels</td>
<td>33</td>
<td>62</td>
<td>19</td>
<td>13</td>
<td>23</td>
<td>11</td>
<td>161</td>
</tr>
</tbody>
</table>
Stalinism after Stalin: Stagnation

- Reform attempts during the 1950s and 1960s: Khrushchev.
- Blocked by the elite: Brezhnev.
- Progressive stagnation.
- Why?
  1. Logic of neoclassical growth model.
  2. Sticks become milder. No more purges.
- Attempts at reform in the 1980s:
  1. Fall in the price of oil.
  2. Renew military competition by the U.S.
  3. Falling productivity.
- System turned out to be unreformable.
- Also, enormous environmental cost.
“A hammer-and-sickle version of Altman’s Nashville with central committees replacing country music... [Spufford] has one of the most original minds in contemporary literature.” — Nick Hornby, The Believer
FIGURE 3 Soviet GDP per head, 1928-89

The capital stock is cumulated from investment according to the equation

$$K_t = (1 - d)K_{t-1} + I_t,$$

where $d$ is the depreciation rate applied to the capital stock in the previous year.

The data for this exercise are derived from Maddison (1995). The Second World War is dealt with in a highly stylized way, namely, by leaving it out: GDP was similar in 1940 and in 1948, so the intervening years were omitted, and the capital stock in 1940 was carried over to 1948. The population in the 1930s was interpolated between 1928 and 1948.

Figure 3 contrasts the actual history of real GDP per head in the Soviet Union between 1928 and 1989 with the series implied by equations (1)-(3). The correspondence is remarkably close: The series are within 10 per cent of each other in 1989, despite the simplicity of the model and the cavalier treatment of the Second World War.

Maddison's estimate of GDP in 1991 US dollars is the measure of output. The labour force is measured by the population since that indexes the potential labour supply, which is the relevant measure in assessing the impact of surplus labour and its elimination. The capital stock is calculated with equations 2 and 3 from Maddison's GDP series, the historical series of investment rates, and a value of 2 for the capital-output ratio in 1928. This value is slightly higher than the value of 1.68 calculated by (Moorsteen and Powell 1966, 367). For 1960-89 the investment rate was taken from the Penn World Tables. Investment rates for earlier years were extrapolated from the 1960 value using Moorsteen and Powell's (1966, 364) series. The depreciation rate in equation (3) was taken to be 3 per cent, which is consistent with Moorsteen and Powell's work. Applying these assumptions to equations (2) and (3) implies the Soviet capital stock in 1991 U.S. dollars.
Figure 4 shows why the model captures the main lines of Soviet history. The former shows the unit isoquant implied by the Weitzman-style production function. The sharp corner is apparent. In 1928 the Soviet Union was at the right end of the isoquant with little capital and lots of labour, and it moved to the left as accumulation proceeded. The dates at which the economy reached various points are shown in the figure, and it passed the corner in the 1960s as growth began to decelerate.

Diminishing returns to capital: can we believe it?

Weitzman’s explanation is very elegant. It complements the account of rapid development given earlier by advancing one mechanism by which the elimination of surplus labour would cut the rate of growth. But is a low elasticity of substitution really the explanation for the Soviet climacteric?

Weitzman’s theory is hard to credit when seen in international perspective. Japan is an important contrast. It may have been even more devastated than the Soviet Union in 1945, and its recovery in the late 1940s was slower. In 1950 GDP per head was $2834 in the USSR and $1873 in Japan. By that time the Soviets had already raised their investment rate to 22 per cent - higher than levels in the 1930s - and the
The expansion of communism

• At the end of WWII, Stalin gets control of Eastern Europe.

• The system is exported from East Germany to Bulgaria: popular democracies.

• Strong popular opposition: East Germany (Volksaufstand vom 17. Juni 1953), Hungary (1956), Prague Spring (1968), Solidarity in Poland (1980).

• Economic performance:
  1. Relative good in 1950s and 1960s.
  2. Bad 1970s.
  3. Awful 1980s.

• A peculiar case: Yugoslavia’s self-management.
Figure 1. Economic growth in Europe, 1950–89

Notes: East: Bulgaria, Czechoslovakia, Germany (East), Hungary, Poland, Romania, the USSR, and Yugoslavia; western core: Austria, Belgium, Denmark, France, Germany (West), the Netherlands, Norway, Sweden, Switzerland, and the UK; western periphery: Finland, Ireland, Greece, Italy, Portugal, and Spain.

Source: Own calculations. Data from Conference Board, Total Economy Database (GDP in 1990 Geary–Khamis dollars).
ISPUNIVŠI SVOJ ZAVJET

AUTOPUT
BRATSTVO-JEDINSTVO
1949

AUTOPUT PREDAJEMO
NARODU, PARTIJI I TITU
Conclusions

- Karl Marx was one of the greatest social thinkers of all times.

- He saw, perhaps more clearly and earlier than anybody else, the deep changes brought by modern technology and modern firms.

- Revolutionary power of entrepreneurs.

- He was, however, a prisoner, of the classical economics heritage.

- He never formulated a coherent view of how communism would work.

- Two fundamental problems:
  1. Allocation of resources.
  2. Incentives.

- For all we know, a socialist system is unlikely ever to work.
F.A. Hayek, The Problem of Information

“The problem of rational economic order is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exist in concentrated or integrated form, but solely as the dispersed bits of incomplete knowledge which all the separate individuals possess...

The problem is thus in no way solved if we can show that all the facts, if they were known to a single mind (as we hypothetically assume them to be given to the observing economist) would uniquely determine the solution; instead we must show how a solution is produced by the interactions of people, each of whom possesses only partial knowledge”
Fascism

- Particularly loaded word.

- It is helpful to distinguish between:
  1. Italian Fascism.
  2. German National Socialism.

- Main differences:
  1. Role of racism.
  2. Role of imperialism.
  3. Corporativism.

- Despite being the first movement, Italian Fascism is a sideshow in comparison with German National Socialism.

- Other cases: Spain, Hungary,...
A basic bibliography

- Best general overview: Richard Evans' Trilogy, *The Coming of the Third Reich*, *The Third Reich in Power*, and *The Third Reich in Power*.


- Economy: Adam Tooze, *Wages of Destruction*.


The origins

- Cradle of old German nationalism (Pangermanism, anti-Semitism, expansionism).
- After FWW, dozens of small radical right parties (Völkisch movement) appear in Germany.
- The DAP (German Workers’ Party) is one of them.
- Adolf Hitler is sent by the Army to infiltrate the group and report back to headquarters.
- He immediately realizes that he has an acute political instinct and a powerful oratory.
- Soon, the name is changed to NSDAP (National Socialist German Workers’ Party) and Hitler fully dominates the party (Führerprinzip).
The path to power

- First attempt: organize a coalition of völkish and nationalist groups, putsch in Munich in 1923 (why at that moment?).

- Army, the most powerful institution in the Weimar republic, does not back him.

- After a brief prison term, Hitler and NSDAP opt for an electoral strategy.

- However, after the stabilization of 1924, Germany’s economic growth relegates NSDAP to fringes of electoral map.

- Decomposition of the economy after the Great Depression of 1929 ⇒ breakthrough in the Federal election of 1930 (18.3% of votes).

- Presidential election of March/April 1932 and Federal elections of July and November 1932.

- Who voted for Hitler?
Figure 1 Monetary Base and Wholesale Price Index

Notes: Data normalized with 1913 equal to 1. Observations are the natural logarithm. The figure uses the data in Diagram 4 in Holtfrerich (1986). The monetary base is cash in circulation plus commercial bank deposits at the Reichsbank.
Figure 2 Industrial Production

Notes: Data normalized with 1928 equal to 100. Observations are the natural logarithm. The figure reproduces Diagram 4 in Holtfrerich (1986).

Bank was not in a position to supply the business world with a sufficiency of notes. (105)

In fact, the high rate of inflation made holding money extraordinarily costly. German moneyholders responded rationally by reducing the real amount of marks they held. The minimal real purchasing power of marks made money appear scarce. That scarcity rationalized the demands of the industrial class for the Reichsbank to continue discounting its commercial paper at a discount rate of 6 percent. In this way, industrialists obtained costlessly the revenues from the taxing powers (seigniorage) that money creation granted to a central bank.

France never confronted the inherent contradictions in its policy toward Germany. It wanted a weak German economy incapable of supporting remilitarization, and it wanted the payment of reparations, which required a strong German economy. On 11 January 1923, France occupied the Ruhr when Germany failed to make in kind deliveries of coal. Germany responded with a policy of passive resistance. With government support, workers in the Ruhr went on strike to prevent France from obtaining the region's coal and steel.

They achieved the reduction in the purchasing power of the mark by increasing the price level in excess of the amount of paper marks issued.
Table 2  German Historical Data

<table>
<thead>
<tr>
<th>Year</th>
<th>Money*</th>
<th>Unemployment</th>
<th>Real GNP</th>
<th>GNP-Deflator</th>
<th>WPI</th>
<th>CPI</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1924</td>
<td>978</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1925</td>
<td>17106</td>
<td>636</td>
<td>59.7</td>
<td>117.9</td>
<td>137.3</td>
<td>130.8</td>
<td></td>
</tr>
<tr>
<td>1926</td>
<td>19683</td>
<td>2010</td>
<td>61.4</td>
<td>120.0</td>
<td>141.8</td>
<td>141.8</td>
<td></td>
</tr>
<tr>
<td>1927</td>
<td>21438</td>
<td>1327</td>
<td>67.5</td>
<td>121.9</td>
<td>137.6</td>
<td>147.9</td>
<td></td>
</tr>
<tr>
<td>1928</td>
<td>22369</td>
<td>1391</td>
<td>70.5</td>
<td>125.0</td>
<td>140.0</td>
<td>151.7</td>
<td>6.7</td>
</tr>
<tr>
<td>1929</td>
<td>22694</td>
<td>1899</td>
<td>70.2</td>
<td>125.9</td>
<td>137.2</td>
<td>154.0</td>
<td>9.0</td>
</tr>
<tr>
<td>1930</td>
<td>21304</td>
<td>3076</td>
<td>69.2</td>
<td>119.1</td>
<td>124.6</td>
<td>148.1</td>
<td>14.6</td>
</tr>
<tr>
<td>1931</td>
<td>18042</td>
<td>4520</td>
<td>63.9</td>
<td>108.0</td>
<td>110.9</td>
<td>136.1</td>
<td>22.3</td>
</tr>
<tr>
<td>1932</td>
<td>16288</td>
<td>5575</td>
<td>59.1</td>
<td>95.9</td>
<td>96.5</td>
<td>120.6</td>
<td>28.1</td>
</tr>
<tr>
<td>1933</td>
<td>16608</td>
<td>4804</td>
<td>62.8</td>
<td>93.0</td>
<td>93.3</td>
<td>118.0</td>
<td>24.4</td>
</tr>
<tr>
<td>1934</td>
<td>17897</td>
<td>2718</td>
<td>59.1</td>
<td>95.9</td>
<td>96.5</td>
<td>121.1</td>
<td>13.8</td>
</tr>
<tr>
<td>1935</td>
<td>20001</td>
<td>2151</td>
<td>74.6</td>
<td>98.0</td>
<td>101.2</td>
<td>123.0</td>
<td>10.7</td>
</tr>
<tr>
<td>1936</td>
<td>21609</td>
<td>1593</td>
<td>81.2</td>
<td>100.0</td>
<td>104.1</td>
<td>124.5</td>
<td>7.6</td>
</tr>
<tr>
<td>1937</td>
<td>23309</td>
<td>912</td>
<td>90.0</td>
<td>101.0</td>
<td>105.9</td>
<td>125.1</td>
<td>4.2</td>
</tr>
<tr>
<td>1938</td>
<td>28490</td>
<td>429</td>
<td>99.2</td>
<td>101.0</td>
<td>105.7</td>
<td>125.6</td>
<td>1.9</td>
</tr>
<tr>
<td>1939</td>
<td>37910</td>
<td>119</td>
<td>107.2</td>
<td>102.0</td>
<td>106.9</td>
<td>126.2</td>
<td>0.5</td>
</tr>
<tr>
<td>1940</td>
<td>48640</td>
<td>52</td>
<td></td>
<td></td>
<td>110.0</td>
<td>130.1</td>
<td>0.2</td>
</tr>
</tbody>
</table>

*Equals the sum of currency and demand and time deposits.

began in 1929 and continued through 1932. Despite this deflation, the Reichsbank kept market interest rates high. Table 1 shows the realized real rate of interest—the market rate minus actual inflation. This series rose moderately through 1929 and dramatically in the years 1930, 1931, and 1932.31

Monetary contraction allowed the Reichsbank to maintain high real rates of interest. Given the stability of monetary velocity (Figure 3), monetary contraction required a decline in nominal output (Figure 5).32 Real output peaked in 1928 and then fell 16 percent through 1932. Only in 1933 did output begin a modest recovery (Figure 6 and Table 2).33

31 The relevant series is the real rate of interest, which is the market rate of interest minus expected inflation. For the United States, Hamilton (1992, 172) estimates that in the Great Depression the public forecast about half of actual inflation. If the public in Germany forecast any significant fraction of the actual deflation, then real rates of interest were extraordinarily high in the years 1930, 1931, and 1932.

32 Figures 3 and 5 show that after 1937 money rose with no corresponding rise in prices (velocity fell). This divergence is probably an artifact due to price controls. Official price indices did not measure the deterioration in the quality of goods (James 1999, 35).

33 For the view that the Great Depression resulted from nonmonetary rather than monetary causes see Fisher and Hornstein (2001).
Conservatives and National Socialists

- Traditional conservative elites (Army, Big Business, Junkers, German Nationals-DNVP...) thought little of the NSDAP.

- No economic support of big business to the NSDAP until much later in the game.

- Share many policy goals (anti-communism, antilabor, expansionism in the East, eliminate Treaty of Versailles) \(\Rightarrow\) conservative revolution during the Weimar years.

- NSDAP as a solution to the paralysis of Weimar institutions:
  - Radical parties: KPD (Communist), NSDAP.
  - Weimar coalition: SPD (Social democrats), Zentrum (Catholics).
  - Liberal and Conservative parties: DNVP (German Nationals), DVP (Conservative Liberals), DDP (Centrist Liberals).

- However, conservative politicians did not fully understand the radicalism of the NSDAP agenda.
Opening the gates of hell

- A small group of conservatives convinces Hindenburg to appoint Hitler chancellor on January 30, 1933, as the premier of a coalition government with the DNVP and independent conservatives.

- Why? They (Von Papen, Hugenberg, Schacht,...) think:
  1. They can control him.
  2. They can use him to smash out the KPD and SPD.
  3. The Army will always back them up.

- They are deeply mistaken.

- However they are not the only ones:
  1. KPD reads National Socialism as the “the open terrorist dictatorship of the most reactionary, most chauvinistic and most imperialist elements of finance capital” and Social democrats as “social-fascists.”
  2. Zentrum decides to achieve a modus vivendi (the fascist hare and the catholic turtle).
  3. SPD is left alone and does not opt for violence.
The plan

• Coarse, simplistic, and deeply confused view of the world. For instance, Gottfried Feder’s economic thinking.

• However, rather clear structure relying on three assumptions:

  1. Life is a struggle among races. Only the strongest will survive (why do they think Jews and Communists are particularly dangerous?).

  2. There is the need of achieving a large land/population ratio (Lebensraum).

  3. Returns to scale are huge (image of America).
The plan

- The only path open to Germany is to:

  1. Conquer an empire in the East (Poland, Ukraine, ...).
  2. Populate it with German settlers (a herrenvolk).
  3. Eliminate or reduce Slavic and Jewish original populations.
  5. Eventual war with the U.S. for world dominance (but in a distant future).
The consequences

- Therefore, war and genocide are not accidents, but the *structural outcome* of the regime.

- Discussion in historiography between *functionalism* and *intentionalism*. Working Towards the Führer concept.

- Re-organizing the society and the economy for aggression is the first and fundamental task after the Machtergreifung:
  2. Cultural and social revolution (People’s Community, *Volksgemeinschaft*).
  3. Nuremberg laws (avoid another stab-in-the-back, *Dolchstoß*).
  4. Expansion of the army while keeping (basically) traditional officers in charge.

- Policracy: *Franz Neumann*, *Behemoth*, and *Martin Broszat*, *The Hitler State*. 
The economy

- National socialist took the “socialist” part of their name rather seriously.

- They allowed private enterprise because:
  1. They could alienate too early many of their conservative supporters.
  2. They thought they could force the arm of entrepreneurs to do everything they needed anyway.

- Four-years plan run by Hermann Göring.

- Creating a People’s community:
  1. German Labour Front (Deutsche Arbeitsfront).
  2. A People’s car (Volkswagen), a People’s radio, a People’s fridge, ...
  3. Strength through Joy (Kraft durch Freude).
  4. Health, environmental, and animal protections.
KDF-Wagen

Auskunftte erteilen alle DAF-Dienststellen und KDF-Dienststellen
The economy

- Program of expansionary fiscal policy:
  1. Road construction (Autobahns). Much less important than usually argued.
  2. Weapons.
  3. Autarky, barter trade agreements with East European countries.

- Accommodative monetary policy (Mefo bills).

- Tight control on wages and consumption.

- Financial repression.

- Employment recovers quickly.

- However, soon, the economy reaches its capacity limits and runs out of foreign reserves. Primary reason behind taking over Austria and Czechoslovakia.
Nevertheless, immediately after their introduction, the fate of the Erhard reforms remained in question. The currency reform carried the opprobrium of destroying the financial wealth of ordinary Germans while enhancing the tangible wealth of those holding productive capital. It thus restored the industrialists’ economic position, which had created envy in the Weimar Republic and Third Reich. Many Germans wanted a reintroduction of price controls, believing they would make basic goods and food affordable. In November 1948, more than 9 million German workers engaged in a general strike (Merkl 1963, 107).

Restoring the Appeal of Capitalism

The ultimate success of the Erhard reforms constitutes a striking example of how ideas can influence events. Erhard initiated the reforms in a social and intellectual environment uniformly predisposed toward central planning. Bark and Grass (1989) write:

"Most Europeans in 1945 regarded socialism, or at least some form of extensive state-controlled economy, as so obviously necessary as to be beyond argument." (193)
The war

- Both offensive in the West and the East largely influenced by economic computations.

- Thorough yet inefficient exploitation of conquered territories:
  1. France, Belgium, Netherlands → transfers.
  2. East Europe → plunder.

- Biggest use of slave labor since Roman times: around 12 million laborers.

- First years of the war, 1939-1942 were years of substantial capital accumulation.

- Only after 1943, war production reaches its peak and stays high until surprisingly late in 1945.
I. The Magnitude of Vichy's Payments

During World War II, the French economy became a vital part of the German war machine. The systematic exploitation of occupied countries provided very important contributions to the Nazi state. Milward (1970) estimated that for the whole course of the war that Germany was able to extract revenue from all occupied countries equal to 40 percent of the revenue it generated by its own taxation, and of this 42 percent came from France.

Table 1 shows the total payments made to Germany during its occupation of France. As explained in the next section, these payments represent the actual financial transfers to German authorities, rather than their accumulated credits in the Banque de France. Seizures and requisitions, for which Vichy did not provide compensation to the victims, are excluded. Although the measure of GDP is fragile and there was a substantial black market, the total of resources extracted by the Nazis is stunning. Even in the partial first year of occupation, nearly 20 percent of GDP was transferred, rising to well over a third of GDP in 1941 and 1942. The switch from the limited war of Blitzkrieg to a completely mobilized economy led to a higher level of exploitation in 1943 and 1944, another partial year of occupation.

Table 1
French Payments to Germany, 1940-1944

<table>
<thead>
<tr>
<th>Year</th>
<th>French GDP (FF billions)</th>
<th>Occupation Costs (FF Billions)</th>
<th>Costs as a Share of GDP (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1939</td>
<td>433</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1940</td>
<td>419</td>
<td>81.6</td>
<td>19.5</td>
</tr>
<tr>
<td>1941</td>
<td>392</td>
<td>144.3</td>
<td>36.8</td>
</tr>
<tr>
<td>1942</td>
<td>424</td>
<td>156.7</td>
<td>36.9</td>
</tr>
<tr>
<td>1943</td>
<td>493</td>
<td>273.6</td>
<td>55.5</td>
</tr>
<tr>
<td>1944</td>
<td>739</td>
<td>206.3</td>
<td>27.9</td>
</tr>
</tbody>
</table>

Source: Carré, Dubois and Malinvaud (1972) provide the GDP data, Milward (1970), p. 271 gives the French payments to Germany.
Conclusions

- National Socialism was a road to nowhere.
- Insane combination of Darwinism and Malthusianism.
- Based on the need of constant aggression and cumulative radicalization.
- Even if they had won WWII (and they were rather close to doing it in 1941), it is unclear how the regime would have evolved.
- Economic view of the world based on a fundamental misunderstanding of how modern societies work.
- Probably, this is the reason why, outside small fringe group of lunatics, national socialism and its economic doctrines have been relegated to the dustbin of history.