

1 In Search of the Reichsbank

Introduction

In June 1945, six weeks after Germany's unconditional surrender to the Allies, an officer from the Allied military authorities was instructed to track down missing records and leading officials of the Reichsbank, an institution that had been the central bank of Germany since 1876. It was an arduous task, for much of the country lay in ruins. The officer summarised his findings in a report that captured the uncertainty and disarray prevailing at the time. It was titled 'In search of the Reichsbank'.¹ The central bank's headquarters in Berlin was destroyed, the officer noted. That much was certain. But rumours abounded amid the rubble. Some Reichsbank officials may have fled to the French zone of occupation, he heard. Others, like the former Reichsbank president Hjalmar Schacht, were already caught. Others were missing still.

The minor Reichsbank officials that he could find were in a sorry state. 'An atmosphere of depression' and resignation reigned among them.² Given the war and the subsequent destruction of the economy, the country's banking system was now 'pure Alice in Wonderland'.³ Frustratingly, much of the information the military officer could gather was contradictory and led to dead ends. But some common themes did emerge. 'All Reichsbank men speak with reverence of Schacht', he wrote. 'His portrait still adorned the otherwise empty wall of the manager's parlour at Meiningen', a town in central Germany.⁴

At the time of the report's submission, American military authorities were transporting the real Schacht to a small castle near liberated Versailles in France.⁵ Only the previous week they decided to try the former central banker as a war criminal, alongside other leading officials of the

¹ E. S. G. Bach, 'In search of the Reichsbank', 30 Jun. 1945, Institut für Zeitgeschichte [IfZ], 2/206/4 FINAD.

² *Ibid.*, pp. 1–2. ³ *Ibid.*, p. 5. ⁴ *Ibid.*, p. 3.

⁵ Christopher Kopper, *Hjalmar Schacht. Aufstieg und Fall von Hitlers mächtigstem Bankier* (Munich, 2010), p. 360.

Third Reich.⁶ This news came as a ‘great surprise’ to Schacht when it reached him.⁷ Hitler might have sacked Schacht from his post as president of the Reichsbank in January 1939 – after he and the Reichsbank’s directorate sent a memorandum protesting against the inflationary policies of the regime – but that did not stop Schacht being accused of helping to prepare the financing of a war that devastated the European continent.

The Allies set about collecting and compiling information in preparation for the trials. The proceedings came to be known as the Nuremberg trials, which took place from late 1945 onwards. What role did Schacht play in allowing Hitler to come to power back in 1933? What happened in the years leading up to the outbreak of hostilities? How did the Reichsbank, which once looked back on a prestigious history, end up as just another cog in Hitler’s war machine? As Schacht sat in the dock at Nuremberg, these questions, among others, came to the fore for the first time.

The first serious, post-war attempt to make sense of Germany’s monetary past took place in the courtrooms at Nuremberg. In this respect, the Allied military authorities played a crucial, if somewhat indirect role in laying out the initial parameters of what later became monetary mythology. Schacht was eventually acquitted at Nuremberg. And during his trial, certain historical narratives – or spins on the past – emerged triumphant in the courtroom at the expense of other competing interpretations. These narratives would later be adopted by the leadership of the West German central bank amid efforts to portray their inter-war past in a credible, edifying light. To what extent, however, did the narratives that helped Schacht escape the hangman reflect the actual record of the Reichsbank and the performance of its leading officials?

Like that Allied military officer back in June 1945, this chapter, too, goes in search of the Reichsbank. In doing so, however, it will focus on certain themes. First, it will examine the origins and evolution of central bank independence in Germany. The chapter notes that the Reichsbank was independent of government instruction during both the hyperinflation and Great Depression. Moreover, it will examine how the German central bank, under Schacht, became an overtly political actor in the public sphere for the first time, using its independence to force the hand of democratically elected governments. The chapter highlights the mixed record of inter-war central bank independence, offering context as to why central bank independence would go on to

⁶ *Ibid.*, pp. 359–60.

⁷ Hjalmar Schacht, *76 Jahre meines Lebens* (Bad Wörishofen, 1953), p. 568.

be a subject of controversy in the immediate post-war period, when legislators and politicians tussled over the Bundesbank Law, a piece of legislation that would create the future Bundesbank. The performance of the inter-war Reichsbank was one of the main reference points during these debates.

Second, the chapter will document the respective careers of three Reichsbankers: Schacht, Wilhelm Vocke and Karl Blessing. It does so for several reasons. In Germany, Schacht was the first to pioneer an active press policy in the realm of central banking, thereby establishing a precedent and example for the post-war era. More importantly, however, the first outline of monetary mythology at Nuremberg centred on defending Schacht's record. To have a deeper understanding of these historical narratives, then, we will need to understand what happened to Schacht and the Reichsbank leading up to his departure in 1939. Vocke and Blessing, for their part, later went on to assume the public face of the West German central bank in the media between 1948 and 1969 – that is, a period spanning two decades. Both men, who appeared at the Nuremberg trials as witnesses, would later use monetary mythology to defend their credibility and reputations in the post-war era.

Finally, the chapter will conclude by examining how the record of the Reichsbank first came to be debated during the Nuremberg trials. True, the origins of central banking in Germany were statist. Entwined with questions of nation and empire in the late nineteenth century, the rise and fall of the Reichsbank mirrored the fortunes of the state itself. But the origins of monetary mythology, this chapter argues, are far more recent. All roads lead back to Nuremberg.

The Reichsbank in Wilhelmine Germany

The Reichsbank was a product of a newly unified Germany. From its inception, the central bank oversaw the gold mark, a currency that could be used across the nation. But the gold mark itself was only a recent creation. Before the establishment of the Second Reich, a plethora of states and currencies littered the German landscape. Even as late as the early 1870s, over thirty private note-issuing banks issued paper currency, and twenty-two different states issued treasury notes, all of which could be used as legal tender.⁸ The metal, value and denomination of the currency used often differed from one region to the next, creating serious

⁸ Statistische Abteilung der Reichsbank, 'Reichsbank. Geschichte und Organisation', 30 Dec. 1930, Bundesarchiv, Berlin-Lichterfelde [BAB], R2501/6346, p. 1.

obstacles for trade across the states.⁹ Crucially, it would take political unification to create the momentum for a single currency – which emerged in its own right as ‘a symbol of national unity’ – and, moreover, an institution to oversee that currency.¹⁰ As one Reichsbank report in 1930 noted, ‘[t]he establishment of the Reichsbank stemmed from the acknowledgement that the political unification of Germany required a unified regulation of monetary affairs and, in particular, the centralisation of the central bank system’.¹¹

The birth of the German gold mark was streaked with blood and iron, however, much like the nation itself. A series of small wars in the 1860s, engineered by Otto von Bismarck, the Prussian statesman, created political conditions suitable for a unified Germany to emerge onto the world stage. But it was the outcome of Franco-Prussian War of 1870–1, in particular, that proved particularly conducive to the establishment of the German gold mark. Following its decisive defeat in the conflict, France was obliged to pay reparations to the victor, and to the Germans’ surprise, these payments arrived in quick fashion. Five billion gold francs flowed into Germany. This inflow allowed for the amassing of sufficient gold reserves to create a unified currency and place the country on the gold standard.¹² France’s disintegration on the battlefield contributed decisively to Germany’s monetary integration.

But the Reichsbank had yet to be established. A centralised monetary authority, in other words, did not regulate the issuance of gold, silver and fractional money for the first few years of the mark’s life. This task was left to politicians and private banks. Two parliamentary assemblies, the Reichstag and Bundesrat, passed a series of legislative acts – in 1871, 1873 and 1874 – which took to regulating the supply of money in the wider economy.¹³ And as the historian Harold James notes, private banks often took on central banking functions during this crucial period; Deutsche Bank, for instance, assumed the task of selling the country’s

⁹ Knut Borchardt, ‘Währung und Wirtschaft’, in Deutsche Bundesbank (ed.), *Währung und Wirtschaft in Deutschland 1876–1975* (Frankfurt am Main, 1976), pp. 3–4.

¹⁰ Christoph Buchheim, ‘Von altem Geld zu neuem Geld. Währungsreformen im 20. Jahrhundert’, in Reinhard Spree (ed.), *Geschichte der deutschen Wirtschaft im 20. Jahrhundert* (Munich, 2001), pp. 141–2.

¹¹ Statistische Abteilung der Reichsbank, ‘Reichsbank. Geschichte und Organisation’, p. 1.

¹² Marc Flandreau, ‘The French crime of 1873: an essay on the emergence of the international gold standard, 1870–1880’, *Journal of Economic History*, Vol. 56, No. 4 (1996), p. 873.

¹³ Carl-Ludwig Holtfrerich, ‘Relations between monetary authorities and governmental institutions: the case of Germany from the 19th century to the present’, in Gianni Toniolo (ed.), *Central banks’ independence in historical perspective* (Berlin, 1988), p. 107.

silver on the world market amid Germany's transition to gold.¹⁴ Yet private banks in Germany were rocked by financial instability during the early 1870s. A sustained outflow of gold only served to aggravate this instability, placing the country's commitment to the gold standard under intense scrutiny.¹⁵ These dangers emphasised the need for a centralised institution capable of tackling Germany's monetary problems and stabilising the financial system.

The Bank Law – the piece of legislation that established the Reichsbank – was passed on 14 March 1875, and the new central bank opened its doors in Berlin on 1 January 1876.¹⁶ The Reichsbank was closely modelled on, and indeed it largely assumed the functions of, the Prussian Bank, a leading private bank that had been founded in the 1840s to help foster and stabilise the industrialisation of the Prussian state.¹⁷ Though the Prussian Bank was explicitly statist, serving the interests of Prussia and its elites, it also had a private character. The bank's share capital was held largely by private shareholders – by and large, the big banks – with the state allotted a minority share. The Prussian Bank served as the German states' *de facto* central bank, circulating as much as two-thirds of banknotes across the numerous territories.¹⁸ Despite its private ownership, however, the Prussian Bank was treated as a 'juridical person under public law'. The importance of this legal definition lay in the fact that the bank's policies could be formally controlled by the Prussian state.

Enter the Reichsbank. The new central bank was once again treated as a 'juridical person under public law', and again it was largely owned by private capital. The monetary authority was established to promote the interests of the Reich: to regulate the circulation of money; to facilitate the settlement of payments; and to promote the use of available capital in the economy.¹⁹ Under the Bank Law of 1875, the chancellor of the Reich became the head of the new monetary authority.²⁰ Members of the

¹⁴ Harold James, 'The Reichsbank 1876–1945', in Deutsche Bundesbank (ed.), *Fifty years of the Deutsche Mark: central bank and the currency in Germany since 1948* (Oxford, 1999), p. 6.

¹⁵ 'It was in the context of protecting German gold from flowing out that the phrase "guardian of the currency" was first used [for the Reichsbank]'. *Ibid.*, pp. 7–8.

¹⁶ Simone Reinhardt, *Die Reichsbank in der Weimarer Republik. Eine Analyse der formalen und faktischen Unabhängigkeit* (Frankfurt am Main, 2000), p. 69.

¹⁷ Dieter Ziegler, 'Die Entstehung der Reichsbank 1875', in Dieter Lindenlaub, Carsten Burhop and Joachim Scholtyseck (eds.), *Schlüsseleignisse der deutschen Bankengeschichte* (Stuttgart, 2013), pp. 168–70.

¹⁸ The details concerning the Prussian Bank here are found in Holtfrerich, 'Relations between monetary authorities and governmental', pp. 108–9.

¹⁹ *Ibid.*, p. 109. ²⁰ Reinhardt, *Die Reichsbank in der Weimarer Republik*, p. 69.

central bank's executive body, the directorate, were nominated by Germany's upper parliament and in turn appointed by the Kaiser. When it came to cases of conflict with the government, the Reichsbank had to follow the instructions of the chancellor.²¹ The government exercised another form of influence over the central bank in the form of the *Kuratorium*, an oversight body of which the Reich's chancellor was chairman. The *Generalversammlung*, or general assembly, represented the interests of private shareholders. It elected a central committee, or *Zentralausschuß*, to offer advisory functions for the benefit of the directorate.²² Taken as a whole, it can be seen that the Reichsbank was placed under the thumb of the government – indeed, 'much more so than the central banks in other European states, like France and Great Britain', as Carl-Ludwig Holtfrerich observes.²³

The provisions in the Bank Law could be changed. The government retained the right to terminate the central bank itself or purchase its share capital at face value, the latter a move that would in effect nationalise the Reichsbank. There were checks and balances against this procedure, of course. For instance, the Kaiser had to receive the agreement of the Bundesrat before the government could follow through with the action. And the state could only exercise this option fifteen years after the establishment of the Reichsbank – the first debate kicked off in 1889 – and only then every ten years thereafter; for example, in 1899 and 1909.²⁴

Crucially, this legal provision sparked a regular debate every decade about whether the Reichsbank should be nationalised. And these debates, for their part, revealed the political appetite concerning the central bank's relative autonomy vis-à-vis the state. On one side of the fence stood right-wing organisations and political parties that favoured the nationalisation of the central bank, a step that would allow the state to further serve the interests of industry and agriculture. On the other side, however, stood liberals and figures on the left, who pushed for the maintenance of a private–public framework that could act as a bulwark, or counterweight, against what they saw as an unduly authoritarian state.²⁵ The German political left, in other words, originally supported the autonomy of the central bank. In the end, the Reichsbank was never nationalised. Arguments contending that a nationalised central bank

²¹ *Ibid.*, pp. 70–1. ²² *Ibid.*, p. 72.

²³ Holtfrerich, 'Relations between monetary authorities and governmental institutions', p. 108.

²⁴ *Ibid.*, pp. 110, 112. ²⁵ James, 'The Reichsbank 1876–1945', p. 10.

would easily become the tool of the government's fiscal ambitions won the day.

On paper, the mixed status of the Reichsbank suggested a sizeable degree of government influence. But, in practice, the Reichsbank enjoyed a considerable amount of autonomy. There were just two occasions when the chancellor ordered its directorate to undertake specific actions. The first occurred in late 1880, when the chancellor instructed the central bank to increase the discount rate and restrict Lombard credit – the latter decision essentially making it more difficult for banks to use security deposits against loans. The second episode was more overtly political and fused with considerations of foreign policy; in November 1887, Bismarck ordered the Reichsbank to disallow the use of Russian securities as collateral for loans.²⁶

These were isolated incidents, though. The main constraints were to be found elsewhere. And they were not political, but economic in nature. The Reichsbank was required to cover one-third of its note circulation with German 'legal tender'. This term primarily meant gold reserves, but it also included Reich treasury notes, which were strictly limited in size, as well as silver coins minted by German states. The remainder of the Reichsbank's note circulation had to be covered by qualified commercial bills and cheques.²⁷ Unlike the Bank of England, the Reichsbank was given the ability to issue banknotes in accordance to the needs of its business; this flexibility allowed it to issue notes beyond the one-third coverage requirement, but at the expense of the central bank having to pay a small tax.²⁸ As a result, an incentive structure was in place to ensure that the Reichsbank's note issue was kept within the approved limit. The level of note circulation, then, depended primarily on the Reichsbank's gold reserves.²⁹

Today, central banks are interventionist institutions. But under the international gold standard, they were largely seen as passive actors. The idea of an interventionist central bank had not yet come about during this period, something that Blessing often remarked upon in a wistful fashion

²⁶ Holtfrerich documents both occasions in Holtfrerich, 'Relations between monetary authorities and governmental institutions', p. 112.

²⁷ Reinhardt, *Die Reichsbank in der Weimarer Republik*, pp. 76–7.

²⁸ James, 'The Reichsbank 1876–1945', pp. 8–9.

²⁹ For more on the gold standard, and its relevance for inter-war policymakers, see Barry Eichengreen's chapter, 'The classical gold standard in interwar perspective', in Barry Eichengreen, *Golden fetters: the gold standard and the Great Depression* (Oxford, 1992), pp. 29–66. In terms of a purely historical treatment, see John Singleton, *Central banking in the twentieth century* (Cambridge, 2011), pp. 46–9. Refer also to Patricia Clavin, *The Great Depression in Europe, 1929–1939* (London, 2000), p. 43.

as Bundesbank president during the post-war era.³⁰ An adherence to the gold standard meant, at times, a weary toleration of recessions amid efforts to maintain the gold parity. This was entirely possible in an era when suffrage was relatively limited, as was the case in imperial Germany. People could not yet oust the governments that asked for too much economic sacrifice on the part of their citizens. It was arguably the gold standard, and not the German government, that acted as the major constraint on the Reichsbank's room for manoeuvre before 1914.

Between 1876 and the lead-up to the First World War, the Reichsbank oversaw rising prosperity among large segments of the population. Industrial production rose sixfold in Germany between 1871 and 1914, whereas industrial production in England merely doubled. German steel production shot up tenfold in the same period.³¹ Germany had transformed itself into a largely industrialised state. During this time, the Reichsbank won itself a sizeable degree of credibility, particularly on the international circuit. 'This bank organization, which strikes the mean between a purely state bank and a purely private one, has proved to be the best system according to the experiences of most European countries', observed one American study in 1910.³²

War

In 1914, European commerce and trade came to a sudden halt with the outbreak of war. Many Germans, though not the military leadership, expected the war to be a relatively short one – like the Franco-Prussian War, which had erupted some forty years earlier.³³ This expectation of a short war was important when it comes to explaining Germany's war financing strategies at the start of the conflict. A crucial decision was made: Germans were not to be taxed for the war effort. The government set about pursuing other methods of financing the conflict. Sizeable attempts were made to win over the support of the population. Numerous,

³⁰ See, for instance, Karl Blessing, 'Vortrag des Präsidenten der Deutschen Bundesbank Karl Blessing', 10 Nov. 1961, Deutsche Bundesbank Historisches Archiv [DBHA], B330/7528, pp. 2–3.

³¹ Hans-Joachim Braun, *The German economy in the twentieth century* (London, 1990), p. 19.

³² National Monetary Commission, United States Senate, *The Reichsbank, 1876–1900* (Washington, 1910), p. 29.

³³ Braun, *The German economy in the twentieth century*, p. 25. The historian Annika Mombauer details how Helmuth von Moltke, the chief of the general staff, expected a long war. See Annika Mombauer, *Helmuth von Moltke and the origins of the First World War* (Cambridge, 2001), p. 95.

and, during the first two years at least, successful war bonds were issued by the German government.³⁴ The initial success of these bonds was, in effect, a sign of support and confidence on the part of the German people.³⁵ But their confidence did not last and deprivations took their toll on the morale of the population.³⁶ Widespread hardship became evident during the 'turnip winter' of 1916–17.³⁷ Indeed, by 1916, the government was unable to sell all its war bonds to the German people, a development suggesting that the population was tiring of the war.

The German government had to look elsewhere for financing. In short, the state borrowed the resources to pay for the war effort. This was a political calculation. And it was a gamble. The decision was dependent on the implicit assumption that future generations of Germans would be expected to foot the bill, and the somewhat more explicitly stated aim that the war's losers would be expected to pay reparations. And Germany had no intention of being among the losers. In a famous and oft-cited address before the German Reichstag in 1915, Karl Helfferich, the secretary of state for the treasury, announced that it would be Germany's opponents that would have to pay for the suffering and costs entailed during the fighting.³⁸

Where did the Reichsbank fit into all this? The German mark's convertibility into gold was effectively suspended with the outbreak of war.³⁹ Technically, the Reichsbank was still obliged to maintain its one-third coverage requirement. But as the historian Gerald Feldman notes, new measures were put in place by the government that allowed the central bank to circumvent this constraint.⁴⁰ The Reichsbank was now allowed to use 'loan bureau' notes as an optional substitute for its gold reserves. Loan bureaus were newly created subsidiaries of the Reichsbank itself. They issued notes that were to be backed by collateral such as commodities or bonds. Conveniently, this collateral included war bonds issued by

³⁴ Indeed, Gerald Feldman writes of the Reichsbank's 'verve, skill and imagination' in 'promoting' these war bonds. See Gerald D. Feldman, *The great disorder: politics, economics, and society in the German inflation 1914–1924* (Oxford, 1996), p. 654. Also quoted in James, 'The Reichsbank 1876–1945', p. 18.

³⁵ James, 'The Reichsbank 1876–1945', pp. 18–19.

³⁶ This morale, too, should be placed in its proper context. The narrative concerning the jubilant 'spirit of 1914' has been challenged by more recent research. The outbreak of the First World War was greeted in a variety of fashions, ranging from enthusiasm to resignation. See Roger Chickering, *Imperial Germany and the Great War, 1914–1918*, 3rd edn (Cambridge, 2014), pp. 14–18.

³⁷ Braun, *The German economy in the twentieth century*, p. 30.

³⁸ David Marsh, *The Bundesbank: the bank that rules Europe* (London, 1992), p. 91.

³⁹ Volkswirtschaftliche und Statistische Abteilung der Reichsbank, 'Entwicklung, Aufbau und Aufgaben der Reichsbank', Nov. 1933, BAB, R2501/6355, p. 2.

⁴⁰ Feldman, *The great disorder*, pp. 32–3.

the government. As a result, war bonds issued by the government allowed the central bank to expand credit.⁴¹ The rudiments of a credit-creating mechanism had been put in place.

Germany had become a war economy. As government expenditure soared, the amount and quality of goods in the economy began to dwindle. By the war's end, some 10.1 billion marks' worth of loan bureau notes and 22.2 billion marks' worth of Reichsbank notes were in circulation.⁴² The money supply had increased fivefold since the start of the war, and price and exchange rate controls were put in place during the hostilities to counter the inflationary pressure stemming from such an increase.⁴³ Indeed, the government banned the media's very use of the word 'inflation'.⁴⁴ Nevertheless, despite these measures, wholesale prices roughly doubled in the four-year period.⁴⁵

The German government saw rising prices as preferable to the alternative of increasing taxes and imposing a direct burden upon the population – a move that had the potential of triggering social unrest across the country. Inflation was seen as a tolerable by-product of state policies that were geared towards winning the war. Indeed, as Christoph Buchheim notes, many Germans at the time viewed this '*Teuerung*', or rise in prices, as a largely reversible one come the end of hostilities.⁴⁶ This was not to be, however. In 1914, the arbitrary will of the government had replaced the level of gold reserves as the main determinant of credit supply in the economy. As such, it was in that year that the seeds of the 1922–3 hyperinflation were first sown.

Revolution

The war came to a bloody end in November 1918. And instead of victory, Germans were greeted with defeat. Revolution broke out on the streets of Berlin.⁴⁷ A democratic republic was declared and an armistice signed. The Kaiser fled, seeking refuge in the Netherlands. All the while, hundreds of thousands of soldiers returned from the front – but to what jobs? The economy, stricken with economic, social and political disruption, was paralysed. Days turned into months. The

⁴¹ *Ibid.*, pp. 34–7. ⁴² James, 'The Reichsbank 1876–1945', p. 17.

⁴³ Braun, *The German economy in the twentieth century*, p. 37.

⁴⁴ Singleton, *Central banking in the twentieth century*, p. 71.

⁴⁵ Theo Balderston, *Economics and politics of the Weimar Republic* (Cambridge, 2002), p. 34.

⁴⁶ Buchheim, 'Von altem Geld zu neuem Geld. Währungsreformen im 20. Jahrhundert', p. 143. See also Clavin, *The Great Depression*, p. 17.

⁴⁷ The classic overview is detailed in Eberhard Kolb, *The Weimar Republic* (London, 1988), pp. 3–23.

political power of labour increased markedly. Government spending began to swell amid efforts to cope with the economic situation. Employers agreed to unprecedented wage increases in the effort to stave off the revolutionary fervour.⁴⁸

On top of these domestic developments, the terms of the punitive post-war settlement, the Versailles Treaty, were announced in June 1919. Article 231 of the treaty held Germany responsible for the outbreak of war, thereby establishing legal ground for German reparations, the figure of which had yet to be determined.⁴⁹ Even before this total had been announced, the terms of the settlement were met with disgust within and, indeed, outside Germany.⁵⁰ Eventually, in May 1921, the Allied powers settled on a reparations figure of 132 billion gold marks, an amount greeted with outrage in the Weimar Republic.⁵¹

All these factors, and more, contributed towards ballooning state budget deficits. Government spending served as the primary motor for the inflation that followed. Onlookers were not impressed. 'The public finances are in that desperate state which must necessarily follow on four years of gambling [financing the war] followed by two years during which revenue could not meet expenditure', wrote one British observer with respect to the situation in Germany in 1920.

The root of the evil is beyond doubt the incessant flow of paper money which ever swells the note circulation. The possibility of putting a stop to this fatal increase has been the subject of much discussion without any really positive result being reached.⁵²

It is in this troubled context that we must approach the Reichsbank. Any prospect of returning to the gold standard, now seen as a 'Paradise Lost', was ruled out considering Germany's debt and the government's spending woes.⁵³ As before the First World War, the central bank remained beholden to government instructions. The directorate could have resigned in protest of the state's spending ambitions. But such a protest would have been, at best, of moral value. It would have served little practical use. Its hands tied, the Reichsbank took to issuing

⁴⁸ Harold James, 'Economic reasons for the collapse of Weimar', in Ian Kershaw (ed.), *Weimar: why did German democracy fail?* (London, 1990), p. 38.

⁴⁹ Charles Feinstein, Peter Temin and Gianni Toniolo, *The European economy between the wars* (Oxford, 1997), p. 35.

⁵⁰ See, for instance, Keynes's famous work, John M. Keynes, *The economic consequences of the peace* (London, 1919).

⁵¹ Balderston, *Economics and politics of the Weimar Republic*, p. 20.

⁵² J.W.F. Thelwall, *General report on the industrial and economic situation in Germany in December, 1920 (Department of Overseas Trade)* (London, 1921), p. 3.

⁵³ Feldman, *The great disorder*, p. 29.

confidential letters and annual reports to the government, warning of the dire consequences of such inflationary spending.⁵⁴ At one point, in 1919, the Reichsbank even threatened to cut off the credit line to the government.⁵⁵ This threat, however, did not materialise. In late 1921 the Reichsbank president, Rudolf Havenstein, lamented to his friend Montagu Norman, the governor of the Bank of England, that to stop the printing press was to send a cash-strapped government over the brink.⁵⁶ Nevertheless, as the historian Simone Reinhardt notes, during the inflation years the central bank explicitly 'avoided criticising the government in the public sphere and presented itself as loyal to the Reich'.⁵⁷ With Havenstein at the helm of the Reichsbank, tension between the central bank and government was kept hidden from the public eye.

The Weimar state used inflationary financing as a coping mechanism of sorts. In this sense, the republic pursued a policy that was common across Europe in the years immediately following the First World War. 'Allowing inflation to rise, enabled governments to sidestep awkward political choices and helped to ease the distributional conflict in society', argues Patricia Clavin.⁵⁸ There were other advantages for the German government, too. The inflation, for example, reduced the real burden of its very sizeable domestic debts. Furthermore, between 1920 and 1921, the mark depreciated to such an extent that Germany could 'enjoy relatively high employment and strong export advantages in comparison to the victor nations, which [were] undergoing a severe depression induced by their deflationary policies'.⁵⁹ Rising prices assisted industrial production and allowed for various economic groups to be bought off temporarily, allowing the state to buy itself much-needed time to get its house in order.⁶⁰

It was during these heady times that Vocke and Blessing arrived at the central bank. Born in 1886 to a pastor's family in northern Bavaria, Vocke entered the Reichsbank as a young man in 1918, having spent the years during the war working in government ministries. He became a member of the directorate just one year later, an ascent that caused some

⁵⁴ Reinhardt, *Die Reichsbank in der Weimarer Republik*, pp. 136–9.

⁵⁵ Marsh, *The Bundesbank*, p. 98. ⁵⁶ *Ibid.*, p. 287 (footnote).

⁵⁷ Reinhardt, *Die Reichsbank in der Weimarer Republik*, p. 136.

⁵⁸ Clavin, *The Great Depression*, p. 31.

⁵⁹ Gerald D. Feldman, 'The historian and the German inflation', in Nathan Schumkler and Edward Marcus (eds.), *Inflation through the ages: economic, social, psychological, and historical aspects* (New York, 1983), p. 390.

⁶⁰ Otto Pfeleiderer, 'Die Reichsbank in der Zeit der großen Inflation, die Stabilisierung der Mark und die Aufwertung von Kapitalforderungen', in Deutsche Bundesbank (ed.), *Währung und Wirtschaft in Deutschland 1876–1975* (Frankfurt am Main, 1976), p. 176.

discomfort among other potential candidates for the position.⁶¹ Vocke remained in the directorate until his departure from the central bank in February 1939, some two decades later. The Reichsbank had another new recruit during this period. Born in Württemberg in 1900, Blessing joined the central bank in 1920. He worked in the foreign exchange and economics departments of the central bank, delving into the reparations and transfer problems that troubled the young republic. Despite the lack of a third level education, a sharp intelligence ensured Blessing's rapid ascent within the Reichsbank, as well as earning the confidence of a future Reichsbank president: a man by the name of Schacht.⁶²

Central Bank Independence

In May 1922, the Reichsbank became independent of German government instruction. A few factors led to this development. In her study of the Reichsbank, Reinhardt highlights three in particular.⁶³ First, she stresses the crucial role played by the Allied powers, forcing the hand of the German government to implement central bank independence.⁶⁴ Second, Reinhardt highlights the international *Zeitgeist* of the inter-war era. A number of international conferences concerning the economic reconstruction of Europe, such as the Brussels conference in 1920, as well as the Geneva conference in 1922, called for the establishment of independent central banks as one means towards rectifying the mistakes of economically illiterate politicians.⁶⁵ The finance committee of the newly established League of Nations, too, was an active supporter of central bank independence in the 1920s, organising the imposition of independent monetary authorities in Austria and Hungary during the decade.⁶⁶

And third, Reinhardt notes how the collapse of the gold standard transformed central banks from largely passive institutions, which

⁶¹ Wilhelm Vocke, *Memoiren* (Stuttgart, 1973), pp. 75–6.

⁶² Christopher Kopper, *Bankiers unterm Hakenkreuz* (Munich, 2008), p. 184.

⁶³ Reinhardt summarises these three points in her conclusion. See Reinhardt, *Die Reichsbank in der Weimarer Republik*, pp. 273–4.

⁶⁴ *Ibid.*, pp. 85–92.

⁶⁵ *Ibid.*, pp. 44–9. Refer also to Singleton, *Central banking in the twentieth century*, pp. 58–9.

⁶⁶ Germany, however, was not yet a member of the League of Nations. See Patricia Clavin, *Securing the world economy: the reinvention of the League of Nations, 1920–1946* (Oxford, 2013), pp. 25–6. At any rate, the Allied powers chose to intervene directly. Reinhardt, *Die Reichsbank in der Weimarer Republik*, pp. 51–5. For more on the finance committee of the League of Nations, see Patricia Clavin, “Money talks.” Competition and cooperation with the League of Nations, 1929–40”, in Marc Flandreau (ed.), *Money doctors: the experience of international financial advising, 1850–2000* (London, 2003), pp. 219–24.

oversaw inflows and outflows of the balance of payments, to active players that could manipulate the value of their respective currencies.⁶⁷ Central banks now controlled the important lever that was monetary policy. In a new democratic environment, inter-war elites viewed it important that central banks be independent of these new, worrisome political pressures.

With the wider European context in mind, we can now approach the case of the Reichsbank. How did the Allies exert pressure upon Germany to make the Reichsbank independent vis-à-vis the Weimar state? It centred on reparations. In order that Germany should receive a moratorium on reparations payments, the Allied powers demanded that the Reichsbank be made autonomous.⁶⁸ The international pressure placed upon Germany was enormous; and the British played a significant role in pushing for a Reichsbank that was independent of government influence.⁶⁹ The Autonomy Law was passed on 21 May 1922.⁷⁰ The central bank's directorate could now decide monetary policy on its own; it was not beholden to government instruction. The chancellor was no longer the head of the Reichsbank, but he remained the chairman of the *Kuratorium*, a board that merely exercised supervisory functions.⁷¹ The Reichsbank appointment procedure also changed. The second parliament, the Reichsrat, nominated members of the directorate, who were then formally appointed by the Reich president – but only after the expert opinion of both the directorate and central committee had been heard.⁷²

'This is not the voluntary act of the German legislation, but rather the implementation of an Allied dictate', argued Helfferich, who remained an influential conservative figure.⁷³ It would be the first of two occasions that foreign governments imposed central bank independence upon Germany, as Buchheim wryly notes, the second time occurring in 1948 with the establishment of the Bank deutscher Länder (BdL).⁷⁴ Helfferich, however, grudgingly supported the legislation. He was not

⁶⁷ Reinhardt, *Die Reichsbank in der Weimarer Republik*, pp. 273–4. ⁶⁸ *Ibid.*, pp. 85–92.

⁶⁹ Liaquat Ahamed, *Lords of finance: the bankers who broke the world* (New York, 2009), p. 188.

⁷⁰ Helmut Müller has written of the 'foreign policy origins of autonomy' of the Reichsbank. See Helmut Müller, *Die Zentralbank – Eine Nebenregierung: Reichsbankpräsident Hjalmar Schacht als Politiker der Weimarer Republik* (Opladen, 1973), p. 38.

⁷¹ Reinhardt, *Die Reichsbank in der Weimarer Republik*, pp. 93–4.

⁷² See Salomon Flink, *The German Reichsbank and economic Germany* (New York, 1930), pp. 63–4.

⁷³ Karl Helfferich, 'Die Autonomie der Reichsbank', *Bank-Archiv*, 1. Apr. 1922, BAB, R2501/6405, p. 215.

⁷⁴ Buchheim, 'Von altem Geld zu neuem Geld. Währungsreformen im 20. Jahrhundert', pp. 151–2.

alone. Though disillusioned by the manner in which central bank independence was forced upon the German central bank, broad swathes of the German political elite supported the move. Representatives of the Social Democratic Party (SPD), too, were in favour of the Autonomy Law.⁷⁵ This position was largely in line with the left's favourable opinion of central bank autonomy during the Wilhelmine era.

But trouble soon emerged. In June 1922, shortly after the law's passage, the Allied Reparation Commission (ARC) complained to the German government about the Autonomy Law. The commission highlighted the manners in which the Autonomy Law failed to safeguard the Reichsbank's independence. There were two concerns. First, the German government still had a say in the appointment of leading central bank officials. And second, the Autonomy Law failed to outline a set, fixed limit as to the amount the Reichsbank could lend the government.⁷⁶ The independent Reichsbank, the ARC noted, could still finance the government should it *choose* to do so. These fears soon turned out to be justified.

The Reichsbank had become independent, but little changed. The central bank still continued to discount government paper, thereby allowing the inflation to continue. In a letter to Norman, the Reichsbank president outlined his views as to the actual value of the Reichsbank's new-found independence. Havenstein saw 'limited possibilities' for any change of course in the Reichsbank's financing.⁷⁷ His reasons were largely political ones. The Reichsbank president was convinced that the roots of the inflation lay in Germany's balance of payments problems, which, in his mind, stemmed from the reparations payments to the Allied powers. Without removing this obstacle, the Reichsbank had little choice but to finance the government's growing deficits. '[T]he conditions forced upon us are stronger than human beings', he confessed.⁷⁸ Indeed, Havenstein argued later that, were the Reichsbank to refuse the government the latter's requests for credits, the consequences would have been catastrophic for the economy; and that was a responsibility that the Reichsbank could not assume.⁷⁹

⁷⁵ Statistische Abteilung der Reichsbank, 'Stellung der Sozialdemokratie zur Autonomie der Reichsbank', 11 Jan. 1928, BAB, R2501/6405.

⁷⁶ Reparation Commission, 'Material (Ergänzungsnote der Repko), wonach der Reparationskommission die Regelung der Autonomie nicht "volle" Umfänge genügt (English version)', 14 Jun. 1922, BAB, R2501/6405, pp. 9–10.

⁷⁷ Rudolf Havenstein to Montagu Norman (English version), 4 Mar. 1922, BAB, R2501/6308, p. 9.

⁷⁸ *Ibid.*

⁷⁹ Havenstein made this point in an angry response to *The Daily Telegraph*, a British newspaper, after it published a report blaming the Reichsbank for the inflation. See

Born in turmoil, the Weimar Republic enjoyed little support among large segments of the population. The republic continued to be rocked by political and economic unrest, and the memory of the 1918 revolution was still vivid. Inflation was seen as a lesser evil to that of revolution. Crucially, Havenstein saw himself as a ‘dutiful *Beamter*’, or civil servant, to the Reich first and foremost.⁸⁰ The Reichsbank leadership saw its first duty as being loyal to the state, a consideration all too informed by the fact that its recent independence came from foreign pressure.⁸¹ ‘From May 1922 on, the Reichsbank was dependent not on the government, but on the national interest, as the bank’s leaders judged it to be’, notes Holtferich.⁸² And although he became increasingly desperate behind the scenes, Havenstein still refused to criticise the government in public.⁸³

Events accelerated. Burdened by reparations and rampant speculation on international markets, the German currency continued its descent in exchange markets. The onset of hyperinflation began in June 1922, shortly after the central bank became independent.⁸⁴ Some months later, in January 1923, France and Belgium occupied the Ruhr, Germany’s major industrial region, after the country fell behind on its reparations payments. The German government sided with the Ruhr people and supported – that is, funded – an open-ended policy of passive resistance, assisting workers and firms alike.⁸⁵ Considerations of foreign policy trumped economic reason, in turn aggravating the inflation.

A young Sebastian Haffner, who later became a leading journalist in the post-war era, recalled how the values and order of the old world seemed to dissolve.⁸⁶ His father, an austere Prussian civil servant, floundered helplessly amid what the old man saw as a ‘monstrous scandal’. Only the astute efforts of Haffner’s mother saved the family from ruin; for

‘Übersetzung aus “The Daily Telegraph” vom 6. September 1922: “Die deutsche Reichsbank”’, 6 Sep. 1922, BAB, R2501/6308, p. 3.

⁸⁰ Kopper, *Hjalmar Schacht*, pp. 62–3.

⁸¹ Reinhardt, *Die Reichsbank in der Weimarer Republik*, p. 142.

⁸² Holtferich, ‘Relations between monetary authorities and governmental institutions’, p. 116.

⁸³ Müller, *Die Zentralbank – Eine Nebenregierung*, p. 38.

⁸⁴ The chapter adopts the conventional definition of hyperinflation: ‘[c]onventionally defined as a rate of price increase exceeding 50% per month’. See Balderston, *Economics and politics of the Weimar Republic*, pp. 35, 104 (glossary definition). A similar definition is also used in Singleton, *Central banking in the twentieth century*, p. 179.

⁸⁵ Feldman, *The great disorder*, pp. 576–7, 704, 706.

⁸⁶ Sebastian Haffner, *Defying Hitler: a memoir* (London, 2002), pp. 41–54. See also the experiences detailed in Thomas A. Kohut, *A German generation: an experiential history of the twentieth century* (London, 2012), pp. 72–6.

instance, the family descended on the wholesale market as soon as the father's wages arrived, towing one month's supply of non-perishable foodstuffs back to the house before breakfast time. The next day, his father's wages would have been worthless.⁸⁷

Economic incentives were skewed. The inflation benefited those without scruples. Borrowers won out, while creditors were punished. 'The old and unworldly had the worst of it', wrote Haffner.⁸⁸ People on fixed incomes, such as pensioners, saw what little wealth they had disappear. There was a flight into real assets, such as property; and a barter exchange system developed in place of the mark. By November 1923, over 300 paper mills and roughly 2,000 printing presses worked around the clock to distribute Reichsbank notes. On 11 November, a 1 kg loaf of bread cost 428 thousand million marks.⁸⁹

The events of 1922–3 marked the culmination of Germany's ten-year inflation. The hyperinflation came to an end in November 1923. For months prior to this, however, the government had sought the resignation of Havenstein. The Reichsbank president had become vilified in the media.⁹⁰ Indeed, one news report at the time dubbed Havenstein as the 'father of the inflation'.⁹¹ Gustav Stresemann, the chancellor from August to November of that year, saw Havenstein as being inextricably associated with the inflation. A new currency required confidence – and that confidence was hard to win if Havenstein remained as the figurehead of the Reichsbank.

Yet Havenstein pointed to the central bank's recent independence: Berlin was no longer able to remove Reichsbank officials from their positions. The Reichsbank president informed the government that he intended to step down in 1924 – and not any sooner.⁹² The provisions of the Autonomy Law thus inadvertently prolonged the length of the crisis by allowing Havenstein, a 'tragic personality', as Vocke later noted, to remain in office.⁹³ At the height of the hyperinflation, there were numerous calls in the public sphere to have the Autonomy Law altered so as to enable the removal of Havenstein and stop the Reichsbank from acting like, in the words of chancellor Stresemann, a 'state within a state'.⁹⁴ The argument surrounding Havenstein's departure soon solved itself,

⁸⁷ Haffner, *Defying Hitler*, pp. 46–7. ⁸⁸ *Ibid.*, p. 45.

⁸⁹ Braun, *The German economy in the twentieth century*, p. 39.

⁹⁰ Reinhardt, *Die Reichsbank in der Weimarer Republik*, p. 158.

⁹¹ 'Hugo Stinnes möchte den Leiter der Reichsbank entfernen (German translation of article published in *The Commercial and Financial Chronicle*)', 13 Nov. 1922, BAB, R2501/6339, p. 1.

⁹² Müller, *Die Zentralbank – Eine Nebenregierung*, p. 27. ⁹³ Vocke, *Memoiren*, p. 76.

⁹⁴ Reinhardt, *Die Reichsbank in der Weimarer Republik*, pp. 158–9.

however. After months of tussling, the beleaguered Reichsbank president died of a heart attack on 20 November 1923.⁹⁵ In the end, regardless of whether the central bank was independent or not, the hyperinflation had ‘seriously damaged its credibility’ as a guardian of the German currency.⁹⁶ As Figures 1.1 and 1.2 demonstrate, by the end of the hyperinflation, the signatures of the Reichsbank directorate guaranteeing the value of their banknotes meant very little indeed.

Stabilisation

How did monetary stabilisation come about? Germany required a complete currency and banking reform. This would only emerge in 1924. Until then, two institutions were set up to tide the economy over: the Rentenbank and the Gold Discount Bank. These banks operated alongside the Reichsbank in the crucial period leading up to the currency reform. The Rentenbank issued the rentenmark. This new currency was an altogether different creature to that of the mark. Its value stemmed from collateral of debentures on German industrial and agricultural real estate – that is, from private property, not gold.⁹⁷ The Rentenbank was treated as a ‘juridical person under private law’, its operations run by private officials.⁹⁸ The Rentenbank, then, was entirely independent of government influence amid efforts to establish confidence in the new unit of exchange. Yet the creation of the Rentenbank was just one step towards stopping the inflation. Another related to the Reichsbank’s printing presses: in November, the deficit-financing of state expenditures came to an end, removing the primary mechanism behind the inflation.⁹⁹ The Reichsbank’s own banknotes continued to circulate alongside the rentenmarks – albeit, now at a stabilised rate.

A second institution was created to complement the activities of the Rentenbank. The Gold Discount Bank began its operations in early April 1924. The monetary authority’s central goal was to alleviate Germany’s capital shortage by attracting foreign credit; few investors wished to invest in a country scarred by a recent history of inflation. So the Gold

⁹⁵ See Holtfrerich, ‘Relations between monetary authorities and governmental institutions’, p. 117.

⁹⁶ Quoted in Clavin, *The Great Depression*, p. 23; see also Reinhardt, *Die Reichsbank in der Weimarer Republik*, pp. 98–9; and, in particular, Giersch and Lehment, ‘Monetary policy: does independence make a difference? – the German experience’.

⁹⁷ Holtfrerich, ‘Relations between monetary authorities and governmental institutions’, p. 118.

⁹⁸ Reinhardt, *Die Reichsbank in der Weimarer Republik*, pp. 98–9.

⁹⁹ James, ‘The Reichsbank 1876–1945’, p. 23.



Figures 1.1 and 1.2 A point of contrast. Two Reichsbank banknotes, with the signatures of the Reichsbank directorate guaranteeing their respective values. The first amounts to 10 marks and is dated 6 February 1920; the second amounts to 50 million marks and is dated 1 September 1923, at the height of the hyperinflation. The signature of Wilhelm Vocke, the future directorate chairman of the Bank deutscher Länder, can be seen on both.

Note: The two Reichsbank banknotes pictured above belong to the present author.

Discount Bank stepped in with the aim of providing loans to German businesses. Using credits supplied in large part by the Bank of England, the Reichsbank provided half of the Gold Discount Bank's capital. Private banks in Germany bestowed the other half.¹⁰⁰ Both the Rentenbank and Gold Discount Bank operated until the currency and banking reform, with the Reichsbank assuming their duties thereafter.

That reform eventually arrived in August 1924, and with it the new reichsmark was introduced. The legislation was entwined with the Dawes Plan, an agreement hammered out by the Allied powers and Germany, and one that helped to alleviate the real burden of Germany's annual reparations payments, boosting international confidence in the economy. After years of antagonistic relations, too, the agreement underlying the Dawes Plan demonstrated Germany's growing commitment to international co-operation.¹⁰¹

A part of this commitment entailed the overhauling of the central bank. The new Bank Act of 1924 closely resembled the 1875 law establishing the Reichsbank.¹⁰² But there were important differences. At the insistence of the Allies, the Reichsbank would remain independent from the German government.¹⁰³ 'The Reichsbank is a bank independent of the Reich government', the law stated, in no uncertain terms.¹⁰⁴ The autonomy granted to the central bank back in the heady days of 1922 had now been reaffirmed. But what is more, this independence vis-à-vis the German government was strengthened.

The new Bank Act ensured that a strict credit limit was now imposed. Even if the Reichsbank wanted to finance the government's deficits, it was legally blocked from lending above a certain, small amount.¹⁰⁵ This, as the banking historian Christopher Kopper notes, was a lesson hard won from the experiences of having an independent Reichsbank during the hyperinflation.¹⁰⁶ The German government's influence with regard to the appointment of directorate members, including the president, was sharply curtailed. A new body, called the *Generalrat*, or general council, would appoint these men. The general council was made up of seven German officials, appointed by the Reichsbank's private

¹⁰⁰ Ibid.; Holtfrerich, 'Relations between monetary authorities and governmental institutions', p. 118.

¹⁰¹ Karl Hardach, *The political economy of Germany in the twentieth century* (Berkeley, 1980), p. 29.

¹⁰² Reinhardt, *Die Reichsbank in der Weimarer Republik*, pp. 106–7.

¹⁰³ Flink, *The German Reichsbank and economic Germany*, pp. 137–8.

¹⁰⁴ Reinhardt, *Die Reichsbank in der Weimarer Republik*, p. 107. ¹⁰⁵ Ibid., p. 111.

¹⁰⁶ Kopper, *Hjalmar Schacht*, p. 95.

shareholders, and seven foreign officials.¹⁰⁷ It replaced the *Kuratorium*, the government-dominated board that had offered supervisory functions.

And yet the general council was more powerful than the erstwhile *Kuratorium*. Directorate appointments were now decided by vote in the general council. As such, the foreign officials, providing they took a united stand, could exercise a veto on candidates they deemed unsuitable for the central bank.¹⁰⁸ The general council could also dismiss the Reichsbank president, or, with his agreement, members of the directorate.¹⁰⁹ 'This right of dismissal was a first for the new Bank Law', writes Reinhardt, 'for neither the Bank Law of 1875 nor the Autonomy Law of 1922 provided for such possibilities'.¹¹⁰ Moreover, in contrast to the post-war law establishing the Bundesbank, the Reichsbank was not obliged to support the general economic policy of the government. All the central bank had to do was report its decisions to Berlin.

Did the German government have any influence on the appointment procedure at all? The answer is yes, but not that much. Under the new legislation, the Reich president was entitled to veto the appointment of the Reichsbank president twice. But should the Reichsbank president be elected by the general council for a third time, the Reich president had no choice but to accept the appointment.¹¹¹ Two further positions were created at the expense of the German government's influence. First, there was the commissioner for the note issue. The task of this new officer, who also happened to be one of the foreign officials on the general council, was to ensure that banknote circulation corresponded to the regulations outlined in the Bank Act. The commissioner for the note issue could stop the printing presses should he deem the decision necessary. The agent-general for reparations payments was the second position created. His duty, broadly defined, was to oversee the collection and transfer of Germany's reparations.¹¹²

What about the new reichsmark? The Reichsbank was beholden to the rules of the newly constructed gold-exchange standard.¹¹³ The central bank was obliged to cover 40 per cent of its note circulation with gold or foreign exchange – a requirement that was more restrictive than the

¹⁰⁷ One of each of the following nationalities were represented: British, French, Italian, Belgian, American, Dutch and, finally, Swiss. See Flink, *The German Reichsbank and economic Germany*, p. 141.

¹⁰⁸ Reinhardt, *Die Reichsbank in der Weimarer Republik*, p. 118. ¹⁰⁹ *Ibid.*, p. 119.

¹¹⁰ *Ibid.*

¹¹¹ Holtfrerich, 'Relations between monetary authorities and governmental institutions', p. 119.

¹¹² James, 'The Reichsbank 1876–1945', p. 25.

¹¹³ For more on the gold-exchange standard, see Singleton, *Central banking in the twentieth century*, p. 59.

one-third coverage requirement at work before the outbreak of the First World War. The remaining 60 per cent of the note circulation was to be covered by qualified commercial bills and cheques. Like the *rentenmark* that came before it, the *reichsmark* was fixed at the symbolic pre-war rate. The exchange rate vis-à-vis the American dollar was set at 4.2 *reichsmarks*.¹¹⁴

Schacht

Schacht became president of the Reichsbank following Havenstein's sudden death. A director at the Darmstädter and National Bank, one of the leading private banks in Germany, he was known for his political connections.¹¹⁵ Schacht was the favourite candidate of Stresemann, the chancellor in late 1923, and later the Weimar Republic's influential foreign minister, to replace Havenstein. But Schacht's appointment to the Reichsbank was met with fierce resistance on the part of the central bank's directorate and the central committee, the latter representing the views of the Reichsbank's private shareholders.¹¹⁶

His candidacy was mired by allegations of misconduct during the First World War when he was a government official in occupied Belgium. Back then, Schacht had been accused of corruption in Belgium. It was asserted that he had given preferential treatment to Dresdner Bank, an institution for which he had worked prior to the war.¹¹⁷ Vocke, a member of the directorate at the time, recalled that, in light of this accusation, the directorate strongly preferred Helfferich, the former state secretary for the treasury during the war.¹¹⁸ The government, however, had different ideas. Aided by the second parliament, the Reichsrat, it ignored the objections of the directorate and central committee and pushed through Schacht's appointment as president of the central bank in December 1923.¹¹⁹

It would prove to be a fateful decision. During the 1920s, the central bank emerged as a powerful political actor in its own right. Much of this development can be credited to the personal figure of Schacht. He was 'one of the great men of our time, one of the most important and remarkable personalities', Vocke later recalled in his memoirs. But Vocke

¹¹⁴ Holtfrerich, 'Relations between monetary authorities and governmental institutions', p. 120.

¹¹⁵ Joachim Scholtyseck, 'Hjalmar Schacht', in Hans Pohl (ed.), *Deutsche Bankiers des 20. Jahrhunderts* (Stuttgart, 2008), p. 358.

¹¹⁶ Müller, *Die Zentralbank – Eine Nebenregierung*, pp. 35–6.

¹¹⁷ Vocke, *Memoiren*, p. 92; Kopper, *Hjalmar Schacht*, pp. 70–2; see also Scholtyseck, 'Hjalmar Schacht', p. 358.

¹¹⁸ Vocke, *Memoiren*, p. 92. ¹¹⁹ Müller, *Die Zentralbank – Eine Nebenregierung*, p. 36.

also noted that Schacht could be inspired by ‘ruthless selfishness’.¹²⁰ With his arrival at the Reichsbank, the directorate became less collegial and more authoritarian. The so-called golden era of the Weimar Republic had begun. This period, however, was marked by stagnant economic growth and social conflict.¹²¹ Schacht, in his speeches throughout the decade, took direct issue with the government on a number of areas. These ranged from controversies related to the centralisation of public funds, on the one hand, to foreign loans for municipality administrations, on the other. Schacht also honed in on issues relating to reparations policy and fiscal policy.¹²²

If a new era had begun for the Weimar Republic, the same could be said for the Reichsbank. Aided by its independence from government instruction, the German central bank began to develop a distinct voice – even a personality – in the public sphere for the first time. This development can be attributed to its new president. As Kopper observes,

[i]n his public appearance, too, Schacht brought with him a new style to the Reichsbank. While his predecessor, Havenstein, seldom stepped into the public sphere, Schacht gladly accepted invitations from associations. Schacht took advantage of these opportunities amid efforts to put the Reichsbank’s policy and his own economic ideas before a wider audience. His pronounced vanity reinforced his desire to adopt an active public relations activity, one that even went on the offensive.¹²³

The new Reichsbank president had an eye for publicity. Indeed, one writer has written of the Reichsbank’s ‘expansion of power through publicity’ during the Weimar Republic.¹²⁴ Schacht himself exhibited a strong ‘journalistic streak’, cultivated from an early age through various stints of employment in newspapers and journals.¹²⁵ Moreover, before the outbreak of the First World War, he had helped conduct (what we would now call) public relations for both an interest group and a private bank.¹²⁶ ‘He wrote well and often for various minor journals; indeed his

¹²⁰ Vocke, *Memoiren*, p. 92.

¹²¹ A succinct overview of this period is offered in Kolb, *The Weimar Republic*, pp. 53–100. See also James, ‘Economic reasons for the collapse of Weimar’, pp. 31–45.

¹²² Holtfrerich offers a brief outline of these debates in Holtfrerich, ‘Relations between monetary authorities and governmental institutions’, p. 124–7.

¹²³ Kopper, *Hjalmar Schacht*, pp. 90–1.

¹²⁴ Müller, *Die Zentralbank – Eine Nebenregierung*, p. 44.

¹²⁵ Scholtzseck, ‘Hjalmar Schacht’, p. 357. Indeed, as a young man, Schacht’s first job in journalism was an internship with a disreputable tabloid newspaper, the *Kleines Journal*, which catered to scandal and high society gossip. See Kopper, *Hjalmar Schacht*, p. 18.

¹²⁶ Schacht worked in the press offices of the *Handelsvertragsverein*, an interest group for the export industry and, later, Dresdner Bank. See Kopper, *Hjalmar Schacht*, pp. 19, 26–7, 31.

introduction to banking came from his ability as a writer', notes the historian Edward Peterson. 'Far from being a handicap, his ability as a phrase maker was a vital one; his ability to express himself sharply and concisely or in vague generalities as he chose was a key talent.'¹²⁷

Schacht cultivated relationships with several newspapers in the Weimar Republic, which in turn often supported his cause – most notably the *Vossische Zeitung*, *Berliner Börsen-Courier*, *Der Deutsche Volkswirt* and *Berliner Tageblatt*. By the end of the Weimar Republic, the Reichsbank had taken to using the nationalist *Berliner Börsen Zeitung* almost as a 'mouthpiece' for its arguments.¹²⁸ The new Reichsbank president made an impression in the public sphere. 'Who would have been able to say before the war what Reichsbank president Havenstein looked like?' asked one contemporary in 1930. He continued:

Leaving aside readers of the business section, whom would have been interested in Havenstein's resignation or even be bothered about it? The image of the tall, flaxen-haired Hjalmar Schacht with a pince-nez on that narrow, fresh daredevil face is known to every German. How has it come about that the Germans, and even the international community, prick their ears in recent years whenever the name of this man is mentioned? Why do the tabloids always paint his name in a manner that takes up half the newspaper page whenever he speaks or does something?¹²⁹

The answer is simple: Schacht actively intervened in the public sphere to influence the parameters of public debate as well as boost his own profile. He also published books on economic affairs during the 1920s and early 1930s.¹³⁰ But the man was at his best delivering speeches; they were Schacht's preferred form of communication with the wider public. The writer Helmut Müller estimates that Schacht delivered some 165 speeches and interviews during his years as president of the Reichsbank in the Weimar Republic (1923–30).¹³¹ During the Third Reich, this number almost doubled.¹³² In 1937, the Reichsbank would go on to publish a volume of Schacht's speeches.¹³³ The central bank

¹²⁷ Edward N. Peterson, *Hjalmar Schacht for and against Hitler: a political-economic study of Germany 1923–1945* (Boston, 1954), p. 20. Also quoted in Müller, *Die Zentralbank – Eine Nebenregierung*, p. 45.

¹²⁸ Schacht soon fell out with the *Berliner Tageblatt*, however. See Müller, *Die Zentralbank – Eine Nebenregierung*, pp. 44–5.

¹²⁹ *Ibid.*, p. 44.

¹³⁰ See, for example, Hjalmar Schacht, *Die Stabilisierung der Mark* (Stuttgart, 1926); and Hjalmar Schacht, *Das Ende der Reparationen* (Oldenburg, 1931). The latter was written shortly after Schacht's (temporary) departure from the Reichsbank in 1930.

¹³¹ Müller, *Die Zentralbank – Eine Nebenregierung*, p. 46. ¹³² *Ibid.*, pp. 46–7.

¹³³ For Schacht's collection of speeches, see Reichsbank, *Schacht in seinen Äußerungen: Im Auftrage des Reichsbankdirektoriums zusammengestellt in der Volkswirtschaftlichen und Statistischen Abt. der Reichsbank. Zum Januar 1937* (Berlin, 1937).

also published that same year a collection of newspaper caricatures of the Reichsbank president, in celebration of his sixtieth birthday.¹³⁴ These two publications indicate the extent to which the central bank had come to be seen as a one-man show in the public sphere. They also point to the seemingly approving stance the Reichsbank had taken of such a development. Indeed, the publication of Schacht's speeches in 1937 established a precedent in German central banking, one that enhanced the link between personality and currency, and one that was later mimicked by Vocke and Blessing in the post-war era.

Very quickly, then, Schacht (Figure 1.3) became the spokesperson for the reichsmark itself, a persona that he himself actively fostered. All this was a pioneering example of public relations, and in the realm of central banking no less. Such an example could not have been lost on directorate members Vocke and Blessing, the latter in particular known as Schacht's protégé in the media.¹³⁵ But perhaps this development should be placed in its wider context, too. During the 1920s, the heads of central banks emerged to become powerful political actors in their own right – for example the Bank of England's Norman, or Benjamin Strong Jr., the governor of the Federal Reserve Bank of New York.¹³⁶ Schacht, like Norman, became an international personality, enjoying respect from abroad. Yet it was the *degree* to which Schacht promoted himself in the public sphere that separated him from his British and American counterparts.

Under Schacht, the Reichsbank gradually strengthened its position against various weak and unstable coalition governments. As the 1920s progressed, however, Schacht became disillusioned with politics and gradually lurched to the right. In 1926, he left the Deutsche Demokratische Partei, a left liberal party that he had helped to establish years before.¹³⁷ There was one issue in particular, though, that led to Schacht's

¹³⁴ See Reichsbank, *Schacht in der Karikatur: Im Auftrage des Reichsbankdirektoriums zusammengestellt in der Volkswirtschaftlichen und Statistischen Abt. der Reichsbank. Zum 22 Januar 1937* (Berlin, 1937).

¹³⁵ Newspapers during the inter-war period commented upon Blessing's attachment to Schacht. See 'Reichsbank's new directors: Dr. Schacht's choice', *Financial Times*, 4 Jun. 1937, BAB, R2501/3413; and 'Ergänzung des Reichsbankdirektoriums', *Basler Nachrichten*, Jun. 1937, BAB, R2501/3413. A number of post-war newspapers and magazines also noted that Blessing was the protégé of Schacht, as will be detailed in Chapter 4. See, for instance, 'Der neue Hüter der Deutschen Mark', *Frankfurter Rundschau*, 12 Jul. 1957, Deutsche Bundesbank Pressearchiv [DBPA], no. 1363; 'Die goldenen Fünziger', *Die Welt*, 29. Apr. 1959, DBHA, BSG 1/12; and 'Karl Blessing. Ein unbequemer Mann zwar – aber ein ehrlicher Makler', *Aktuell*, 5 May 1962, BSG 1/12.

¹³⁶ Reinhardt, *Die Reichsbank in der Weimarer Republik*, pp. 273–4.

¹³⁷ Scholtyseck, 'Hjalmar Schacht', p. 359.

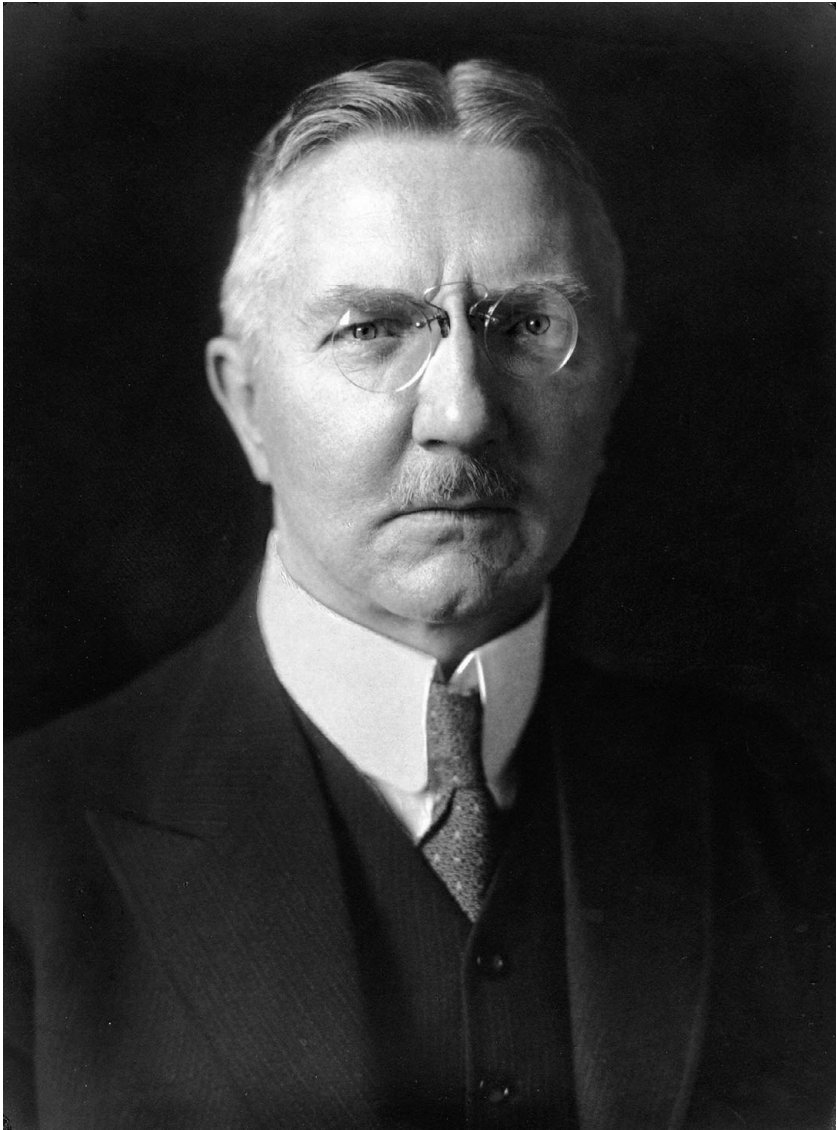


Figure 1.3 Hjalmar Schacht.
(DBHA, BSG 3/3019 – © Deutsche Bundesbank – Historisches Archiv)

emergence as a spokesperson for the right. That issue was reparations. The Dawes Plan of 1924 had always been a temporary solution to Germany's reparations troubles.¹³⁸ A final reparations plan was in the offing. This eventually culminated in the Young Plan of 1929, which lightened the real burden of Germany's reparations payments, as well as extending the reparations payment schedule to 1988.¹³⁹ The Young Plan was hammered out between the Allied powers and Germany at a conference in Paris. Schacht, along with industrialist Albert Vögler, represented the German delegation at the negotiation table.

Both Vocke and Blessing accompanied the Reichsbank president to Paris, acting as advisors.¹⁴⁰ Indeed, Vocke made for an ideal advisor. He was an expert on monetary matters and fluent in English to boot. The central banker had already earned the respect of foreign officials, such as the Bank of England's Norman, and would go on to represent the Reichsbank at international conferences and the Bank for International Settlements (BIS), as well as conduct a number of diplomatic trips for the central bank.¹⁴¹ By 1936, German newspapers referred to him as the 'foreign minister of the Reichsbank'.¹⁴² This moniker originally stemmed from a Reichsbank press release, too, suggesting that the central bank approved of the term.¹⁴³

Unlike Schacht, however, Vocke (Figure 1.4) avoided the public limelight during his time at the Reichsbank – if he was a representative of the central bank, such representation remained within elite circles. There is little, if any, evidence suggesting that he delivered speeches or even wrote articles on behalf of the central bank – an interesting point, given his subsequent appearance in the public sphere in West Germany. This was not the case for Blessing, however, who was a prolific writer during his time with the central bank in the Third Reich, already demonstrating the media-friendly attitude he would later adopt at the Bundesbank.¹⁴⁴

¹³⁸ Holtfrerich, 'Relations between monetary authorities and governmental institutions', p. 126.

¹³⁹ Braun, *The German economy in the twentieth century*, p. 46.

¹⁴⁰ Vocke, *Memoiren*, pp. 95, 97–8; Volkmar Muthesius, 'Vorwort', in Karl Blessing, *Die Verteidigung des Geldwertes* (Frankfurt am Main, 1960), p. 10.

¹⁴¹ Hans Luther, *Vor dem Abgrund, 1930–33. Reichsbankpräsident in Krisenzeiten* (Berlin, 1964), pp. 85–6, 326; Vocke, *Memoiren*, pp. 93–8, 113–18; and Wilhelm Vocke, 'Der 13. Juli 1931', *Die Zeitschrift für das gesamte Kreditwesen*, Jul. 1971, DBPA, no. 1244.

¹⁴² For the articles, see 'Geheimrat Dr. Vocke 50 Jahre', *Berliner Tageblatt*, 7 Feb. 1936, BAB, R2501/3416 II; 'Dr. Vocke 50 Jahre alt', *Deutsche Allgemeine Zeitung*, 7 Feb. 1936, BAB, R2501/3416 II.

¹⁴³ For the press release, see 'Material für die Presse', 6 Feb. 1936, BAB, R2501/3416 II.

¹⁴⁴ See for instance, Karl Blessing, 'Deutschlands Stellung zum Clearing', *Berliner Börsen-Zeitung*, 24 Aug. 1937, BAB, R2501/3413; and Karl Blessing, 'Gegenwartsaufgaben der Reichsbank', *Die Staatsbank*, 27 Aug. 1937, BAB, R2501/3413.



Figure 1.4 Wilhelm Vocke.
(DBHA, BSG 3/745 – © Deutsche Bundesbank – Historisches Archiv)

Yet, at the Paris conference in 1929, Schacht overplayed his hand of cards, making seemingly independent political demands that infuriated both the Allied powers and German politicians back home. Schacht demanded, for instance, the return of the 'Polish corridor', a strip of land taken from Germany and given to Poland in the aftermath of the First World War.¹⁴⁵ These political demands caused an outcry at the conference and were eventually dropped after the German government disowned them, leaving Schacht feeling cheated and humiliated.¹⁴⁶ Nevertheless, weary and resigned, the Reichsbank president signed the Young Plan agreement. The Young Plan was a compromise, leaving both the Allied powers and Germans dissatisfied. It stated that Germany should pay an average annuity of two billion reichsmarks, a figure that still constituted a sizeable reduction of the real burden of reparations.¹⁴⁷ The participants agreed that a supranational institution, the aforementioned BIS, would be created in order to co-ordinate and facilitate the reparations payments.

Significantly, the Young Plan also signalled a shift in the independence of the Reichsbank. Two measures were taken to eliminate foreign control of the Reichsbank. First, the position of commissioner for the note issue was removed. And second, foreign officials of the general council – that is, the body, established in 1924, which appointed members of the directorate – were replaced by German ones. This meant that the Reichsbank's private shareholders now appointed the entire general council. The Young Plan increased the influence of the German government, too. The Reich president, pending the support of the chancellor or responsible cabinet member, could now veto the appointment or revocation of directorate members, including the central bank's president.¹⁴⁸ Despite these changes, though, the Reichsbank directorate could still pursue an independent monetary policy, free from government instruction.

Schacht was bitterly disappointed with the Young Plan – particularly its provisions relating to Germany's annual reparations burden. In his eyes, reparations payments were still far too high. But Schacht had put his signature to the agreement, so the Reichsbank president found himself in an awkward position. After returning to Germany, Schacht defended the Young Plan alongside the government for a number of months. But this support gradually withered over time. By December 1929, Schacht emerged as an opponent of the deal, ostensibly on the

¹⁴⁵ Reinhardt, *Die Reichsbank in der Weimarer Republik*, pp. 201–3.

¹⁴⁶ *Ibid.*, p. 204.

¹⁴⁷ Holtfrerich, 'Relations between monetary authorities and governmental institutions', p. 127.

¹⁴⁸ *Ibid.*, p. 121.

grounds that the government continued to pursue a reckless financial policy, in turn destroying the conditions under which the Young Plan could have succeeded. The Reichsbank president penned an open letter attacking the government's financial policy, sending it to both the chancellor and the media. Indeed, by the time the letter arrived on the chancellor's desk, its contents were already published in the newspapers.¹⁴⁹

The memorandum, an overtly political act by the central bank president, poured fire on growing political unrest concerning the Young Plan. Schacht's move was greeted with enthusiasm among nationalist circles, including Hitler's National Socialists.¹⁵⁰ Further public spats with the government followed. In particular, at the insistence of Schacht, the government forced through parliament a controversial piece of legislation that worked towards the consolidation of its budget. The government did so lest the central bank president refuse his co-operation in helping the former to secure crucial financing needed for its political survival. In light of the open fighting between the government and central bank, this law became popularly known as 'Lex Schacht'.¹⁵¹ The political affair resulted in the resignation of the finance minister, the Social Democrat Rudolf Hilferding, who was outraged by what he saw as Schacht's dictation of government policy.¹⁵²

The episode also resulted in several political attacks on the character of the Reichsbank president, and the way Schacht was viewed as abusing the central bank's independence. These attacks came from the left. The Social Democratic politicians in the Reichstag, for example, accused Schacht of 'abusive exploitation', condemning how he used the central bank's independence to transform it into a '*Nebensregierung*', or additional government.¹⁵³ Indeed, it was during the late 1920s that the SPD, for the first time, became disillusioned with the idea of an autonomous central bank, a development observed in an internal Reichsbank report that was commissioned on the topic.¹⁵⁴ In parliament, Social Democratic politicians called for a change in the law so as to enable the government to remove Schacht – a demand soon rejected by their chancellor on the grounds that it would infuriate public opinion.¹⁵⁵ But that

¹⁴⁹ Kopper, *Hjalmar Schacht*, p. 162.

¹⁵⁰ Adam J. Tooze, *The wages of destruction: the making and breaking of the Nazi economy* (London, 2007), p. 16; and Marsh, *The Bundesbank*, pp. 106–8.

¹⁵¹ Reinhardt, *Die Reichsbank in der Weimarer Republik*, pp. 213–21.

¹⁵² *Ibid.*, pp. 218, 225. ¹⁵³ *Ibid.*, p. 226.

¹⁵⁴ Statistische Abteilung der Reichsbank, 'Stellung der Sozialdemokratie zur Autonomie der Reichsbank'. Schacht would later trace the hostility of the left-wing press back to the year 1926, when he left the *Deutsche Demokratische Partei*. See Schacht, *76 Jahre meines Lebens*, p. 321.

¹⁵⁵ Reinhardt, *Die Reichsbank in der Weimarer Republik*, p. 226.

was as far as it went. A clear majority of the press, including the SPD's organ, *Vorwärts*, remained cautiously supportive of the idea of an independent central bank so long as it served the interests of a stable currency.¹⁵⁶

In part, such a development can be attributed to the way Schacht presented the Reichsbank in the public sphere. The Reichsbank president continually criticised the government's profligate spending policies, portraying the central bank as a bedrock of fiscal common sense, one that supported the interests of the currency's stability, which the government and other spendthrift forces were so intent on ruining. Figure 1.5 demonstrates the sheer extent to which the personality of Schacht was associated with the central bank's independence: the Reichsbank president is portrayed as the sole pillar supporting the monetary authority's autonomy.

Yet, as Clavin notes, such favourable attitudes concerning central bank independence can also be linked to the *Zeitgeist* of the era. Following the inflationary years of the early 1920s, continental European economies – that is, not only Germany's – placed tremendous importance upon 'currency stabilization [which] became the dominant, sometimes the sole, preoccupation of government policy' in the mid- to late 1920s.¹⁵⁷ Schacht, in other words, could avail of a ready audience for his arguments.

In March 1930, Schacht resigned from office. He was no longer central bank president. It was during this time that Schacht had aligned himself with the extreme right – namely, with the National Socialist party, which had emerged as a strong electoral force in a population radicalised by mass unemployment and apparent government inaction.¹⁵⁸ Winning just 2.5 per cent of the national vote in the elections of May 1928, the National Socialists shot to 18.3 per cent of the vote when the next elections came round in September 1930.¹⁵⁹ Schacht used his influence to introduce Hitler to industrial circles; his reputation and renown lent a veneer of credibility to Hitler at a crucial point in the Nazis' rise to power.¹⁶⁰

Hans Luther, a former finance minister, became the new Reichsbank president. But where Schacht was abrasive and brash in the public

¹⁵⁶ *Ibid.*, p. 225.

¹⁵⁷ Clavin, *The Great Depression*, p. 3; see also pp. 58–9, and, for Germany in particular, pp. 117–19.

¹⁵⁸ Tooze, *The wages of destruction*, p. 23; and Richard J. Evans, 'Introduction: the experience of unemployment in the Weimar Republic' in Richard J. Evans and Dick Geary (eds.), *The German unemployed: experiences and consequences of mass unemployment from the Weimar Republic to the Third Reich* (London, 1987), pp. 18–19.

¹⁵⁹ Tooze, *The wages of destruction*, pp. 12, 17.

¹⁶⁰ Johnson, *The government of money*, p. 35.



Figure 1.5 'Independence of the Reichsbank'. The cartoon portrays Schacht as the sole pillar supporting the central bank's independence. Red forces, symbolising the political left, attack the pillar. If Schacht falls, the Reichsbank's independence falls. Like the Bank deutscher Länder, and later the Bundesbank, the Reichsbank's independence was closely associated with its leadership in the public sphere. Published by *Kladderadatsch*, a right-wing satirical publication, on 2 February 1930. Source: Reichsbank, *Schacht in der Karikatur*, p. 57.

sphere, Luther struck a more conciliatory note. The new Reichsbank president sought to foster ties with the government.¹⁶¹ This attitude, Luther later confided, was a direct response to Schacht's antagonistic relations with previous governments.¹⁶² Luther shied away from taking a public position on political matters. In this respect, he adopted a similar attitude to Havenstein during the hyperinflation. The Weimar Republic thus offers two examples of independent central bank presidents who were publicity shy, offering a counterfoil to the conduct of Schacht.

Members of the Reichsbank's directorate, however, did not think much of their new president. By his own account, Luther was often met with opposition and resistance in the directorate.¹⁶³ 'Luther really did not understand anything about banking and credit', Vocke later recalled, somewhat scathingly.¹⁶⁴ These troubles aside, Luther sought to co-operate with the government where he felt the Reichsbank was able to do so. Keep in mind that Germany remained on the gold standard, though; this fact restricted the Reichsbank's room for monetary manoeuvre.¹⁶⁵ In general, however, Luther supported the aims and policies of the new government led by Heinrich Brüning, a chancellor who ruled largely by emergency decree.¹⁶⁶ The new chancellor pursued a restrictive economic policy, one that intentionally aggravated deflationary forces amid efforts to win concessions on German reparations at the international level.

Though the relationship between the Reichsbank and government was largely co-operative under Luther, there were some clashes behind the scenes. These disputes centred on two areas: the central bank's credit policy and the provision of credit for the government's use. When Europe's banking crisis began in July 1931, Brüning's administration came to judge the Reichsbank's credit policy as being far too restrictive, placing unnecessary pressure on banks considering the dire circumstances prevalent in the economy. But the government received a rebuff from the central bank.¹⁶⁷ The Reichsbank, for its part, viewed its tight measures as a means towards halting the depletion of its exchange reserves, which were alarmingly low, meaning that Reichsbank was verging on the 40 per cent minimum coverage requirement that it was obliged to keep.

¹⁶¹ For an overview of Luther, see Albert Fischer, 'Hans Luther [1879–1962]', in Hans Pohl (ed.), *Deutsche Bankiers des 20. Jahrhunderts* (Stuttgart, 2008).

¹⁶² Luther, *Vor dem Abgrund, 1930–33*, pp. 128–9. ¹⁶³ *Ibid.*, pp. 85–6.

¹⁶⁴ See Vocke, 'Der 13. Juli 1931'. Luther, by contrast, rated Vocke's ability in central banking matters quite highly, though he admitted he never became close with the man. See Luther, *Vor dem Abgrund, 1930–33*, pp. 85–6.

¹⁶⁵ Tooze, *The wages of destruction*, p. 17; James, 'The Reichsbank 1876–1945', p. 30.

¹⁶⁶ Reinhardt, *Die Reichsbank in der Weimarer Republik*, p. 262. ¹⁶⁷ *Ibid.*, pp. 242–3.

Brüning and Luther had a dramatic argument in December 1931, during which Luther allegedly threatened to resign if the chancellor pushed for a substantial reduction in the discount rate. At his own end, the Reichsbank president had been facing intense pressure from Britain and the United States to keep the discount rate high in light of considerations concerning the international economy. In the event, the discount rate was reduced by 1 percentage point, giving both men enough reason to remain seething.¹⁶⁸

Further strains in the relationship between the central bank and the government emerged when the Reichsbank president rejected the request by the economics minister, Hermann Warmbold, for the provision of a 'clandestine expansion of credit'.¹⁶⁹ According to Warmbold, the additional finance would be applied towards steering the economy out of the depression. Luther rejected these plans on the grounds that such credit could lead to another inflation, prompting the economics minister to push for legal change in the Bank Act with respect to the Reichsbank's independence. Brüning, the chancellor, rejected this call.¹⁷⁰

In July 1930, too, Luther opposed the financing of a work creation scheme. The programme, put forward by Brüning's government, was to be financed in part by a foreign loan, the attainment of which required the central bank's approval. The scheme, though a minor one, could have worked towards reducing mass unemployment. But the Reichsbank rejected the idea, leaving the project to flounder on the drawing board. The Reichsbank turned down another request for a loan to finance a work creation programme in May 1932.¹⁷¹ Luther grounded these two refusals with the argument that reparations first had to come to an end before Germany could commit itself to such spending ambitions. The Reichsbank president's stubborn position exasperated the chancellor.¹⁷²

A fear of another inflation underlay the Reichsbank's caution. Certainly, in his memoirs, Luther documented that an angst concerning inflation was prevalent at the time.¹⁷³ Numerous historians, among them Knut Borchardt and Jürgen von Kruedener, have argued that reflationary policies – that is, ones aimed at kick-starting economic activity by means of increased government spending – were politically difficult ones in the

¹⁶⁸ Holtfrerich, 'Relations between monetary authorities and governmental institutions', p. 133.

¹⁶⁹ Reinhardt, *Die Reichsbank in der Weimarer Republik*, p. 246. ¹⁷⁰ Ibid.

¹⁷¹ Holtfrerich, 'Relations between monetary authorities and governmental institutions', p. 132.

¹⁷² Heinrich Brüning, *Memoiren 1918–1934* (Stuttgart, 1970), pp. 573–5.

¹⁷³ Luther, *Vor dem Abgrund, 1930–33*, p. 102.

twilight years of the Weimar Republic.¹⁷⁴ Reflation meant rising prices, and Germans, scarred by the experiences of 1922–3, perceived rising prices as synonymous with inflation.

This argument has remained a dominant one in the literature. ‘The German public, a once-burned child, had developed a mortal fear of inflation that militated against any expansion of money supply or budget deficits’, notes Karl Hardach in his classic account of the German economy.¹⁷⁵ ‘In the midst of the deepest deflationary crisis in modern history, the German people continued to worry about inflation!’ observes Clavin.¹⁷⁶ As noted above, however, government officials did attempt to embark on minor work creation schemes to be financed by the Reichsbank, indicating that such fears, though palpable, were not all pervasive. And once reparations had come to an end in mid-1932, the Reichsbank under Luther co-operated with the government with respect to the financing of work creation programmes.¹⁷⁷ Indeed, as the historian Adam Tooze observes, the National Socialists’ employment creation schemes were modelled on designs stemming from the late Weimar era.¹⁷⁸

These disputes, however, were the exception to the rule. Both Brüning’s government and the Reichsbank were in general agreement that a deflationary economic policy was the right course to pursue. There were other factors at work as well, constraining the chancellor’s room for manoeuvre. With a lack of a domestic capital market on which to fall back, and tight legal limitations with respect to central bank lending, Brüning’s government scrambled for funding amid efforts to avoid bankruptcy. The administration felt it had little choice but to actively embark on a deflationary path.¹⁷⁹ Such a path, however, aggravated mass unemployment, in turn fuelling social unrest and helping to radicalise a German electorate already tired with the apparent failures of democracy. The Reichsbank played an indirect, but no less important role in this development.

¹⁷⁴ Borchardt, ‘Das Gewicht der Inflationsangst in den wirtschaftspolitischen Entscheidungsprozessen während der Weltwirtschaftskrise’; and von Kruedener, ‘Die Entstehung des Inflationstraumas. Zur Sozialpsychologie der deutschen Hyperinflation 1922/23’; and Gerhard Schulz, ‘Inflationstrauma, Finanzpolitik und Krisenbekämpfung in den Jahren der Wirtschaftskrise, 1930–33’, in Gerald D. Feldman (ed.), *Die Nachwirkungen der Inflation auf die deutsche Geschichte 1924–1933* (Munich, 1985).

¹⁷⁵ Hardach, *The political economy of Germany in the twentieth century*, p. 45.

¹⁷⁶ Clavin, *The Great Depression in Europe, 1929–1939*, p. 126.

¹⁷⁷ Holtfrerich, ‘Relations between monetary authorities and governmental institutions’, p. 132.

¹⁷⁸ Tooze, *The wages of destruction*, pp. 27, 39, 43–4.

¹⁷⁹ Clavin, *The Great Depression*, p. 118.

The Third Reich

In January 1933 Hitler came to power, and within months, new legislation was passed revising the Bank Act of 1924. The legislation, coming into effect in October 1933, helped to restore the state's grip on the central bank's personnel. The general council was abolished. In its place, the country's president could now appoint the Reichsbank's president, after hearing the expert opinion of the directorate. The central bank president, for his part, could in turn nominate directorate members who were then appointed by the Reich's president.¹⁸⁰ Legally speaking, however, the Reichsbank was still independent of government instruction – although such legal independence soon meant little in what emerged to be a totalitarian dictatorship.¹⁸¹

Other changes were afoot, too. Schacht returned as president of the central bank. Hitler sought credibility in the economic sphere; and Schacht, who enjoyed an excellent working relationship with his British counterpart, had the advantage of having an international reputation. But this time the Reichsbank president struck a markedly different tone in the public sphere. Instead of collision with the government, the Reichsbank president now stressed a course of co-operation.¹⁸²

This change of attitude constituted a remarkable volte-face. According to Reinhardt, Schacht's conception of central bank independence was such that he felt it was necessary in a democracy crowded with irresponsible politicians who were clamouring for finance, but not wholly necessary in a dictatorship that could be guided along the lines of sound economic reasoning.¹⁸³ This argument fits with Vocke's observations of Schacht from within the walls of the Reichsbank. The Reichsbank president marvelled at Hitler's dynamism, Vocke later recalled, and yet Schacht assumed he could also control the dictator. 'I am the brains', Vocke portrayed Schacht as saying. 'I will steer him!'¹⁸⁴

Schacht had been appointed Reichsbank president with the expectation that, under his leadership, the central bank would support the

¹⁸⁰ Holtfrerich, 'Relations between monetary authorities and governmental institutions', p. 133.

¹⁸¹ As coyly noted by the Reichsbank vice president Friedrich Dreyse in 1937. See Friedrich W. Dreyse, 'Die Reichsbank im Dritten Reich', 27 Jan. 1937, BAB, R2501/3414, pp. 127–8. See also Rudolf Eicke, 'Die Befreiung der Reichsbank von internationalen Bindungen', 21 Feb. 1937, BAB, R2501/6860.

¹⁸² Kopper, *Hjalmar Schacht*, p. 203.

¹⁸³ Reinhardt, *Die Reichsbank in der Weimarer Republik*, p. 271.

¹⁸⁴ 'A catastrophic mistake arising from his conceitedness, his ambition', Vocke later observed. See Vocke, *Memoiren*, p. 100.

Nazis' work creation ambitions and rearmament plans. When asked by Hitler what the Reichsbank could contribute towards these two causes, Schacht responded, 'Any amount, my Führer'.¹⁸⁵ There were few conflicts in the early years of the Third Reich. In short, Schacht's immediate goals did not clash with those of Hitler. Both men, for instance, sought to bring the economy to full employment.

In August 1934, the Reichsbank president was appointed 'commissary' minister for the economy, whilst maintaining his position as head of the central bank.¹⁸⁶ Schacht was also appointed as the government's general commissioner for the war economy, a position he held for over two years.¹⁸⁷ Such appointments collided head on with the notion that the central bank remained independent in practice. The Reichsbank president, once so critical of the Weimar Republic's various governments, was now an active member of Hitler's cabinet.

The central bank's problems began in 1936. It was the year in which the country achieved full employment. Inflationary forces, spurred by rapid rearmament since 1934, had now become more pronounced.¹⁸⁸ The government's rearmament ambitions started to clash with the Reichsbank's task of safeguarding the currency. Schacht, though he continued to enjoy the confidence of Hitler, earned the ire and jealousy of other officials in light of his 'outsider' credentials and unaccommodating attitude.¹⁸⁹ He gradually became embroiled in a power struggle with Hermann Göring, a leading Nazi official who succeeded in removing Schacht as 'commissary' minister for the economy in 1937.¹⁹⁰ Göring, for his part, soon emerged as an 'economic dictator', instructed by Hitler to spearhead the regime's Four Year Plan, itself a concerted effort to make Germany self-sufficient in key raw materials that were instrumental for war purposes.¹⁹¹ Given Schacht's international reputation, however,

¹⁸⁵ Kopper, *Hjalmar Schacht*, p. 211. See also pp. 208–10.

¹⁸⁶ This 'commissary' position, which was initially a temporary appointment, but soon emerged to be permanent one, was created in light of the Bank for International Settlements guideline that stated that no central bank head could be a minister of a government cabinet. See 'Intelligence report no. EF-FB-2. Interrogation of Hjalmar Horace Greeley Schacht, July 11, 1945, 1050 hours', 25 Jul. 1945, IfZ, 2/206/4 FINAD, p. 6.

¹⁸⁷ Karl-Heinrich Hansmeyer and Rolf Caesar, 'Kriegswirtschaft und Inflation (1936–1948)', in Deutsche Bundesbank (ed.), *Währung und Wirtschaft in Deutschland 1876–1975* (Frankfurt am Main, 1976), p. 375.

¹⁸⁸ Richard J. Overy, *War and economy in the Third Reich* (Oxford, 1994), p. 184.

¹⁸⁹ Scholtyseck, 'Hjalmar Schacht', pp. 361–2.

¹⁹⁰ Marsh, *The Bundesbank*, pp. 109, 113; Kopper, *Hjalmar Schacht*, pp. 308–9.

¹⁹¹ Overy, *War and economy in the Third Reich*, pp. 186–7; see also Tooze, *The wages of destruction*, pp. 219–22.

Hitler insisted on keeping the Reichsbank president in his cabinet as a minister without portfolio.¹⁹²

Schacht's acrimonious departure from the Reichsbank in 1939, an event that went on to play an important role at the Nuremberg trials, can be traced back to the pivotal role he played in the early rearmament of the Third Reich. In particular, 'Hitler's magician' conjured the 'Mefo' bill, a financial instrument named after the Metallurgische Forschungsgesellschaft, or Society for Metallurgical Research, a company that served as a front for state interests.¹⁹³ The 'Mefo' bill was a promissory note formulated in such a manner that circumvented the restrictions of banking law: it allowed the government to pay private firms for goods and services using the Reichsbank's credit.

The financial instruments were used for employment programmes as well as for funding rearmament in the Third Reich. But their origins actually go back to the last years of the Weimar Republic, when the Reichsbank used a similar instrument to covertly fund public construction programmes after the ending of German reparations.¹⁹⁴ How did the 'Mefo' bill work in practice? There were three steps. First, private firms delivered armaments to the state. Second, these firms could then draw bills accepted and signed by the Metallurgische Forschungsgesellschaft, which were to serve as payment. And third, since these bills were guaranteed by the state, the Reichsbank was allowed to discount them, letting the money arrive in the private firms' accounts. As a result, Hitler's government could buy today and pay tomorrow. But when exactly was that tomorrow? Ostensibly, 'Mefo' bills were short-term paper representing obligations that were to be paid within three months. But they could in fact be renewed for up to five years. As such, they really acted as medium- to long-term paper.¹⁹⁵ It was the creation of the 'Mefo' bills, among other factors, that helped the economy reach full employment and finance the first stages of rearmament.

In the 1960s, Schacht claimed in the public sphere that the Reichsbank directorate passed these 'Mefo' bills 'unanimously'.¹⁹⁶ This statement implied that Vocke, who was a member of the directorate at the time,

¹⁹² 'Intelligence report no. EF-FB-2. Interrogation of Hjalmar Horace Greeley Schacht, July 11, 1945, 1050 hours', p. 11.

¹⁹³ Tooze, *The wages of destruction*, pp. 54–5.

¹⁹⁴ James, 'The Reichsbank 1876–1945', p. 31.

¹⁹⁵ Holtfrerich, 'Relations between monetary authorities and governmental institutions', p. 137.

¹⁹⁶ This episode is documented in more detail in Chapter 4. See Hjalmar Schacht, *The magic of money*, trans. Paul Erskine (London, 1967), p. 119.

voted in favour of the 'Mefo' bills.¹⁹⁷ Vocke hotly denied such a claim, asserting that he alone in the directorate had opposed the creation of the financial instruments.¹⁹⁸ The minutes of the meeting concerning the passage of the 'Mefo' bills do not survive. Nevertheless, in the post-war era, the BdL chairman defended the 'Mefo' bills' legality at least three times, noting that they complied with the legal provisions of the time, however distasteful they were in his mind to the practice of sound central banking.¹⁹⁹ Faced with mass unemployment, the Reichsbank could 'not just sit there with hands in its lap', Vocke was reported to have said regarding the 'Mefo' bills' creation.²⁰⁰

With inflationary pressures on the rise, Schacht pushed for the government to stop the issuance of 'Mefo' bills and start repaying the existing ones that were outstanding. After much fluster, Schacht threatened to resign as Reichsbank president if his wishes were not heeded. The government, in response, began to repay the promissory notes – though on a small scale.²⁰¹ Armaments spending and credit requirements continued to increase to what Schacht considered dangerous levels.

The regime had already implemented price controls from 1936 onwards amid efforts to stop another inflation in its tracks.²⁰² All the same, another inflation was under way. Indeed, Buchheim traces the roots of the second inflation to the fateful decision back in 1931 to suspend the reichsmark's convertibility with other currencies. Such a move later opened the gateway for the Third Reich's abuse of the currency, allowing the regime to completely manipulate the value of the reichsmark.²⁰³ This time, however, it was a 'repressed' inflation. Prices remained ostensibly stable via state control, but the quality and supply of goods at such prices deteriorated. As time went on, this encouraged the emergence of a black market, which flourished by the war's end.

¹⁹⁷ In *The magic of money*, Schacht also accused Blessing of having supported the 'Mefo' bills. But Blessing was not even a member of the directorate at this time, and would only join in May 1937. See Kopper, *Bankiers unterm Hakenkreuz*, pp. 189–90.

¹⁹⁸ Vocke, *Memoiren*, p. 101. See also Vocke's fiery letter to Schacht in 1966: Wilhelm Vocke to Hjalmar Schacht, 6 Apr. 1966, DBHA, B330/294.

¹⁹⁹ For more details, refer to Chapters 3 and 4.

²⁰⁰ 'Vocke: Mefo-Wechsel zulässig', *Frankfurter Allgemeine Zeitung*, 22 Nov. 1952.

²⁰¹ Hansmeyer and Caesar, 'Kriegswirtschaft und Inflation (1936–1948)', p. 393 (footnote).

²⁰² Buchheim, 'Von altem Geld zu neuem Geld. Währungsreformen im 20. Jahrhundert', p. 149.

²⁰³ *Ibid.*, p. 150. See also p. 148.

While the second inflation was emerging, Schacht continued to speak of an aversion to rising prices and outright opposition to currency experiments in the Third Reich's public sphere. In doing so, he used language that bared an uncanny echo to Vocke's later speeches. 'Since the German people had to endure to the bitter end the horrors of an inflation', Schacht noted in 1936, 'it has become extremely chary of currency experiments. A stable currency is the first and most necessary condition for the financing of the great work-creating programme which has given new life to German industry, and employment and bread to many of our compatriots'.²⁰⁴ Indeed, even after Schacht's expulsion from the Reichsbank in 1939, and the elimination of its legal autonomy, some central bank officials continued to speak of the importance of a stable currency and an independent central bank.²⁰⁵ But such messages were inconsistent; numerous Reichsbank reports during the Third Reich also praised the close relationship between the central bank and state.²⁰⁶

By 1938, however, relations between the central bank and government had deteriorated. Hitler's regime soon began to circumvent the central bank and directly tap the capital market for funding.²⁰⁷ Soon, however, the capital market could not supply the credit the government required, its means having become exhausted. The Third Reich urgently needed financing. And in its hour of need, the state turned its eyes once more towards Schacht and the central bank.

Reichsbank Memorandum of January 1939

Hitler approached Schacht on 2 January 1939 with the idea of using Reichsbank credits to finance the gap in receipts and expenditures.²⁰⁸ The Reichsbank president, who was now exasperated with the economy's situation, responded in a harmless fashion by noting the central bank would send a memorandum, offering its opinion with respect to Hitler's suggestions.²⁰⁹ In fact, such a document had been in preparation for some time within the walls of the Reichsbank. The monetary overhang

²⁰⁴ As quoted in 'Dr. Schacht rejects mark devaluation', *The Daily Telegraph*, 18 Apr. 1936, BAB, R2501/3412.

²⁰⁵ James, 'The Reichsbank 1876–1945', p. 40; Marsh, *The Bundesbank*, p. 129.

²⁰⁶ See, for example, Eicke, 'Die Befreiung der Reichsbank von internationalen Bindungen'; and Rudolf Brinkmann, 'Stabile Wahrung', 10 Feb. 1939, BAB, R2501/6521.

²⁰⁷ Hjalmar Schacht, *My first seventy-six years*, trans. Diana Pyke (London, 1955), p. 364.

²⁰⁸ Ibid.

²⁰⁹ 'Intelligence report no. EF-FB-2. Interrogation of Hjalmar Horace Greeley Schacht, July 11, 1945, 1050 hours', p. 10.

prevalent in the economy – and particularly the pace at which it developed in the course of 1938 – had alarmed the directorate.²¹⁰

On 7 January 1939, five days after Hitler's meeting with Schacht, the entire directorate – Schacht, Vocke, Blessing and the other members – put their names to a memorandum addressed to Hitler. In doing so, they established one of the central tenets of what would later become monetary mythology in the post-war public sphere. The memorandum, some seven pages long, protested against the government's inflationary policies in unusually strong terms.²¹¹ In the document, the directorate grounded its opposition to further rearmament spending specifically on *financial* grounds: the reichsmark's stability was in danger. No moral opposition was expressed. 'The currency is threatened to a critical extent by the reckless policy of expenditure on the part of public authorities', the memorandum began. It continued:

The unlimited increase in government expenditure defeats every attempt to balance the budget, brings the national finances to the verge of bankruptcy despite an immense tightening of the taxation screw, and as a result is ruining the central bank and the currency. There exists no recipe, no system of financial or monetary techniques – however ingenious or well thought-out – there is no organisation or measure of control sufficiently powerful to check the devastating effects on the currency of a policy of unrestricted spending. No central bank is capable of maintaining the currency against an inflationary spending policy on the part of the state.²¹²

These were strong words. And as the historian Kopper rightfully notes, they were brave ones too.²¹³ That all members of the directorate signed the document was somewhat unusual; normally, only the president and vice president would have been required to sign correspondence on behalf of the directorate. A complete set of signatures (Figure 1.6) was intended as a signal to Hitler.²¹⁴

But they were also carefully prepared words. The memorandum had been in preparation for some months. Most accounts, but not all, trace the document back to early October 1938.²¹⁵ International events forced the directorate to act. Some years later, in 1946, Ernst Hülse,

²¹⁰ *Trials of the major war criminals before the International Military Tribunal, vol. XIII* (Nuremberg, 1948), p. 63.

²¹¹ Reichsbank directorate to Adolf Hitler, 7 Jan. 1939, DBHA, B330/574.

²¹² *Ibid.*, p. 4. See also Vocke, *Memoiren*, p. 106.

²¹³ Kopper, *Bankiers unterm Hakenkreuz*, p. 191.

²¹⁴ Schacht, *My first seventy-six years*, p. 392.

²¹⁵ Vocke claimed in his memoirs that the memorandum dated back as early as July 1938. But this claim contradicts his testimony at Nuremberg in 1946, where he said it dated to early October 1938. See Vocke, *Memoiren*, p. 103; and refer also to Vocke's testimony in *Trials of the major war criminals before the International Military Tribunal, vol. XIII*, p. 69.

REICHSBANKDIREKTORIUM

The image shows a collection of handwritten signatures in cursive script. At the top left is 'Hjalmar Schacht'. In the middle row on the left is 'Vocke'. To the right of 'Vocke' is 'Emswiler'. At the bottom right is 'Blessing'. Other signatures include 'Hülse' and 'Kopper'.

Figure 1.6 Signatures found on the Reichsbank memorandum sent on 7 January 1939. Vocke's signature is in the middle row on the left, Blessing's to the bottom right, Schacht's to the top left. (Reichskanzlei R43 – Bundesarchiv, Berlin-Lichterfelde)

a directorate member who had also signed the memorandum, recalled that it was specifically the Munich Agreement in late September 1938, which saw Germany annex parts of Czechoslovakia, that confirmed the fears of both Schacht and the directorate that another war seemed inevitable. According to Hülse, Schacht then stated in a directorate meeting that they were left with little choice but to force their own departure from the central bank.²¹⁶ Schacht confirmed this rationale at his trial in Nuremberg in 1946.²¹⁷ At Nuremberg, too, Schacht stressed the importance of the Munich Agreement in dispelling any illusion of future peace in Europe, and propelling the Reichsbank directorate to write its position with regard to Hitler's financial policies.²¹⁸ Why, then, was it only sent in January? It was a question of timing. Vocke attributed the delay of its dispatch to the hesitations of Schacht, who wanted to wait for the opportune moment.²¹⁹

Who wrote the memorandum? Years later, in West Germany, Vocke claimed sole authorship of the memorandum.²²⁰ But at the Nuremberg

²¹⁶ *Trials of the major war criminals before the International Military Tribunal, vol. XLI* (Nuremberg, 1949), pp. 290–1.

²¹⁷ In his otherwise excellent biography of Schacht, Kopper states that Schacht never confessed the memorandum was aimed at ridding him of his office at the central bank. But at the Nuremberg trials Schacht stated quite clearly that this was indeed the case. See *Trials of the major war criminals before the International Military Tribunal, vol. XII* (Nuremberg, 1947), p. 533. Contrast with Kopper, *Hjalmar Schacht*, p. 325.

²¹⁸ *Trials of the major war criminals before the International Military Tribunal, vol. XIII*, p. 29.

²¹⁹ *Ibid.*, p. 69.

²²⁰ See Wilhelm Vocke, *Gesundes Geld* (Frankfurt, 1956), for example; and Vocke, *Memoiren*, p. 102.

trials in 1946, Vocke, who was acting as a defence witness for Schacht, never stated this. Instead, he described how a draft of the memorandum was sent to members of the directorate who made their own corrections to the document.²²¹ Archival evidence complicates the picture further. The earliest trace of what eventually became the memorandum among surviving Reichsbank files can be traced to a report written on 3 October 1938 by the economics and statistics department of the central bank.²²² The timing of this report, too, supports the statements of Hülse and Schacht as the memorandum being a response to the events of Munich, which had occurred just days before. Yet the economics and statistics department was not Vocke's domain, and the writer David Marsh traces the authorship of the partial draft in question to Rudolf Eicke, a Reichsbank official.²²³ Nevertheless, in 1986, the Bundesbank published typed extracts of two drafts, one dating from October 1938, and attributed the authorship of both to Vocke.²²⁴ What seems clear is that Vocke played a sizeable role in the drafting of the document, but others played a hand in determining the final wording.

But why are these questions of authorship important? In the end, the memorandum sparked off events that led to the almost complete departure of the directorate and the outright elimination of whatever legal remnants of central bank independence that had remained up to 1939. This event would go on to have significant political advantages in the post-war sphere for all those involved. Hitler, who was usually an 'extraordinarily lazy reader of documents', read the memorandum in detail on 19 January.²²⁵ In doing so, he fell into a rage. The next day, the directorate received a short, curt message, informing the men that Schacht, his vice president Ernst Dreyse, and Hülse were sacked from the central bank with immediate effect.²²⁶ However, the other directorate members,

²²¹ According to Vocke's own words, at least. See *Trials of the major war criminals before the International Military Tribunal, vol. XIII*, p. 69.

²²² Volkswirtschaftliche und Statistische Abteilung der Reichsbank, 'Teilentwurf einer Denkschrift über die künftige Währungspolitik', 3 Oct. 1938, BAB, R2501/6521. The historian Adam Tooze also comes to this conclusion. See Tooze, *The wages of destruction*, pp. 287, 297.

²²³ The 3 October 1938 draft, however, is not signed by Eicke – nor by any one person for that matter. At the same time, Marsh does not challenge Vocke's claim of authorship of what eventually emerged to be the Reichsbank memorandum of 7 January 1939. See Marsh, *The Bundesbank*, p. 296 (footnote).

²²⁴ These drafts were published in a Bundesbank volume celebrating the 100th birthday of Vocke. See Deutsche Bundesbank, *Geheimrat Wilhelm Vocke*, pp. 83–4, 85–6.

²²⁵ Kopper, *Hjalmar Schacht*, p. 327.

²²⁶ Chancellor's office to the Reichsbank directorate, 20 Jan. 1939, BAB, R43 II / 234; see also Chancellor's office to Hjalmar Schacht, 19 Jan. 1939, BAB, R43 II / 234.

Blessing and Vocke among them, were not mentioned.²²⁷ As such, both men remained in the directorate. Only after much persistence did Vocke and Blessing secure their resignations in February 1939.²²⁸ In the words of one American official after the war, 'He [Vocke] resigned in 1939 according to a provision which permitted leading members of the Reichsbank to retire on past pay if they disagree with policy etc. His retirement had nothing to do with the dismissal of Schacht. The reason can be found in his opposition to the Nazi party'.²²⁹ Vocke had finally called an end to his time in the directorate, a stint that lasted twenty years, ten of which under the leadership of Schacht.²³⁰ By the time of his departure in 1939, he was by far the longest-serving member of the directorate.²³¹

The 'End' of Central Bank Independence

In his memoirs, Vocke portrayed his resignation as a direct, moral response to the legal changes afoot in the Reichsbank.²³² The January 1939 memorandum triggered these changes. Furious that the Reichsbank's directorate could be so impudent, Hitler resolved to place the Reichsbank completely under his control. Back in January 1937, Hitler announced in the Reichstag that the Reich had assumed unlimited sovereignty over the Reichsbank. This announcement created the political impetus by which a law was passed on 10 February of that year which stated the central bank was subordinated to the Reich's president and chancellor – namely, Hitler.²³³ The directorate was no longer able to conduct monetary policy independently. This 1937 law, however, merely affirmed in legal terms a development that had gradually taken place since 1933.²³⁴

The 1939 legislation, which had been secretly passed in the weeks following the memorandum, but only announced publicly in June in light of concerns surrounding public opinion, reaffirmed the bank's

²²⁷ 'And me? They had forgotten about me', Vocke later recalled. See Vocke, *Memoiren*, p. 110.

²²⁸ *Ibid.* ²²⁹ The letter is undated. See Marsh, *The Bundesbank*, p. 313 (footnote).

²³⁰ *Trials of the major war criminals before the International Military Tribunal, vol. XIII*, p. 49.

²³¹ Reinhardt provides a useful table that charts the length of tenure of various Reichsbank directorate members. See Reinhardt, *Die Reichsbank in der Weimarer Republik*, p. 277.

²³² Vocke, *Memoiren*, p. 110.

²³³ 'Gesetz zur Neuregelung der Verhältnisse der Reichsbank und der Deutsche Reichsbahn. Vom 10. Februar 1937', 12 Feb. 1937, BAB, R2501/6860. See also 'Begründung [Gesetz vom 10. Februar 1937]', 10 Feb. 1937, BAB, R2501/6860.

²³⁴ As pointed out in a sycophantic piece written by a Reichsbank official at the time. See Eicke, 'Die Befreiung der Reichsbank von internationalen Bindungen'.

subordination to the government.²³⁵ It stated that the Reichsbank was obliged to support the policies of the government while safeguarding the stability of the currency; in other words, the directorate was subject to instructions and supervision by the 'Führer', who could appoint and fire them at will. And the directorate, for its part, no longer decided policy by majority vote. Instead, this would be decided by the Reichsbank president alone. In other words, the *Führerprinzip*, or Führer principle, was introduced to the central bank itself.²³⁶

Both in 1937 and 1939, newspapers and Reichsbank reports portrayed these laws as National Socialist triumphs against foreign intrusions of German sovereignty. The symbiotic relationship now enjoyed by the state and central bank was a natural one, these articles claimed, and marked a return to the relationship found in the glory years of Second Reich.²³⁷ 'In National Socialist Germany, we have overthrown the idols of a grimy economic and monetary ideology in the most irreverent fashion', exclaimed the new Reichsbank vice president, Rudolf Brinkmann.²³⁸ That such lines were found in an article entitled 'Stable money' marked the extent to which rhetoric and monetary practice diverged in the Third Reich.

Reckoning with National Socialism

Reichsbank officials greeted the gradual encroachment of National Socialism in different ways. Vocke, for his part, had become increasingly aloof following 1933. He avoided politics where possible, and eschewed membership of the National Socialist party. The future BdL chairman later documented how he would stroll into the central bank at 10 a.m. after a morning of horse riding, before departing again shortly after lunch time.²³⁹ Indeed, according to one contemporary, Vocke had a reputation of 'exceptional laziness' during these years.²⁴⁰ All the same, Vocke

²³⁵ 'Gesetz über die Deutsche Reichsbank. Vom 15 Juni 1939 (Reichsgesetz I S. 1015)', BAB, R2501/7573. An English translation can be found here: 'Law Concerning the German Reichsbank, June 15, 1939. Aus: Federal Reserve Bulletin, Washington, vom September 1939, s. 737/742', Sep. 1939, BAB, R2501/6861, pp. 1–2. Vocke notes the passage of the 'Geheimgesetz' as well as the reason why its announcement was delayed. See Vocke, *Memoiren*, p. 110.

²³⁶ 'Die neue Reichsbank', *Die Staatsbank*, 25 Jun. 1939, BAB, R2501/3415.

²³⁷ See, for instance, 'Befreite Reichsbank', *Völkischer Beobachter*, 2 Feb. 1937, BAB, R2501/6860; Eicke, 'Die Befreiung der Reichsbank von internationalen Bindungen'; Frede, 'Die neue Reichsbank', 25 Jun. 1939, BAB, R2501/6861, p. 1; 'Reichsbank unter Staatshoheit', *Südost-Echo*, 23 Jun. 1939, BAB, R2501/3415.

²³⁸ Brinkmann, 'Stabile Währung', p. 1. ²³⁹ Vocke, *Memoiren*, p. 102.

²⁴⁰ Marsh, *The Bundesbank*, p. 272 (footnote).

actively partook in directorate meetings during this period and, like Blessing, signed routine notices that upheld the financial persecution of Jews up until his departure.²⁴¹

Other Reichsbank officials, such as the younger Blessing, took a slightly different path. When Schacht resigned from the Reichsbank in 1930 amid political turmoil that engulfed the Weimar Republic, Blessing spent the years 1930–4 in Switzerland as a department head at the BIS. Then, the Württemberger was recalled in 1934 to the Reichsbank, while also acting as an advisor for Schacht at the economics ministry. In May of 1937, at the age of just 37, Blessing was appointed to the Reichsbank's directorate, assigned with questions of monetary policy, foreign exchange and external debt problems.²⁴²

Blessing joined the National Socialist party in May 1937 – the same month in which he joined the Reichsbank directorate.²⁴³ It was known, however, that the man had little taste for Nationalism Socialism.²⁴⁴ Nevertheless, representing the Reichsbank, Blessing participated in a 1938 conference working towards measures that persecuted the Jewish population in Germany. The conference took place three days after *Kristallnacht*, a pogrom in which dozens of Jews were murdered, thousands arrested, Jewish stores looted and synagogues burned.²⁴⁵ Among those present were Joseph Goebbels, Reinhard Heydrich and other leading officials of the Third Reich. The conference, according to the American official in 1948, 'was concerned with formulating specific steps to be taken to insure [*sic*] the complete elimination of Jewish participation in the economic and social life of Germany'.²⁴⁶ Among other punitive measures, it was agreed that a fine of one billion reichsmarks was to be imposed on Germany's Jewish population. Blessing, on behalf of the

²⁴¹ *Ibid.*, pp. 119–20.

²⁴² 'Curriculum Vitae (Karl Blessing)', no date, DBHA, BSG 1/12. See also Willi A. Boelcke, 'Karl Blessing (1900–1971). Der Großbankier aus Enzweihingen', *Vaihinger Köpfe: Biographische Porträts aus fünf Jahrhunderten* (Vaihingen an der Enz, 1993), p. 250.

²⁴³ The date 1 May 1937 is listed by Blessing in 'Parteistatistische Erhebung 1939 – Karl Blessing', Jul. 1939, BAB, R9361–1 261; see also 'Militärgerichtshof Nr. IV, Fall V, Nuernberg, Deutschland 18. August 1947. Sitzung von 9.30 – 12.30 Uhr (Karl Blessing's testimony)', 18 Aug. 1947, DBHA, B330/3506, p. 5572.

²⁴⁴ 'The Reichsbank and its relations with other institutions. Appendix: – personalities', Aug. 1944, IfZ, 2/206/4 FINAD, pp. xvi–xvii. See also 'Statement by Friedrich Ernst. OMGUS VII', 23 Aug. 1945, DBHA, BSG 1/12, p. 1.

²⁴⁵ Tooze, *The wages of destruction*, pp. 278–9. A detailed account of the conference, as well as its intimidating atmosphere, is provided in Gerald D. Feldman, *Allianz and the German Insurance Business, 1933–1945* (Cambridge, 2001), pp. 197–205.

²⁴⁶ Claus Nötulsky to Saul Kagan, 26 Mar. 1948, DBHA, BSG 1/12, p. 2.

Reichsbank, participated in the discussion leading to the decision to impose the fine.²⁴⁷

After the Reichsbank

Following his departure from the central bank, Vocke retired to private life and saw out the war's end from his house in Berlin, when Russian soldiers arrived at his doorstep.²⁴⁸ Blessing, however, was still a young man with a future. He accepted a position in a newly established advisory council at the Reichsbank, a role with little practical importance, but, according to one Allied official, was 'the only member of this body who has really discharged his duty to the bank seriously'.²⁴⁹ In the 1960s, Schacht would misleadingly use this fact to ground a claim in the public sphere that Blessing actively partook in the second inflation, provoking the Bundesbank president's quiet fury.²⁵⁰

Two months after leaving the Reichsbank, in April 1939, Blessing began to work for the Margarine-Union, which was attached to Unilever, a Dutch corporate.²⁵¹ It was during this time that Blessing sought to protect himself politically where possible. A chance appeared. The future Bundesbank president sought out, joined and actively participated in Heinrich Himmler's 'circle of friends', or *Freundeskreis*, a group of elite industrialists and SS officials who met on a regular basis to discuss matters of economic importance.²⁵² 'Karl Blessing was one of the most faithful members of the Circle of Friends of [the] Reichsführer SS', wrote one American military official in 1948.²⁵³ 'Among the activities of the Circle of Friends were two visits to concentration camps by a group of members of the Circle, personally conducted by Heinrich Himmler.' The first visit took place in 1937 when a party of twenty members

²⁴⁷ Ibid. This claim is supported in other documents, including copies of Stasi reports found in the Bundesbank historical archive. See 'Karl Blessing (Stasi report)', no date, DBHA, BSG 1/12.

²⁴⁸ Vocke, *Memoiren*, pp. 133–5, 137–8.

²⁴⁹ For evidence of Blessing's membership, see 'Beirat der Deutschen Reichsbank [list of members]', 1939, BAB, R2501/6861, p. 1; and 'The Reichsbank and its relations with other institutions. Appendix: – personalities', p. xvii.

²⁵⁰ This episode is detailed in Chapter 4.

²⁵¹ 'Synopsis of career (Karl Blessing)', no date, DBHA, BSG 1/12.

²⁵² An overview of Himmler's 'circle of friends', along with various documentary evidence, can be found in *Trials of war criminals before the Nuernberg Military Tribunal under Control Council Law No. 10, vol. VI* (Washington, 1952), pp. 226–87. Blessing's name can be found in a list offered by the group's founder at Nuremberg, 'Eidesstattliche Erklärung des Wilhelm Keppler', no date, DBHA, B330/3506.

²⁵³ Notulsky to Kagan, 26. Mar. 1948, p. 1.

inspected the Dachau camp; the second, in 1939, when a similar number visited the Oranienburg camp. 'Karl Blessing took part in both visits.'²⁵⁴

At Nuremberg, however, it emerged that Blessing's membership of the 'circle of friends' dated from early 1939 onwards – that is, following his departure from the Reichsbank – which casts at least some doubt on the American official's claims.²⁵⁵ Blessing downplayed his ties to Himmler's *Freundeskreis* in the Nuremberg courtroom, but admitted that he had attended 30 out of 38 such gatherings over the years.²⁵⁶ The forum of industrialists and SS officials also served as a source of cash for the SS. Blessing, on behalf of his new employer, provided two payments. Each amounted to 15,000 reichsmarks, the first delivered in 1939, the second in 1940. Unilever supported Blessing in these endeavours, believing the payments would be seen as a gesture of goodwill should the company's fortunes take a turn for the worse in future.²⁵⁷

And indeed they did. In 1941, the Third Reich targeted Unilever, a foreign firm, accusing the company of treasonous activities.²⁵⁸ Unilever's head offices in occupied Rotterdam were raided, and Blessing ended up in an interrogation room with the Geheime Staatspolizei, more commonly known as the Gestapo, Himmler's secret police.²⁵⁹ He was arrested because his attendance was listed in minutes of meetings deemed worthy of confiscation. In the end, the Gestapo released Blessing without charge, but the event highlighted the extent to which Blessing was now politically suspect. Shortly afterwards, the former central banker was offered an olive branch that he quickly grabbed. The former Reichsbanker accepted an offer from Göring's state secretary to join the board of Kontinentale Öl-Aktiengesellschaft, or Continental Oil, a new enterprise established with the aim of plundering the oil fields of conquered territory in south-east Europe.²⁶⁰ As one Allied war official noted, however, Continental Oil 'never got far past the planning stage, owing to war developments in Russia and Roumania'.²⁶¹ Germany's defeat at

²⁵⁴ *Ibid.* The subject of concentration camp trips was not broached at Blessing's testimony. See 'Militärgerichtshof Nr. IV, Fall V, Nuernberg, Deutschland 18. August 1947. Sitzung von 9.30 – 12.30 Uhr (Karl Blessing's testimony)', pp. 5563–4.

²⁵⁵ 'Militärgerichtshof Nr. IV, Fall V, Nuernberg, Deutschland 18. August 1947. Sitzung von 9.30 – 12.30 Uhr (Karl Blessing's testimony)', p. 5564. Lindenlaub also dates Blessing's membership of the 'circle of friends' from 1939. See Lindenlaub, 'Karl Blessing', p. 15.

²⁵⁶ 'Militärgerichtshof Nr. IV, Fall V, Nuernberg, Deutschland 18. August 1947. Sitzung von 9.30 – 12.30 Uhr (Karl Blessing's testimony)', p. 5580.

²⁵⁷ Kopper, *Bankiers unterm Hakenkreuz*, p. 194. ²⁵⁸ *Ibid.*, p. 195.

²⁵⁹ *Ibid.*, pp. 195–6. ²⁶⁰ *Ibid.*, p. 196.

²⁶¹ 'The Reichsbank and its relations with other institutions. Appendix: – personalities', p. xvi.

Stalingrad in early 1943 signalled an end to Hitler's ambitions in the east. Blessing would remain with the Continental Oil until the war's conclusion.²⁶²

Yet there was another side to Blessing in the Third Reich. It later emerged that he was linked to the *Kreisauer Kreis*, or Kreisau Circle, an opposition group comprised of conservatives disillusioned with Hitler.²⁶³ During this time, too, Blessing became associated with members of the '20 July' group, named after the date in 1944 during which an assassination attempt failed to kill Hitler. At his testimony at Nuremberg, Blessing claimed to have links to the group that dated from November 1943.²⁶⁴ Both the Kreisau Circle and the '20 July' group were brutally crushed in the aftermath of the failed coup. Blessing's name was found on at least two lists of provisional cabinet members should the '20 July' coup attempt have succeeded.²⁶⁵ How did he escape punishment, however? According to Blessing, Walther Funk, the man who replaced Schacht as Reichsbank president in 1939, vouchsafed for his credentials, persuading the SS that Blessing knew nothing of the plot on the Führer's life.²⁶⁶

Blessing's career during the inter-war period, then, was full of contradictions. 'It is surprising that a man with this past could be the first president of the Bundesbank', noted one astonished Bundesbank official in 1998, after learning of Blessing's history.²⁶⁷ The Reichsbanker was an active member of Himmler's *Freundeskreis*. But his name could be found on the Reichsbank memorandum sent to Hitler in 1939. Blessing participated in a meeting that persecuted Germany's Jewish population. Yet he was linked to a group of army officials who sought to kill Hitler. While it is likely that Blessing's relationship with the Third Reich was never based on conviction – rather, the evidence suggests it was one was founded upon opportunism – the purpose of this section is not to pass judgment on Blessing's character. Instead it seeks to highlight the

²⁶² 'Militaergerichtshof Nr. IV, Fall V, Nuernberg, Deutschland 18. August 1947. Sitzung von 9.30 – 12.30 Uhr (Karl Blessing's testimony)', p. 5557.

²⁶³ Lindenlaub, 'Karl Blessing', p. 15.

²⁶⁴ 'Militaergerichtshof Nr. IV, Fall V, Nuernberg, Deutschland 18. August 1947. Sitzung von 9.30 – 12.30 Uhr (Karl Blessing's testimony)', pp. 5578–9.

²⁶⁵ Blessing's name appeared in the following two lists: Ernst Kaltenbrunner to Martin Bormann, 27 Jul. 1944, DBHA, B330/3506; and Ernst Kaltenbrunner to Martin Bormann, 10 Aug. 1944, DBHA, B330/3506. His name also appeared in an account found in Ernst Kaltenbrunner to Martin Bormann, 6 Sep. 1944, DBHA, B330/3506.

²⁶⁶ 'Militaergerichtshof Nr. IV, Fall V, Nuernberg, Deutschland 18. August 1947. Sitzung von 9.30 – 12.30 Uhr (Karl Blessing's testimony)', pp. 5578–9.

²⁶⁷ The comment is found in an internal memorandum. See Jochen Plassmann, 'OMGUS-Akten Political background of Karl Blessing', 1 Oct. 1998, DBHA, BSG 1/12.

different ways in which Blessing's career *could* have been interpreted in the post-war era.

And what of Schacht? After being sacked from the Reichsbank, Schacht remained a minister without portfolio in Hitler's cabinet – in reality, a sinecure.²⁶⁸ But Schacht, too, had become linked to resistance circles. In the end, even the resistance found him too unreliable a character to be of any genuine value. Once the coup failed, though, this association landed Schacht in a number of concentration camps, where he escaped death and saw out the final days of the war.²⁶⁹

Nuremberg

It is here, then, that we return to the military officer's report, 'In search of the Reichsbank'. He had been assigned to compile as much information about the Reichsbank as possible. It was during this period, too, that the Allied military authorities set about discerning the events that transpired for purposes of trying leading officials of the Third Reich. But in contrast to his erstwhile colleagues, Schacht, for his part, was not accused of crimes against humanity. He was charged with 'conspiring to bring about the war' and 'participating in the preparation of war'.²⁷⁰

Schacht, along with his lawyer, Rudolf Dix, 'a man of distinguished diplomacy and a gifted speaker' in the eyes of Schacht, set about organising the former Reichsbank president's defence.²⁷¹ Among the defence witnesses called by Dix were Vocke and Hülse, the two former Reichsbank directors.²⁷² In justifying his selection of these men, Schacht's lawyer stated, 'Vocke and Huelse were Schacht's closest collaborators at the Reichsbank and at the International Bank at Basel. They know of events and developments which Schacht may not be able to recall in detail.'²⁷³ The Allied military government sent both Vocke and Hülse to Nuremberg. They were lodged in a guesthouse specifically set aside for witnesses; Vocke would remain at Nuremberg for six weeks, waiting for

²⁶⁸ 'Intelligence report no. EF-FB-2. Interrogation of Hjalmar Horace Greeley Schacht, July 11, 1945, 1050 hours', 25 Jul. 1945, p. 11.

²⁶⁹ Kopper, *Hjalmar Schacht*, pp. 355–8. ²⁷⁰ Schacht, *76 Jahre meines Lebens*, p. 574.

²⁷¹ *Ibid.*, p. 581.

²⁷² See *Trials of the major war criminals before the International Military Tribunal, vol. VIII* (Nuremberg, 1947), p. 541.

²⁷³ Due to circumstances unexplained, Hülse never stepped into the courtroom in Nuremberg. Instead, Dix would use a written version of his testimony. Vocke later hinted that Hülse's absence in the courtroom was due to his nervous and angst-ridden disposition while at Nuremberg. For the testimony, see *Trials of the major war criminals before the International Military Tribunal, vol. XLI*, pp. 290–1. See also Vocke, *Memoiren*, p. 144.

his appearance in court.²⁷⁴ It was during this time that Vocke conferred with Dix about the strategy to be used at Schacht's trial.²⁷⁵

In the lead-up to Schacht's appearance at Nuremberg, his lawyer Dix set about crafting a narrative of past events, buttressed by an array of documentary evidence, amid efforts to sanitise the record of the former central banker. In this respect, Dix saw Vocke's testimony as instrumental. Above all, the lawyer sought to portray Schacht as one of the few men who attempted to resist Hitler, a man who tried to do his best to rein in the government's spending and hinder rearmament, and one whose expulsion from the Reichsbank in 1939 effectively meant the end of the central bank's independence, turning the central bank into a tool of the state.

The Reichsbank memorandum of January 1939 was one of the leading documents, if not the most important one, relied upon by Dix and Schacht.²⁷⁶ It demonstrated that Hitler dismissed Schacht because of the latter's objections to the further financing of rearmament. At Nuremberg, the memorandum was, for the first time, fused with a moral tone, one that was laced with condemnation of the Third Reich. According to Dix, Schacht and the Reichsbank directorate were men who said 'no' to the dictator and paid their price for such intransigence: they became martyrs to the ideals of sound currency. In other words, monetary martyrs.

And yet, such an interpretation of the 1939 memorandum could be contested. Indeed, it was contested. The prosecution team listed the Reichsbank memorandum as evidence *against* Schacht.²⁷⁷ The prosecution claimed that the memorandum limited itself to technical considerations of the currency; it had made no mention of a moral objection to Hitler's rearmament, merely a financial one – in other words, all the directorate wanted to do was evade financial responsibility and jump ship.²⁷⁸ The fact that the prosecution team used the memorandum as a prosecution document highlights the extent to which the monetary past of the Reichsbank was fair game at Nuremberg. Different historical narratives competed against each other. Nothing was certain as to which ones would win the day.

²⁷⁴ Vocke, *Memoiren*, pp. 143–4. ²⁷⁵ *Ibid.*, p. 144.

²⁷⁶ It was listed as a document for the defence. See *Trials of the major war criminals before the International Military Tribunal*, vol. XII, p. 526.

²⁷⁷ For the prosecution's document listing, see *Trials of the major war criminals before the International Military Tribunal*, vol. XXIV (Nuremberg, 1949), p. 147. This fact was mentioned in the courtroom, too. See also *Trials of the major war criminals before the International Military Tribunal*, vol. XII, p. 525.

²⁷⁸ *Trials of the major war criminals before the International Military Tribunal*, vol. XII, pp. 533–5.

It was Schacht's defence, however, that emerged triumphant at the expense of the United States chief prosecutor, Robert Jackson. The prosecutor proved no match for the former central banker. 'Schacht is too smart for him', admitted one judge, somewhat ruefully.²⁷⁹ The memorandum, Schacht argued,

indicates clearly that we [the directorate] opposed every further increase of state expenditure and would not assume responsibility for it. From that, Hitler gathered that he would in no event be able to use the Reichsbank with its present directorate and president for any future financial purposes. Therefore, there remained only one alternative; to change the directorate, because without the Reichsbank he could not go on.²⁸⁰

Dix argued that the directorate's decision to send the memorandum sparked the elimination of the Reichsbank's independence from government instruction. This was an important point for Dix, and Schacht's lawyer returned to this point more than once throughout the trials.²⁸¹ By focusing on the central bank legislation passed in the wake of Schacht's sacking, Dix attempted to portray Schacht as an independent man, and the Reichsbank as a proud, independent institution. It meant that, in Schacht's own words, 'an end had to be put to the independence of the Reichsbank' if Hitler wanted to continue pursuing inflationary policies.²⁸² It was only when Schacht was sacked, Dix claimed, that the Reichsbank was transformed into a cog of Hitler's war machine and the currency descended into ruin. The rise and fall of central bank independence, according to this account, was linked to the ascent and descent of Schacht.

At Nuremberg, Schacht claimed that Hitler reacted in fury upon reading the Reichsbank memorandum, shouting, 'This is mutiny!' When pressed on the origins of this statement, the former Reichsbanker said it came from his old colleague, Vocke.²⁸³ Days later, sitting in the courtroom as a defence witness, Vocke confirmed this statement, noting he

²⁷⁹ Schacht also had the benefit of being fluent in English, allowing him some additional time to carefully prepare the formulation of his answers while the court officials translated Jackson's questions into German. See Kopper, *Hjalmar Schacht*, p. 366.

²⁸⁰ *Trials of the major war criminals before the International Military Tribunal*, vol. XII, p. 534.

²⁸¹ For example, during the court appearance of Hans Lammers, the head of the Hitler's Reich chancellery, Dix intervened from the side lines and directed the discussion to a point concerning Schacht's departure and the elimination of central bank independence, and explicitly returned to it again when he deemed Lammers's answer unsatisfactory. See *Trials of the major war criminals before the International Military Tribunal*, vol. XI (Nuremberg, 1947), p. 90.

²⁸² *Trials of the major war criminals before the International Military Tribunal*, vol. XII, p. 534.

²⁸³ *Ibid.*, p. 536.

had heard it from an official in the finance ministry.²⁸⁴ In the 1950s, Hitler's exclamation of mutiny would later be included often in post-war articles and essays about the BdL's leadership, in turn boosting Vocke's credibility as a central banker who stood up to profligate governments. And yet its origins in the post-war public sphere actually came from Vocke himself. Schacht's lawyer, for his part, referred to Hitler's mutiny comment a number of times in his concluding defence of Schacht at Nuremberg.²⁸⁵

Vocke's testimony proved important for Schacht. The directorate member delivered a strong performance, eloquently defending his former boss, and arguing Schacht was a fierce opponent of war.²⁸⁶ This was not unexpected. Prior to Vocke's appearance at Nuremberg, he was asked by Allied military authorities to write a statement about Schacht. It was to be used for the trial at Nuremberg, Vocke was told. After doing so, however, the central banker was greeted with a curt response. 'This is a eulogy', the military official said, holding the statement in his hand.²⁸⁷ It was at Nuremberg that Vocke also defended the legality of the 'Mefo' bills, though he admitted that they were dreadful instruments and designed from the start to be abused.²⁸⁸

But there were slight discrepancies between Schacht and Vocke's statements. Schacht spoke of how the resignations of Vocke and Blessing were 'granted', while Vocke claimed he had been 'dismissed' by Hitler.²⁸⁹ Both men were describing the same event: the resignations of Vocke and Blessing had to be accepted by Hitler.²⁹⁰ But they chose to present this same event in different lights. Vocke, for his part, explicitly linked his dismissal to his refusal to have anything to do with the new law

²⁸⁴ Vocke's exact words concerning the origins of Hitler's comment 'This is mutiny!': 'I cannot remember that anymore. I believe it was Herr Berger of the finance ministry. But I cannot say exactly.' See *Trials of the major war criminals before the International Military Tribunal*, vol. XIII, p. 62.

²⁸⁵ *Trials of the major war criminals before the International Military Tribunal*, vol. XVIII (Nuremberg, 1948), pp. 297–300.

²⁸⁶ *Trials of the major war criminals before the International Military Tribunal*, vol. XIII, pp. 59–60; and Viktor von der Lippe, *Nürnberger Tagebuchnotizen: November 1945 bis Oktober 1946* (Frankfurt, 1951), p. 254.

²⁸⁷ The military official was quoted in English. See Vocke, *Memoiren*, p. 143. Indeed, a fragment of this testimony may have survived, though it is not certain. See Wilhelm Vocke, 'Handwritten account [English]', no date, DBHA, B330/6305/2.

²⁸⁸ *Trials of the major war criminals before the International Military Tribunal*, vol. XIII, p. 60.

²⁸⁹ For Schacht's statement, see *Trials of the major war criminals before the International Military Tribunal*, vol. XII, p. 534; for Vocke's numerous remarks, see *Trials of the major war criminals before the International Military Tribunal*, vol. XIII, pp. 49, 59–60, 62.

²⁹⁰ A copy of Vocke's dismissal, complete with Hitler's signature, can be found in Deutsche Bundesbank, *Geheimrat Wilhelm Vocke*, p. 88.

that eliminated the Reichsbank's remaining independence.²⁹¹ His was a moral defiance: Vocke portrayed himself as a monetary martyr.

The Reichsbank memorandum proved crucial in the acquittal of Schacht of all charges at Nuremberg. Indeed, among the reasons behind the acquittal, the tribunal explicitly centred on the memorandum in that it 'urged a drastic curtailment of armament expenditures and a balanced budget as the only method of preventing inflation'.²⁹² Schacht, the tribunal decided, was a free man.

And Blessing? Blessing never appeared at Schacht's trial. Instead, he was a witness at the trial of Friedrich Flick, which occurred in 1947, examining the relationship between industrialists and the National Socialist party.²⁹³ At Nuremberg, too, Blessing referred to his expulsion from the Reichsbank in 1939 in light of protesting against Hitler's inflationary spending amid efforts to defend his record.²⁹⁴ It was here that his membership of Himmler's 'circle of friends', his board membership of Continental Oil and his links to German resistance groups were first discussed in post-war Germany.²⁹⁵ Eventually, the tribunal at Nuremberg ruled that 'as a group (it can hardly be labelled an organisation) the Circle [of Friends] played no role in the implementation of politics in the Third Reich'.²⁹⁶ Blessing would later fall back on this ruling – as well as various other Nuremberg documents, such as the Reichsbank memorandum – when news reports in the media emerged during the 1960s that he was a member of Himmler's 'circle of friends'.

Nuremberg set out to determine whether leading Third Reich officials and personalities were guilty of crimes. At Schacht's trial, competing narratives, both positive and negative, emerged in the courtroom. The record of both the man and the Reichsbank were placed under serious scrutiny for the first time in a post-war setting, and in the public eye to boot. After all, the Nuremberg trials were a media sensation, reported upon by both German and foreign journalists alike. By acquitting Schacht of all charges, the tribunal acknowledged the documentary evidence in support of his case. And by the trial's end, the Reichsbank

²⁹¹ *Trials of the major war criminals before the International Military Tribunal, vol. XIII*, pp. 59–60.

²⁹² *Trials of the major war criminals before the International Military Tribunal, vol. XXII* (Nuremberg, 1949), pp. 554, 556.

²⁹³ Blessing's name can be found in a list of witnesses in *Trials of war criminals before the Nuernberg Military Tribunal under Control Council Law No. 10, vol. VI*, p. 1238.

²⁹⁴ 'Militärgerichtshof Nr. IV, Fall V, Nuernberg, Deutschland 18. August 1947. Sitzung von 9.30 – 12.30 Uhr (Karl Blessing's testimony)', p. 5564.

²⁹⁵ *Ibid.*

²⁹⁶ See '22 Dez. Militärgerichtshof Nr. IV, Fall V. Anklagepunkte Vier und Fünf', DBHA, B330/3506, p. 5.

memorandum was not a cowardly document, one that sought to exculpate the central bank directorate of blame, as the prosecution had claimed. Rather, it had become a powerful and defiant 'no' to a dictator intent on bringing war to the European continent.

The Nuremberg trials played a crucial role for two reasons. First, they helped to determine some of the parameters of what later emerged to be the West German central bank's monetary mythology. And second, the Bundesbank would go on to use selected Nuremberg documents, testimonies and judgments as ammunition amid efforts to discredit damaging allegations in the public sphere, particularly during the 1960s. The trials, then, provided both the foundation and building blocks of monetary mythology.

Conclusion

By examining the emergence and record of central bank independence during the inter-war era, we have seen that it was a mixed one. The Reichsbank was independent of government instruction at the height of the hyperinflation and depths of deflation. Moreover, the central bank was made independent at the behest of foreign powers. Though today we often see central bank independence as a quintessentially 'German' institution, this was not the case back in the era of the Weimar Republic. In the words of Helfferich in 1922, the Autonomy Law was a 'dictate' forced upon Germany by the Allies. The play of events during the hyperinflation and deflation damaged the credibility of central bank independence during the inter-war era. But this chapter has in no way argued that the institution of central bank independence was solely *responsible* for both the hyperinflation and deflation. Far from it; the causes of the hyperinflation, for instance, lie at the government's door. This chapter merely contends the following: the fact that the monetary authority was independent of political instruction during these two key periods would go on to offer useful ammunition for opponents of the West German central bank's autonomy in the post-war period. That is the key point here.

Schacht transformed the Reichsbank into a political actor during the 1920s. It is here we recall the contemporary's remark back in 1930: nobody knew or even cared what Havenstein looked like, but Schacht attracted front-page headlines. The Reichsbank now had a face, voice and personality. Much of this development can be attributed to the central bank's independence and the manner in which the publicity-savvy Schacht wielded it. One caricature, depicted in the chapter, demonstrated how Schacht – like Vocke and Blessing later – embodied both the central bank and its independence in the public sphere. Decisions

may have been jointly made by a number of men behind the scenes, but in the public sphere, the Reichsbank was a one-man show.

Vocke and Blessing were children of the Reichsbank. By the time of Vocke's resignation, he was by far the longest-serving member of the directorate. He was known as the 'foreign minister' of the central bank. Blessing, though younger, was known as Schacht's protégé. After January 1939, Blessing joined Himmler's 'circle of friends' and later became a board member of Continental Oil, an organisation established to exploit the oil reserves of occupied south-east Europe. After the Second World War, there were a variety of ways in which one could view Blessing's career. Was he a Nazi sympathiser who socialised with SS officials? Or was he a monetary martyr who later became linked to resistance groups? These were questions that remained to be determined in the post-war public sphere. As will be seen in later chapters, the records of Vocke and Blessing were tied to that of the inter-war Reichsbank.

However, if we must go 'in search of the Reichsbank' – like that American official back in 1945 – to determine the origins of monetary mythology, it is not 1876, the year in which the Reichsbank was established, to which we must return. Rather, all roads lead back to Nuremberg. It was in Nuremberg that the history of the Reichsbank was first scrutinised and vetted in the post-war public sphere. And it was in Nuremberg that monetary mythology was first applied – and indeed, in defence of Schacht's person. By acquitting Schacht, and noting the importance of the Reichsbank memorandum of 1939 in his acquittal, the tribunal at Nuremberg effectively gave the green light for the latter's use as a document of moral meaning in the post-war era. In doing so, the tribunal laid a crucial foundation stone towards the future image of the BdL, and later, the Bundesbank. The Reichsbank memorandum assumed a new, moral importance at Nuremberg, and Vocke played an active, formative role in helping to determine this outcome.

As it happens, the Nuremberg trials were important for an entirely different reason, too. It was here that Vocke met his future press chief, Viktor von der Lippe, for the first time. The two men were stationed in the same guesthouse and soon befriended each other. At the time, von der Lippe was a defence attorney for Erich Raeder, an admiral, as well as other defendants at Nuremberg.²⁹⁷ Von der Lippe would later go on to dominate the press department of the BdL, and later the Bundesbank, for a quarter of a century. If Vocke played a crucial role in the formation

²⁹⁷ 'Biographical section: Viktor von der Lippe', *The International Year Book and Statemen's Who's Who*, 1974, DBHA, B330/8144. Von der Lippe would later document his time at Nuremberg in von der Lippe, *Nürnberger Tagebuchnotizen*.

of monetary mythology, von der Lippe would certainly play an important role in maintaining it.

But all that remained ahead of the two men. Back in 1946, neither had any idea of what the future held in store for them. At Nuremberg, the relationship between Vocke and von der Lippe was simply one of friendship in uncertain times.²⁹⁸ Thirty years later, von der Lippe would recall how the two men often met in Nuremberg's zoo – or, at least, what was left of the zoo after it had been bombed. Sitting on a bench before an aviary of wide-eyed owls that had survived the war, they would discuss the events of the day, all the while staring at the winged creatures. 'Together we observed them', von der Lippe recalled.²⁹⁹ It was the beginning of a fruitful partnership. Before them lay a destroyed landscape. It would be up to them to rebuild it.

²⁹⁸ And it was a friendship that would grow stronger over time. Shortly before Vocke's death, he described von der Lippe as 'my best friend'. The comment can be found in an earlier draft of Vocke's memoirs, in a section that was removed from the finished book. See 'Die heutige Lage', extract from an earlier draft of Wilhelm Vocke's *Memoiren*, DBHA, BSG 1/389, p. 176.

²⁹⁹ This anecdote can be found in von der Lippe's retirement speech, delivered in late January 1977. See Viktor von der Lippe, 'Abschiedsworte', 31 Jan. 1977, DBPA, no. 717, pp. 2–4.