Trump & Schacht: Death Economy Methods in Declining America

“I am thrilled to report to you tonight that our economy is the best it has ever been. Our military is completely rebuilt, with its power being unmatched anywhere in the world -- and it is not even close,” Donald Trump told the country at his State of the Union address on February 4th, 2020.

Such words are laughable to anyone familiar with basic economic data. The 1950s, was a far better time, when the wages of American industrial workers significantly increased, and the US was the trading center of the non-Communist world amidst the post-war economic expansion, was a far better time. Currently, living standards in the US are not rising. The slight increase in wages does not cancel out the rise of debt, the crumbling infrastructure, the low wage economy, and many obvious woes. These woes propelled Bernie Sanders, with his message of “Democratic Socialism”, to nearly steal the spotlight at the Iowa Caucuses.

However, Trump’s emphasis on military spending, as well as his stoking of fears about immigrant crime, points to the underlying reality of America’s economic management since 1945. In essence, what can be called “Death Economy,” a particular application of Keynesianism have been relentlessly applied, and their ability to boost growth is running out.

How Should The Government Spend Money? Keynes vs. Schacht

Prior to the financial meltdown that swept the western world in 1929, it was common for observers and commentators to declare “Ford has overtaken Marx.” The application of assembly-line production to efficiently churn out goods as specifically applied by Henry Ford, was said to have disproved Marx’s theory that capitalism is prone to cyclical crises of overproduction. The thesis of “Ford has overtaken Marx” was an earlier incarnation of what is now called “The Efficient Market Hypothesis” by economists.

However, the market crash of 1929 and the prolonged episode of mass unemployment, malnutrition and homelessness that gripped the United States, Britain, France, and many other countries seemed to restore Marxism’s credibility. As Americans starved, lived in “Hooverville” encampments as migrant workers, more consumer goods were being produced than ever before. Ford was building more cars, General Electric was creating more radios, but the people could not afford to buy it.

This is what spawned the rise of 1st Baron John Maynard Keynes, the British economist whose ideas emerged and live on to this day. Keynes was very opposed to socialism and Marxism, but he was also highly critical of the capitalist market. Keynes argued that Marx was wrong about the problem being “overproduction,” but instead labelled the problem causing frequent crises on the market as “under consumption.”

Keynesian economics is essentially the notion that the government should spend money. A commonly used description of Keynesian economics is the government hiring people to dig holes, and then hiring other people to refill those holes. While some observers might see it as pointless, those hired diggers, tend to purchase products with their government-created incomes, thus adding value to the economy.

Franklin Delano Roosevelt implemented in his practice his own application of Keynesian economics with the New Deal. After dispatching his staff to study the achievements of Stalin in the Soviet Union during the 5-year plans, Roosevelt created the Works Progress Administration in 1935. Unemployed Americans were hired into the Civilian Conservation Corps, and put to work paving roads, building new highways and post offices, and creating other
“public works” that would have a long term economic benefit to the country. Key West Highway, LaGuardia Airport, Hoover Dam, and many other construction projects expanded access to electricity and better enabled the improvement of transportation across the United States.

In Germany, after Adolph Hitler took power in 1933, his chief economist was the longtime financier Hjalmar Horace Greeley Schacht. According to the biography of Schacht entitled Hitler’s Banker, written by John Weitz, Schacht disapproved strongly of Roosevelt’s interpretation of Keynesian economic policy. Weitz wrote:

“Schacht had a disdain for what he called ‘ditch digging.’ It was one of the things he liked to criticize about Roosevelt’s Civilian Conservation Corps and other publicly administered works projects... In 1933 Schacht believed in the rearmament of Germany, and so did Adolph Hitler.”

Unlike Roosevelt, Hitler’s chief advisor did not favor investment in infrastructure and development, though he did finance the building of the Autobahn highways. Schacht felt that military spending was far more preferable than investment into the lifeblood of the country’s economy. According to Weitz:

“To prime and manufacture armaments and slice away at unemployment he found a small shell corporation strangely called the Metallurgical Research Company or Mefo Corporation... The purpose of Mefo was to finance large government contracts for armaments. Some estimate there was 21 billion marks in orders. Payment was guaranteed by the Reichsbank... During the next four years, the value of Mefo bonds grew from the original 1 million marks to 12 billion marks and half of them were traded on the open bond market.”

Essentially, Schacht swiftly rebooted the German economy by creating a massive military-industrial complex. However, this paralleled a similar economic stimulus program that had a similar nature. After the German Reichstag (Parliament) building was burned down on February 27th, 1933, the Nazis blamed the Communist Party and declared a state of emergency. Millions of members of the Communist Party were immediately imprisoned, and the seats held by elected members of the Communist Party in the German parliament were replaced by Nazi Party members. This gave the Nazis a majority in the parliament, and enabled them to establish a monopoly on political power.

However, the Communist Party members arrested in 1933 had to be detained, and the existing prison apparatus was not large enough. The Nazi state financed the creation of the first concentration at Dachau in 1933, where 5,000 members of the Communist and Social-Democratic Party were held. Soon an entire network of concentration camps was built. A system of special courts for “political criminals” was established, and in addition to the 77,000 people sentenced to death, roughly 3.5 million German citizens were sent to concentration camps for political reasons between 1933 and 1945.

The construction of the camps involved massive spending by the German government, and many formerly unemployed Germans were hired as concentration camp guards. The camps were used by German corporations, often weapons manufacturers as a source of slave labor.

Eventually, the camps began detaining people on the basis of their ethnicity, such as Jews and Gypsies, and death camps like Auschwitz were established for the purpose of mass extermination. It is estimated that 14 million people perished in the concentration camp system before the Nazi regime fell. The US computer corporation known as IBM was contracted by the Nazi regime to develop an early punch card computer system for tracking the prisoners.

Essentially, in order to stimulate the German economy, Schacht also created a Prison Industrial Complex, to accompany the Military-Industrial Complex centered around MEFO. The Nazi regime, seizing power very rapidly and having a highly organized armed units and a monopoly on political power, implemented these economic reforms very rapidly.

Schacht’s economic policies can accurately be described as “Death Economy.” The government spent lots of money on mechanisms of destruction. Military hardware, prisons, and slave labor resulted in alleviating a crisis of capitalist overproduction. At the same time, the Nazi regime was actively working to reduce its population, sterilizing people deemed to have genetic defects and exterminating disabled people whom they labelled as “useless eaters.”

The result was a sudden boom in the German economy, with unemployment dropping and living standards increasing. This boom cemented the loyalty of millions of previously skeptical Germans, and enabled the Nazi state
1945 - “Death Economy” Comes to America

After the death of Franklin Delano Roosevelt in 1945, the new administration of Harry Truman worked to radically change the Democratic Party. The House Un-American Activities Committee and the Justice Department worked to purge the influence of the Communist Party USA and its allies. Furthermore, despite the fact that the Second World War had ended, government spending on military hardware increased.

The Truman administration pushed a policy of “containment” and created the NATO alliance against the Soviet Union in Europe. The US apparatus of weapons manufacturing began selling weapons to countries around the world in the name of opposing Communism.

In 1956, Dwight D. Eisenhower seemed to be pulling a page from Schacht, and launched an “Autobahns” project of his own, creating a National Interstate Highway System in the name of military defense in the event of a foreign invasion. The existing train system was dismantled, with oil companies often purchasing and then destroying railway tracks. As he left office, Eisenhower warned about the increasing dependency on military spending in the US economy saying: “we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists and will persist.”

Around the world, it was common for critics of the United States to describe its economic system as “military Keynesianism.” After the 1967, the war in the Middle East and the oil crisis of the early 1970s, many autocratic Arab states such as Saudi Arabia, Kuwait, and UAE began purchasing huge stockpiles of US-made weapons, expanding the US role in the global arms trade.

From the 1950s to the 1970s, the US economy boomed and experienced relative overall stability. The primary reason was the constant infusion of government funds for the purpose of military manufacturing. While the Soviet Union suffered due to the constant need to build up its military apparatus during the “Arms Race,” for the US economy, the Cold War was a stimulus.

When the US faced its first major economic downturn in 1978, Ronald Reagan swept into office talking of a “War on Drugs” and promising to “get tough on crime.” Across the country, the length of prison sentences vastly increased. The rate of incarceration in the United States began to rapidly increase.

The trend continued in the 1990s. In 1994 California passed a “3-strikes law”, which was quickly implemented, resulting in the automatic sentence of 25 years in prison for any third felony conviction. Many other states passed similar laws. Soon the US had the highest rate of incarceration in the world, by huge numbers.

Government spending on imprisonment served as a stimulus to the economy. Soon “private prisons” were constructed, where profit-centered companies such as “Corrections Corporation of America” were paid per prisoner by US states. Prison labor also became available to private companies, with many US manufacturers and telecommunications corporations utilizing prisoners in the place of employees.

Can the USA break with Schachtian Economics?

To make direct comparisons between the US and Nazi Germany, as alarmists and hysterical anti-Trump activists frequently do, is deeply misleading and incorrect. The Nazi state seized power swiftly and had an absolute monopoly on political leadership. The policies crafted by Schacht were implemented in a sudden and dramatic way, causing an explosion of economic growth.

The US military and prison industrial complex has emerged very gradually, expanding slowly in an attempt to keep the economy moving in the face of new hardships. The military-industrial complex emerged in the 1950s and 60s, but expanded greatly during the oil crisis and the Middle East turmoil of the 70s. The Prison Industrial Complex emerged in the 1980s, and gradually expanded during the 1990s. The rise of immigrant detention facilities seems to be its latest expansion, while many US states such as California and New York are decreasing the length of prison sentences and many federal prisoners are being released.

The “Death Economy” policies of Schacht are contrary to the policies of Roosevelt because they do not involve funding projects that embolden and give life to the population. In Trump’s recent State of the Union speech, he spoke positively of continued efforts to erode public education: “To rescue these students, 18 States have created school choice in the form of Opportunity Scholarships. The programs are so popular, that tens of thousands of
students remain on waiting lists.” In practice, “School Choice” has meant taking funds away from US public schools in order to finance profit-driven “Charter Schools” which often offer lower quality education than the already under-performing public schools across the US. This accompanies a continued decrease in funding for public universities, and the rise of student debt among younger Americans, who are not provided with free education, unlike the practice in most western countries.

Trump also repeated a longstanding position:

“We must also rebuild America’s infrastructure. I ask you to pass Senator Barrasso’s highway bill -- to invest in new roads, bridges, and tunnels across our land. I am also committed to ensuring that every citizen can have access to high-speed internet, including rural America.”

Trump said this during his 2016 campaign, and US President Barack Obama repeated similar statements all throughout his presidency, but neither President has substantially delivered on this. Across the US water is not properly purified, bridges are insecure, and many municipalities have resorted to un-paving roads, replacing asphalt with dirt.

While Trump hails the US economy as “the greatest it has ever been “, many beg to differ. Trump continues to follow the longstanding trend of other administrations, both Democrats and Republicans, of implementing “death economy” and investing only in prisons, military hardware, and other apparatus of destruction. Meanwhile, the US life expectancy has decreased in recent years, and the birth rate has declined. The rate of suicide and drug-related deaths has also increased. As the government fails to invest in the population, the population is decreasing. The inflow of migrants, many of whom are now forced to engage in labor as they are held in immigration detention facilities, seems to also follow the Shachtian trend.

However, many see the influence of Roosevelt’s brand of Keynesianism, not in the USA, but around the world. While China maintains a state-controlled economy with 5-year economic plans, around the world, the Belt and Road has financed public works projects, infrastructure and other growth-centered activities by governments. Russia is doing the same with its Eurasian Economic Union. As Russia and China fund the construction of electrical power plants, highways, railways, water systems, and hospitals across the developing world, the US remains committed to its belief that government spending should be restricted to prisons and weapons.

The question must be asked: Is the US capable of breaking out of the Death Economy? Or has the apparatus surrounding it become too deeply entrenched?

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