

New Nazi 'Purge'

Dr. Schacht Departs

Query: Why is Nazi Germany like a beefsteak?
Answer: Because it is brown outside and red inside.

This riddle, often told to illustrate what has been called the "brown bolshevism" of the Third Reich, had striking application last week when Adolf Hitler in one of his typically swift and unexpected moves replaced Dr. Hjalmar Schacht, for more than fifteen years the rather orthodox head of the Reichsbank, with Dr. Walther Funk, Minister of Economics. The shift testified to a victory of Nazi radicals over Nazi moderates.

Behind the formidable façade of Hitler's Germany, with its rallying cry—"One Folk, One Nation, One Fuehrer"—has been division of opinion and counsel ever since the Nazis came to power six years ago this month. On one side have been those who emphasized the Socialist part of the Nazi program, wishing to push ahead with State control or ownership of industry, banking and the rest of the national economy. Allied to this group have been advocates of a vigorous foreign policy, even should that policy entail the risk of war. On the other side have been the more moderate and orthodox, men who have perhaps sympathized with the nationalistic Nazi aims, but who wished to attain them by less extreme economic methods and by more moderate methods of diplomacy.

Conflict between the two forces has been highlighted by dramatic shifts in power. In June, 1934, Captain Ernst Roehm, leader of the radical Storm Troops, and many of his followers were killed on the order of Hitler in the famous "blood purge." That event marked a victory for the moderates, since Roehm was generally believed to be pushing for Nazi domination of the still conservative army and for radical economic policies.

Last Year's Shakeup

On Feb. 4 a year ago there was another purge. This time it was bloodless. In a sudden move, there was a general shake-up in the army, the air force, the diplomatic corps and the Cabinet. Moderates, many of them holdovers from pre-Nazi days, were displaced. The Reichsfuehrer, it was said at the time, had removed the last restraints on his desire for a militant foreign policy. It was the radicals' turn to win. What that meant the march into Austria a few weeks later indicated.

Whether Dr. Schacht's removal from the Reichsbank would ultimately fall into as important a category as these previous "purges" was the question observers were asking. That the change portended a different economic policy for the Third Reich could not be doubted, for the 62-year-old banker, whose high stiff collar has made him a cartoonist's delight, has tried ever since the Nazis came to power to harmonize the principles of a self-sufficient Germany, whose foreign trade had been badly battered by economic and political forces, with the principles of a world that still adhered to more or less traditional methods of foreign trade.

A German Moderate

Among foreign bankers Dr. Schacht was held in high esteem, for they recognized the economic skill that not only brought the Reich through the perilous post-inflation days of the Twenties, but brought the Nazi Reich, despite its inadequacy of resources both at home and abroad, to some sort of economic prosperity. Dr. Schacht's voice, it is generally believed, was raised many times in Nazi councils in the cause of moderation.

Opposed to Dr. Schacht have been Dr. Joseph Goebbels, the Propaganda Minister; Heinrich Himmler, head of the Secret Police, and other Nazi extremists. From time to time the Nazi radicals have had the Fuehrer's ear, and at such times it has been reported that Dr. Schacht was about to fall from power. His voluntary resignation has been frequently rumored. But until last week the Reichsbank head kept his place, always working to soften the Nazi trade policy that sought by barter to build up foreign trade at the expense of other nations and the disorganization of ordinary trade methods.

Rumors of Change

Before last week's dramatic move there had been rumors of forthcoming changes in the Nazi high command. The rumors gained strength because of the known economic stringency in the Reich, reports holding that the last government loan had not been fully subscribed. Moderates were known to be alarmed at the insistence of Nazi radicals upon greater and greater industrial production in the face of declining resources at home and falling foreign trade. Though Dr. Schacht was said to oppose the anti-Semitic excesses—at the moment of his fall he was negotiating on the refugee problem with George Rublee, head of the Intergovernmental Refugee Committee

HITLER SPEEDS UP THE NAZI REVOLUTION



—and Nazi large-scale expenditures for armaments and the like, no hint of his removal had been given. The first word was in the form of an official communiqué announcing that henceforth Dr. Walther Funk would combine with his post of Economics Minister the presidency of the Reichsbank.

(Dr. Funk, 48, active Nazi, former newspaper writer, was once the right-hand man of Dr. Goebbels in the Propaganda Ministry. A firm believer in a regimented economy and the principle of barter, he was the German agent last Fall of a trade drive in the Balkans, negotiating among other things a \$65,000,000 German credit with Turkey.)

Possible Cause

The sudden turn of events was variously explained. For one thing, it was believed that Dr. Schacht, always outspoken in expressing his views, had been too openly critical of Nazi economic policies, voicing his criticism not only at home but in London, where last month he visited his friend Montagu Norman, chairman of the Bank of England. Hitler's ire was thus aroused. Another explanation held that the Reichsfuehrer had decided that the hour had struck to push ahead with the Four-Year Plan that seeks to make Germany strong and self-sufficient through regimentation of all its economic activities in the interest of the State. Some German industrialists feared that just that was in the Fuehrer's mind.

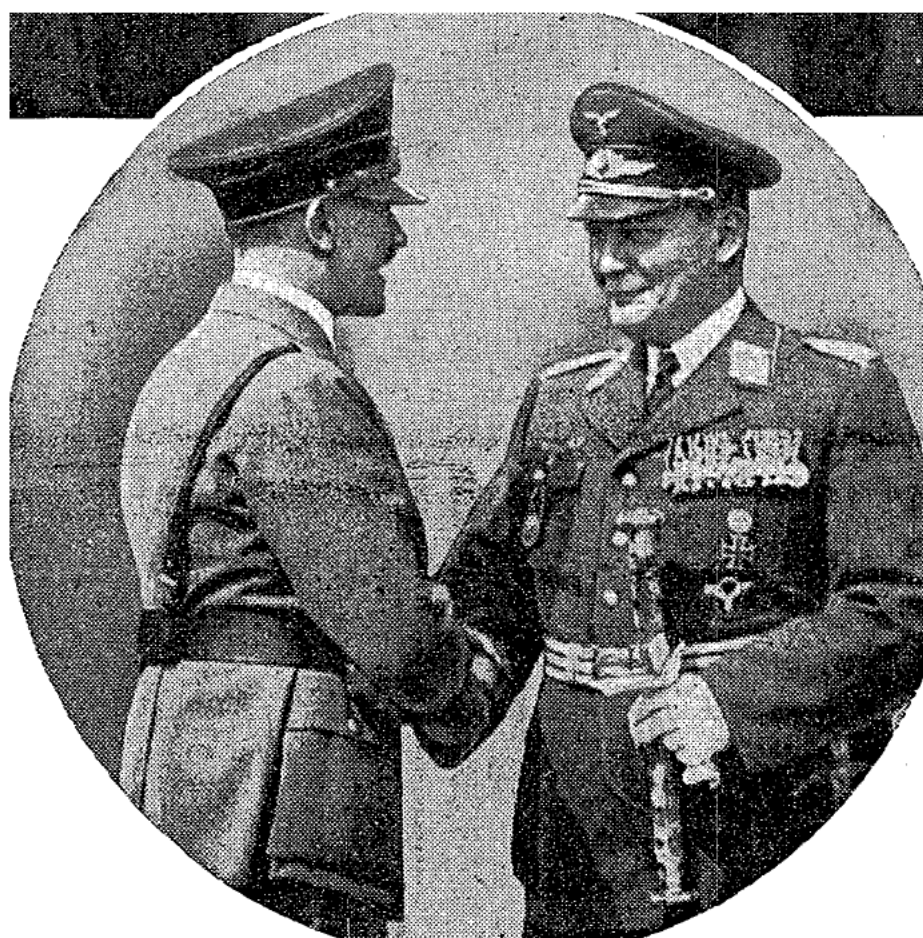
Though Dr. Schacht was close to Field Marshal Hermann Goering, director of the Four-Year Plan, the Reichsbank president was regarded as lukewarm in his support of a plan that would wipe out the economic system under which he had grown to maturity and prominence. In the plan's interest he had to be sacrificed. His departure did not affect the Field Marshal, for Dr. Funk, who has been not only Economics Minister but also a deputy director of the Four-Year Plan, has been regarded as "Goering's man."

While Dr. Schacht's dismissal was ostensibly friendly, the Fuehrer announcing that the banker would remain as a Minister in the government, foreign observers wondered just what was ahead. The uncertainty was reflected on foreign exchanges in the fall of quotations for German securities. Some financial experts feared a period of internal inflation was at hand in the Reich. Other observers, recalling that last year's purge had been the signal for a militant foreign policy, wondered if this year's purge would inaugurate a militant trade drive. Or would the events of last week be reflected in new German expansion in Europe? The answer seemed likely to be hidden in the Reichsfuehrer's own mind.

New Policies Forecast

The change at the Reichsbank—Dr. Schacht's removal was followed yesterday by removal of two of the bank's directors who with the former president had opposed large-scale spending and the piling up of huge short-term debts—entailed more than a change of presidents.

The work ahead for Dr. Funk was outlined in a letter addressed to him by Hitler. He was ordered: (1) To safeguard the stability of wages



European and Interphoto

Chancellor Hitler tightened Nazi control over German economy by appointing Walther Funk to succeed Dr. Hjalmar Schacht as President of the Reichsbank. In the top picture Hitler is greeting his Elite Guard—At top, right, Dr. Funk is shown while aiding in a charity drive—In circle, Hitler talking to Field Marshal Goering, in charge of the Four-Year Plan.

and prices and thereby the value of the mark; (2) to open up the capital market for private financial needs; (3) to nationalize the Reichsbank, making it wholly a bank of issue. Behind these vague statements was the understanding that the Reichsbank, which even under the Nazis had maintained some independence, would now be used for government purposes, notably in aiding the drive to accomplish the Four-Year Plan.

(Removal May Mean Great Deal: p. 3;
Sign of More Socialization: p. 4)