

Weimar America?

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I titled this essay with a question mark since it is an economic/political opinion piece intended to make people think. It deals with possible future events that have yet to unfold, so others may have different opinions. Since the future is uncertain my ideas are not set in stone, but they point out trends that may eventuate. Others may have different ideas.

The purpose of this essay is to point out some disturbing similarities between contemporary America and the post-World War I Weimar Republic in Germany that existed prior to the rise of Hitler's government. There are several main concerns. First, is an unbridled expansion of the money supply. The postwar Weimar government was financially strapped by heavy "reparations" payments that it had to make to the victors of the war. Rather than raise taxes to exorbitant rates, it printed money copiously. Its abundant money creation created inflation and eventually hyperinflation where, supposedly, people said: "In the beginning we went to the store with money in our pockets and returned with bread in wheelbarrows. Now we go to the store with money in wheelbarrows and return with bread in our pockets." Because of the hyperinflation all obligations denominated in German Marks, such as pensions, annuities, insurance contracts, etc., essentially became worthless and the savings and potential retirement benefits of most of the middle class were wiped out. This eliminated the stabilizing effects of a prosperous middle class and generated a large group of highly frustrated people. As noted by Eric Hoffer, in his book, The True Believer, frustrated people became willing supporters of radical political movements and a potential demagogue like Adolf Hitler. Hitler espoused national socialism for the German working class (that is what the acronym NAZI stands for). However, he adopted a system of fascism where all institutions and entities were supposed to support the objectives of the state (as defined by its leaders). Thus, large businesses who cooperated with the state, such as munitions and steel, etc. prospered as long as they helped pursue the objectives of the "state's" leaders.

The US has recently been running large fiscal deficits and rather than raise taxes to fund them, it has encouraged the Federal Reserve to increase bank reserves so it could purchase more government debt and allow the fiscal deficits to be funded more easily. As bank reserves have increased at a very rapid rate, so has the US money supply. In 2020 the US M1 (readily spendable) money supply increased by 25% even though the economy lagged. So far, goods have not inflated in price by a substantial amount as much of the money has been held in idle balances rather than being spent at its usual rate. Also, the Federal Reserve seems confident that it can control future possible money expansion by raising the interest rate it pays on bank reserve holdings at the Fed, thereby inducing banks to hold reserves at the Fed rather than lend them out and further increase the money supply. However, if inflation should start to surge (possibly because the US dollar falls or a war, like the past Korean War, erupts), banks may find that they can make so much money on loans to entities that wish to buy and hoard materials and goods prior to impending inflation that they will not be willing to hold their excess reserves at the Fed. Banks will not want to hold idle excess reserves at the Fed if they can only receive an interest rate that is far lower than the interest rates they could earn by making loans to private borrowers. Thus, the groundwork has been laid for potential high inflation in the US in the future, and if it erupts, the Fed may have a hard time controlling it.

If inflation gains speed in the US, it will weaken the finances of the middle class who have put money aside in pensions, annuities, and insurance contracts that pay returns in US dollars. As inflation proceeds, the US dollar will fall in value and the purchasing power of those contracts will fall similarly.

The financial position of the US middle class has already been weakened substantially in recent years and current developments are also ominous. Globalism weakened a large segment of the US middle class by introducing competition from cheaper foreign sources of labor. That is why median incomes in the US stagnated in the years before Donald Trump took office, and it is one reason that many people supported him (see my paper on Globalism's pros and cons). On his first day in office, Joe Biden signed numerous executive orders that reignited many globalist policies that Trump had curtailed. Those globalist policies could cause prices to rise (of energy) and taxes to rise (to fund the Parts accords and other spending promises). Those policies will reduce the job prospects and real purchasing power of many people who had been previously hurt by foreign competition and were unable to adapt easily. Thus, there soon may be more frustrated people in the US electorate.

Also, recently, the US middle class has been hurt substantially by the virus pandemic. Many small businesses were forced to close through loss of customers or by government fiat during the pandemic. The savings of the (middle class) owners of many of those businesses have been wiped out. In addition, moratoriums on rent and debt repayment have depleted the assets and incomes of many (middle class) landlords who have counted upon those payments to fund their retirements. In some cases, it is unclear if the government policies have been purposely designed to harm independent businesses who are less likely than government aid recipients to vote for big government policies. Many of the most restrictive business closure mandates have occurred in the most “progressive” big government-oriented states and jurisdictions, where politicians are least likely to appreciate independent thinkers and are most likely to cater to government employees and aid recipients.

Overall, it is clear that the recent pandemic has dramatically crippled the financial welfare of many in the US middle class. That problem could be aggravated if inflation gains speed in the future. Thus, as in Weimar Germany, the politically stabilizing effects of the US may be wiped out as their wealth and incomes fall and their frustration grows. The growing frustration of many former members of the middle class may aggravate political instability— as in post-WWI Germany.

Another development in the US that is akin to the developments of Fascism in post-WWI Germany is that big businesses that support government interests have gained increasing favor from the government as long as they support government policies. While smaller businesses have suffered from a lack of credit, many big businesses were able to borrow at favorable rates when the Federal Reserve supported financial market debt issues through its 2020 funding initiatives. Government “bailout” efforts have also favored politically connected large business (such as airlines) and politicians generally accord more respect to the desires of institutions (such as mega-banks) that are large contributors to them. Furthermore, companies that have supported government policies in the past have been allowed to merge and grow larger through mergers, even if some of those mergers clearly are not in the best interest of customers. That is most obvious with “media” companies that have profited from “network” effects that favor institutions with larger networks. In addition, tech companies that have benefited from network effects in the past have catered to the desires of the incoming administration in order to curry favor by limiting the ability of government critics to utilize their networks. Big businesses that prosper by supporting the aims of government was one of the hallmarks of the German Nazi regime.

Thus, there are many trends underway in the US that are similar to events that transpired during the ascent of Hitler during the German Weimar period. Unless a concerted effort is made to prevent future inflation and further erosion of the welfare and size of the US middle class, the US could also face a problematic future with increasing political problems.